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Frank Bliss

“Micro” Finance in Cambodia

Development, Challenges and Recommendations

AVE Study 30b/2022

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AVE Study 30/2022

Ways out of poverty, vulnerability and food insecurity

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Abbreviations, acronyms and local terms

ACLEDA	Association of Local Economic Development Agencies (one of the most important banks in Cambodia, initially launched as an <u>NGO</u> and <u>MFI</u> with the support of German <u>DC</u> , today the most popular bank in Cambodia)
Amret	Large <u>MFI</u> formerly active as an <u>NGO</u> in the microfinance domain
ARDB	Agricultural and Rural Development Bank
AusAid	Australian Agency for International Development
BfD	Buddhists for Development (national <u>NGO</u>)
BMZ	Federal Ministry for Economic Cooperation and Development
CBC	Credit Bureau of Cambodia
CEO	Chief Executive Officer (Managing Director, Executive Director of an <u>MFI</u> or a bank)
Chamroeun	<u>MFI</u> with <u>NGO</u> background
CMA	Cambodian Microfinance Association
commune	Rural community consisting of several villages
commune leader	Full-time mayor of a rural commune, appointed by the state
DC	Development cooperation
DEG	Deutsche Entwicklungsgesellschaft (German state-owned investment bank)
DGRV	German Cooperative and Raiffeisen Confederation
EC	Equitable Cambodia (Cambodian <u>NGO</u> in the human rights domain)
ESCAP	Economic and Social Commission for Asia and Pacific
EU	European Union
FC	Financial Cooperation
FGD	Focus Group Discussion
FSP	Financial Service Provider
FI	Financial institution
FSDS	Financial Sector Development Strategy
FC	Financial Cooperation
GNI	Gross National Income
hard land title	Title to land which is recorded in the land register (cadastre)
hh	household(s)
HRW	Human Rights Watch
IFC	International Finance Corporation (subsidiary of the World Bank)

ILO	International Labour Organization
IMF	International Monetary Fund
I-NGO	International <u>NGO</u>
IWIGIA	International Work Group for Indigenous Affairs
KfW	Kreditanstalt für Wiederaufbau (a German state-owned investment and development bank)
KoC	Kingdom of Cambodia
<i>kuyūn</i>	Hand tractor or single-axle tractor, widely used universal implement for soil cultivation, transport (with trailer), for operating pumps, etc.
LEDA	Local Economic Development Agencies
LICADHO	Cambodian human rights organization
loan officer	Bank employee, responsible for the acquisition and servicing of loans
LOLC	<u>MFI</u> with <u>NGO</u> background (one of the six “big” <u>MFI</u> with savings deposits)
MDI	Microfinance Deposit-Taking Institutions (<u>MFI</u> with established savings accounts)
MEF	Microfinance Enhancement Facility
<i>mekhum</i>	commune leader
M&E	Monitoring and Evaluation
<i>mephum</i>	village chief
MF	Microfinance, microfinancing
MFIs	Microfinance institutions
MIFA	Micro Finance Initiative for Asia
MoA	Ministry of Agriculture
MPDF	Mekong Private Sector Development Facility
MSMEs	Micro, small and medium-sized enterprises
NBC	National Bank of Cambodia
NIS	National Institute of Statistics (Cambodia)
NGO	Non-governmental organization
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
p.a.	per year
p.c.	per capita
p.d.	per day
p.m.	per month
<i>prakas</i>	Ordinance, decree

PRASAC	Programme de Réhabilitation et Appui au Secteur Agricole du Cambodge (one of the six "big" <u>MFI</u> s in Cambodia)
RCI	Rural Credit Institution
RDBC	Rural Development Bank of Cambodia
Riel	Cambodian Riel, 1 <u>US\$</u> = approx. 4,080 Riel (2/2022)
<i>sangkat</i>	see commune, in the narrower sense subdivision in the urban area
Sathapana	Bank with <u>MFI</u> offers
soft land title	title to land not officially registered in the land register (cadastre)
SME	Small and medium-sized enterprises
STT	Sahmakum Tean Tnaut (Cambodian human rights <u>NGO</u>)
US\$	US dollar
village chief	Part-time local leader (appointed by the state)

Summary

The research project “Ways out of Poverty, Vulnerability and Food Insecurity” is funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and carried out by the Institute for Development and Peace (INEF) at the University of Duisburg-Essen. Within this project, examples of successful outreach to poor people and their sustainable exit from poverty with the support of development cooperation (DC) are to be presented in the form of Good Practices. This also includes agricultural financing. In many countries agricultural financing is only offered to a limited extent, in contrast to the availability of credit offers for industry, trade and commerce.

The situation is different in Cambodia, where there has been a steady, recently very large increase in credit offers and loans since the early 2000s, in addition to a rapid increase in the amount of individual loans. The offer also and especially exists in rural areas and includes agriculture to a considerable extent. The credit sector, with 81 registered microfinance institutions (MFIs), 47 commercial banks, twelve specialist banks and 246 Rural Credit Institutions in the formal sector alone, as well as thousands of informal, i.e. non-registered private money lenders, has grown rapidly even in recent years and has led to a steadily increasing proportion of massively overburdened debtors. Hence microfinance (MF) as a whole has come under strong criticism from academics and, above all, from non-governmental organizations (NGOs). A special role is played here by the fact that in Cambodia, even for relatively small loan amounts, the loans are usually secured with land ownership or land use titles, which are put at risk in the event of repayment problems.

Cambodian NGOs in particular even accuse the MFI sector of violating human rights, among other things, because of land title losses among debtors. Their fierce criticism of the conditions in Cambodia’s MF sector has also led to international protests, including German NGOs, and to two minor inquiries in the German Federal Parliament (*Deutscher Bundestag*) in the meantime. German state development cooperation, which until a few years ago was heavily involved in Cambodia’s MF sector and still indirectly supports the sector today through investment funds, is thus also at least indirectly under criticism.

The NGOs’ criticism is based primarily on four findings: Firstly, over-indebtedness leads not only to massive losses of land, but particularly to the loss of arable land, which is particularly important for many households (hh), and thus to the loss of livelihoods. Secondly, the compulsion to (punctually) repay the loans and their high interest rates is said to lead to child labour, and thirdly, to debt-related more or less involuntary labour migration, e.g. to neighbouring countries. Fourthly, a further consequence is said to be food insecurity (which did not exist before in this form), as money that had previously been invested in feeding the families had to be used for repayment.

Initially, according to further NGO findings, supported by numerous documents, MF in Cambodia started as a poverty reduction project with the aim of helping people who previously had no access to (bank) loans. Today, however, most of the large MFIs are closely linked to or even owned by foreign banks, investment firms and Western development agencies, which make considerable profit from them. In 2017 alone, profits amounted to US\$130 million. It should be added that even in 2020, the year of the outbreak of the COVID-19 pandemic, this profit was as high as US\$453 million, according to the National Bank of Cambodia, calculated on the basis of 81 MFIs, i.e. excluding banks also active in the MF sector.

Extensive figures from the documentation of financial service providers (FSPs) as well as our research results indeed prove that at least some of the MFIs and FSPs that converted from

MFIs to banks have long since ceased to pursue poverty reduction through MF as their primary objective but have tried to establish themselves in the broad area of small and medium-sized enterprise (SME) promotion and in even higher market segments. The goal of poverty reduction continues to be carried in the “visions” of MFIs and even banks like the important ACLEDA. In reality, however, the loan volumes are far higher than what was originally understood as “micro” financing, even by donors.

The National Financial Inclusion Strategy 2019-2025 (NFIS) also continues to cite access to financial services as an important contribution to poverty reduction in the country (cf. KoC 2019). However, the strategy only emphasises the benefits of financial inclusion, but does not explain how poor hh in particular can benefit from it and what exactly should be done by the state and the FSPs to achieve this.

Both the federal government and other domestic and foreign actors in the MF sector have taken up the NGO criticism and see a real need for reform in a number of points, especially in the regulatory area. Some of the NGOs’ criticism, on the other hand, is rejected by the Cambodian side as well as by donor organizations, combined with the reference to the merely qualitative studies of the Cambodian NGO LICADHO in particular, which bases its serious accusations primarily on compiled individual examples. Statistical studies commissioned by several donors and MF funds operating in Cambodia on the practice of lending and the consequences of over-indebtedness (2017 and most recently 2021) are said to show quite a different picture.

However, since both of these “donor” studies have also been criticised, and the extent of over-indebtedness, but above all the repayment problems and the associated negative effects on the debtors, is relatively unknown so far, the INEF was asked by the BMZ to include Cambodia as part of the studies on agricultural financing and to conduct an empirical study on the overall picture of the debt problem. This investigation, which was postponed several times because of COVID-19, was then carried out between January and April 2022 in Germany and for several weeks on site in six Cambodian provinces as well as in the capital Phnom Penh.

The core piece of the study is a hh survey of 1,388 randomly selected hh. This was supplemented by a total of around 100 interviews on debt and debt consequences. Among other people, these were held with the village chiefs and representatives of rural communities, who are always involved in loan applications that claim land titles as collateral, as well as with the management staff of important MFIs and banks, representatives of the National Bank, the Association of MFIs, with Cambodian NGOs and in focus group discussions with 23 groups of debtors.

In contrast to existing studies, the survey was not to be limited to the circle of MFI borrowers and was also to be conducted absolutely anonymously. The number of hh surveyed was therefore 1,388 – a significantly larger sample than would have been necessary to investigate hh known to have current loans. The interviews revealed that of the total number of hh, 770 or 55.5% of the sample had current loans, of which 672 had only one loan, 78 hh (11.3%) had two, and another 20 hh (2.5%) had three and more loans. Especially on the basis of these 770 hh, details were asked about the loans, their purpose, the positive and negative effects of taking out the loan, the problems of repayment and the solutions found or not found in the process. 648 out of 1,388 hh surveyed were also able to provide information on loans taken out in the last five years. From the results of the hh surveys, the additional interviews as well as the focus group discussions, a relatively clear picture can be drawn of the connection between loans, over-indebtedness and its consequences including the loss of land among borrowers.

Four observations are particularly important in this context:

- (i) The MF market in Cambodia is largely saturated due to the very numerous providers of financial services, apart from a few regional exceptions and one sectoral exception (= smaller agricultural loans for pre-financing cultivation). Without persuading clients to take out new, larger loans or poaching borrowers from other MFIs, it is difficult to significantly expand business in the microcredit sector (even with a definition that still calls volumes between US\$2,500 and over US\$4,000 “micro”).
- (ii) Debt predominantly, but by no means exclusively, serves investment purposes and the majority achieves its purpose, be it the expansion of income-generating measures, investment in housing or the acquisition of higher-value consumer goods. However, a considerable part of the loans also serves to finance (longer-term) uncovered living costs, which should not be the case with responsible financing and inevitably leads to over-indebtedness.
- (iii) In the context of an oversupply of financial services, the possibility of being able to secure loans with land titles tempts individual MFIs or banks to lend irresponsibly. This happens even in cases where merely examining the cash flow in the context of the loan application assessment would show that repayment from the income secured alone would hardly be possible. In other words, over-indebtedness, with the consequences listed, is foreseeable here.
- (iv) For the reasons mentioned above, in an unacceptable number of cases the debtors have to sell land in order to be able to repay their debts according to the contract, to avoid being categorized as defaulting payers and thereby being excluded from further borrowing. Or they have to sell other goods or are forced to take other measures such as reducing the quality of their food or, in very rare cases, child labour or forced labour migration.

What could not be confirmed is an interest of the FSPs in the land of the debtors and their engagement in land grabbing via purposefully driving borrowers into over-indebtedness. On the contrary, the study shows that MFIs and banks try by all means to prevent expropriation of land titles by the courts, also in order to avoid public criticism regarding the loss of land by defaulting debtors. The fact that instead there is a certain pressure on the debtors to sell land in advance, however, is accepted and approved by the more irresponsible members of the MFIs or the loan officers in the institutions. This occurs even in those cases where the ability to repay the loan was already questionable at the time it was granted.

Whether land sales and other problematic solutions always violate the human rights of those affected must remain a matter of debate. On the one hand, a number of the ultimately problematic loans are by no means the result of persuasion by MFIs or banks alone, but are the result of bad investments, unfortunate coincidences or even risky speculation. In some reported cases, borrowers deliberately concealed their inadequate repayment capacity when applying for a loan or even took out several loans at the same time. This is something which even the recently introduced, relatively strict monitoring of the Credit Bureau of Cambodia (CBC) was unable to prevent. However, regardless of the question of guilt, it should also be noted that the consequence of over-indebtedness must never be food insecurity for a family, child labour or forced labour migration.

A key *recommendation* of this study is to set the floor for real estate collateral on loans reviewed by the CBC at an amount that could range from US\$2000 to US\$3000, depending on

the purpose of the loan. In any case, this limit should apply to land titles as collateral, below which loans would not be allowed to be secured by land titles.

An immediate measure needing to be initiated through the MF funds supported by German DC is the urgent demand to completely separate the credit assessment by MFIs and banks from the question of whether the loans can be secured with land titles. If cash flow calculations show that it is highly unlikely that a loan can be serviced, i.e. that there is a risk of over-indebtedness, the possibility of securing it through land titles must not lead to the awarding of a loan. This principle should be explicitly included in future contracts between investors and FSPs, even if they are only topping up existing credit lines.

The door-to-door canvassing by representatives of MFIs and banks, which is currently very aggressive, should also be stopped quickly. This step would be particularly welcomed by the majority of the village chiefs and representatives of rural communities interviewed. Another immediate measure would be to position links to compliance mechanisms more prominently on the home pages of MFIs and banks. In this way, even inexperienced internet users would quickly find a way to contact the responsible FSP staff in case of problems.

Since a considerable number of currently over-indebted hh, including those classified as poor (ID Poor), were granted loans not on the basis of cash flow analyses, but because of the presence of land titles as collateral, a serious restructuring or (partial) reversal of loans is recommended. Loans that were clearly granted through gross negligence should at least have their interest cancelled. Loans where the repayment ability of the borrowers was even deliberately ignored (i.e. where clear data from the CBC were completely ignored) should be written off. In both cases, the responsible FSP would have to pay for the costs.

In order to be able to check the loans of over-indebted hh in this respect, a neutral monitoring agency could be set up in Cambodia relatively quickly under the supervision of the National Bank, which on the one hand would check the contracts of over-indebted hh considering ID Poor status or the data of the CBD, and on the other hand could take on the role of a consumer protection agency for the financial sector in the future. In view of the large number of existing MFIs and banks and their financial resources, further involvement of German governmental DC seems unnecessary, at least in the area of general and particularly higher-end MF, especially since the institutions that have so far been supported directly or, more recently, only indirectly through funds, are pursuing the lower segment, i.e. classic MF, with less and less interest.

There is still a need for microloans (in the range of less than US\$1,000 or US\$2,500), especially for the pre-financing of agricultural production, and these are offered by the MFI sector rather subordinately and at less favourable conditions. New partners should therefore be sought for cooperation in the MF sector, such as agricultural cooperatives, the umbrella organization of agricultural cooperatives, and / or the cooperative development fund under the cooperatives act.

1. Introduction and Background to the Problem

Based on the results of the analysis of field studies in the partner countries, recommendations for German state development cooperation (DC) are to be elaborated with regard to improving the accessibility of poor population groups and with a view to finding promising strategies to lead them out of poverty in the long term, also through support from DC funds.

Since the majority of poor and extremely poor people live in rural areas and depend on agriculture, one focus of the research is on the promotion of agricultural value chains. Of increasing importance in value chain promotion is the access of small farmers to credit which is adapted to the respective socio-economic context, be it in the form of individual loans, through a group or cooperative approach, contract farming, etc. These loans are also often needed in poor regions and by small (micro)farmers in good time before the rainy season and sowing season for tilling the soil. This applies not only to the purchase of seeds and fertilizers, but also, for example in the tropics, to the recruitment and payment of additional labour during the relatively short planting period at the beginning of a rainy season. Without access to credit, some of the land may not be used, even if the arable land is relatively small, given the low capital reserves of many families.

Similarly, it is important to extend the credit phase two to four months beyond the harvest period so that producers can benefit from price increases and do not have to sell their crop immediately, when prices are at their lowest in the annual cycle. Consequently, loans simply for agricultural production are required which have minimum terms of six to nine months. In view of the objective need for (simple) mechanization in a large number of countries, including poor regions, financing options with a term of two to three years must also be offered. This enables poorer households (hh) to purchase, for example, a hand tractor, as is widely used in Southeast Asia and especially in Indochina, hence including Cambodia.

In the African countries considered in this research, such as Ethiopia, Benin, Burkina Faso, Kenya and Mali, short-term and medium-term loans for small trade and small business in urban areas are sometimes abundant and relatively easy to access for customers, but there are few or none at all for agriculture. In contrast to these countries, it is very easy to access agricultural finance in Cambodia. This is because since the early 2000s, initially within the framework of non-governmental organization (NGO) activities and donor-funded village banks and later as a multitude of independent microfinance institutions (MFIs), a large network of financial service providers (FSPs) has emerged that has continued to grow to this day. The increase in the number of players – today there are 81 MFIs registered with the National Bank of Cambodia (NBC) alone, as well as 245 Rural Credit Institutions (RCIs) (cf. NBC 2020)¹ – has led to an even greater increase in capital offers in the context of sustained good economic growth in the country, which has resulted in considerable competition for clients in a market that is at least regionally saturated. In order to be able to expand, FSPs therefore intensively seek to gain new customers who do not yet have a loan, as well as customers from other FSPs, whom they try to persuade to switch, through the promise of

¹ The NBC 2020 report details: 51 commercial banks, twelve specialized banks, six microcredit institutions taking savings deposits, 75 MFIs without and six with savings deposit facilities, 245 RCIs, 15 leasing companies in the money business sector, etc., and 2,889 money changers. MFIs and banks maintain a total of 2,542 offices in the country, including 341 new ones in 2020 alone, the year of the COVID-19 pandemic outbreak (2020:1f, 70f).

better offers. Alternatively, the FSPs actively try to encourage their existing customer base to take out additional loans or increase the existing loan volume.

In Cambodia, when “microfinance” (MF) is mentioned in this context, this term must not be equated with the microloans that are still widespread in Sub-Saharan Africa, which often start at only EUR20 and mostly end at EUR500 or, in a few cases and only for solvent clients, at up to EUR1,000. Rather, the average size of individual loans at formal Cambodian MFIs ranges from about US\$2,500 to US\$8,000, and depending on the FSP involved, a microloan is not infrequently defined by ceilings of US\$10,000 to even US\$25,000².

Overall, about two-thirds of Cambodian hh have at least one loan at the time of the research (i.e. May 2022), many hh also have two, three or even more individual loans, mostly with a single MFI, but also with various formal MFIs and possibly also with informal money lenders³. The average outstanding loan amounts of the 2.2 million indebted hh in Cambodia, according to the Cambodian Microfinance Association (CMA), are correspondingly high. These are expected to average US\$3,200 in August 2020, i.e. already under the effects of a six-month duration of the COVID-19 pandemic⁴. In the same year, the capital of MFIs and banks grew by 14.7%, the volume of loans by 16.1%, but also the savings deposits of clients by 14.5%. The net profit of all MFIs combined was 956 billion Riel (about US\$234 million) in 2020, down 6.2% from 2019, when it was 1,019 billion Riel (about US\$250 million) (NBC 2020: 69).

While private debt in Cambodia was only 2.5% of the gross national income (GNI) in 2010, it rose to 19.9% by 2019, with a very large jump to 29.2% by the end of 2020 (cf. CEIC 2022). According to different sources, considering the number of debtors in relation to the total population, the number of loan contracts and with the average amount of loans, Cambodia is the country worldwide with the highest debt within its socio-economic group (according to Human Development Index (HDI) rank) (cf. MIMOSA 2020).

One study, which has particularly noteworthy results in this context, examined 150 investment funds in the MFI sector worldwide in 2020. It claims to have covered total fund volumes of US\$16.1 billion of MFI refinancing, amounting to 93% of the global market. According to this study, Cambodia ranks third in the world in the group of countries considered. It gained 4.9% of the total refinancing. It is behind India, which has a population 83 times greater than Cambodia and received 13% of the total for the year in question, and Ecuador, which gained 5.2% of the total. It is followed by Georgia (4.2%) and Mexico (3.6%) (Symbiotics 2020a: 8).

To a larger extent, German governmental DC, which had been involved in MF in developing countries worldwide with a volume of EUR876.9 million between 2015 and 2020, has also been involved in MF in Cambodia, either directly or through funds (cf. Deutscher Bundestag 2021a). For example, the German development finance institution Deutsche Entwicklungsgesellschaft (DEG)⁵, which is part of the German state-owned development bank

² In this context, it should be recalled that *micro finance* did not initially aim at agricultural financing and was certainly not intended to grant consumer loans, but rather to focus on micro-enterprise financing.

³ The latest available figures from NBC list the number of debtor accounts at 3,204,527 at the end of 2020 (2020: 2).

⁴ Cf. The Economist, 15.8.2020) “Cambodians are bingeing on microfinance loans”. Source: <https://t1p.de/eqsvo> [4-2022].

⁵ The financing of the DEG in Cambodia is currently not being carried out with funds from the budget of the German federal government, but with its own funds. The DEG is 100% owned by the KfW bank

Kreditanstalt für Wiederaufbau (KfW), was involved in Cambodia with EUR76.6 million until 2020, and since then with significantly lower amounts. KfW itself was and to some extent still is directly or indirectly involved in MF in Cambodia, although today financial resources only flow to Cambodia via funds (see Chapter 4.5).

Due to the considerable growth of the MF sector and the rapid increase in the amount of loans, with a tendency towards increasing over-indebtedness of a large number of borrowers, cautionary voices were raised around 2015 at the latest, in some cases with clear criticism of the MFIs involved and their donors from the international investment sector as well as bilateral and multilateral DC. In particular, as called for by the MIMOSA Project (2015), measures were demanded in the area of MFI regulation, which had been weak to date, as it was assumed that as early as 2017 the market in Cambodia would be one of the most saturated in the world (see Chapter 4.4).

In 2019, the criticism culminated in a qualitative study by the two Cambodian NGOs LICADHO and Sahmakum Teang Tnaut entitled “Collateral Damage”, which received worldwide attention, in addition to Cambodia, particularly in Germany. It denounced the loss of land and other abuses in the Cambodian MF sector (cf. LICADHO 2019). In view of the over-indebtedness of many hh and the problems associated with repayment, the editors of the study see human rights of the affected hh as being violated to a considerable extent.

In Germany, the criticism was taken up by NGOs (most prominently FIAN) and prompted the parliamentary group DIE LINKE in the German Federal Parliament (*Bundestag*), with reference to the LICADHO report, to make a minor inquiry (*Kleine Anfrage*) at the end of 2019, which was answered in January 2020 (cf. Deutscher Bundestag Drucksache [German parliament printed matter] 19/26121). In addition to the presentation of data on German involvement in the Cambodian MF sector, the main focus will be on aspects of the German side’s control of lending and, in particular, possibilities for exerting influence. In this context, the German government emphasizes responsible finance as an important guiding principle of cooperation. It is also clear, however, that the independence of the MFIs supported or of the funds which transfer money to them is very extensive within the framework of cooperation and that the contractual conditions, etc. are left entirely up to the partners. But, according to the German government, they are certainly in favour of a review by the Cambodian government as to whether land titles should continue to serve as collateral for microloans and small loans in the future (ibid.).

In the meantime, the debate in Cambodia also continued under the influence of increasing economic problems of borrowers in the face of massive economic losses under COVID-19. The problem of land loss for insolvent debtors, including the loss of their economic livelihood, was particularly highlighted. In 2020, the NGO LICADHO followed up with two studies on debt among garment workers (LICADHO 2020e) and on forced labour migration of villagers to neighbouring Thailand (2020f). At times, in addition to the NGOs involved, Human Rights Watch, academics from the financial sector, and various international print and internet media were involved, as well as the Cambodian Prime Minister Hun Sen himself. The representative of KfW was also in the capital Phnom Penh (2019), something which is extremely rare for other development policy issues. The German ambassador in Cambodia’s capital also participated in the local discussion on several occasions (cf. Berger 2021a, 2021b, 2022). Finally, in February 2022, there was another inquiry by the parliamentary group DIE LINKE in the German Federal

Parliament (cf. Deutscher Bundestag Drucksache [German parliament printed matter] 20/765) and most recently, in March 2022 in Germany, the NGO FIAN again drew attention to the problem of indebtedness (cf. FIAN 2022).

The inquiry of the party DIE LINKE referred to the measures taken by the Federal Government or the BMZ and KfW between 2019 and the end of 2021 in view of what it saw as the continuing debt problem in Cambodia. In this context, the German government referred to a study conducted at the request of KfW by the *Micro Finance Initiative for Asia* (MIFA), in which 964 clients of the two MFIs Amret and LOLC Cambodia as well as Sathapana Bank were surveyed regarding their experiences with loans. As a result, most responses indicated that borrowers had not felt any pressure, for instance to sell assets to service the loans. Only a few respondents said that they had taken out additional loans to be able to repay the current loans. However, the BMZ had the INEF critically examine the methodology of this study, which revealed some weaknesses. Nevertheless, the study provided “meaningful tendencies” and “valuable starting points for possible needs for action” (cf. Deutscher Bundestag, Drucksache 20/765: 70).

At the same time, the Federal Government referred in its response to a 2021 agreement with the Cambodian government to conduct a further, independent investigation (the results of which are presented in this report), coupled with the statement: “The study results will provide a central, robust basis for the further assessment of the situation in Cambodia and the corresponding German commitment. The German government will also use this as a basis to submit reform recommendations to the Cambodian government for regulating the microfinance market” (loc. cit.; translation by the author).

Against this backdrop, this study, which was conducted in the field in Cambodia from January to April 2022, aims to contribute towards providing as solid a factual basis as possible for the debate on the MF sector in Cambodia through empirical evidence*. In this context, a relatively broad research approach was chosen, including the following core questions:

- What is the role of credit and financial service providers in Cambodia in general and in rural areas in particular?
- Are smallholder farmers (in particular) also reached by the financial contributions of the donor community to banks and MFIs in Cambodia?
- Has MF improved the life situation of the borrowers? If applicable, have people sustainably come out of their poverty situation?
- What role do gender aspects play in this context? Are women and men given equal consideration in loans?
- Which components / contributions of MFIs / banks (e.g. advice on loan conditions, pre-application advice, loan monitoring, value chain advice in general) are the main reasons for the observed effects of the loans?
- Are there particular difficulties associated with the loans, especially in connection with repayment, resulting from non-transparency of the loan conditions, from unethical loan application and granting, or also from reasons that are the fault of the borrowers themselves?

* Of particular note is Dr. Michael Hamp, who also critically accompanied the study with comments. The author of this study is of course solely responsible for all statements.

- Does this result in land title losses or other negative consequences for smallholder farmers in connection with borrowing?
- Were these problems considered when adjusting the loan conditions in Cambodia? Could solutions be found, for example, in which the lending banks and MFIs grant loans to small farmers despite the lack of guarantees in the form of land titles?

Numerous other questions also deal with details of the credit sector, such as the differences between formal and informal credit agencies and their lending practices.

Fig. 1: Even in the smallest urban centres in Cambodia, there are often a dozen different banks and MFIs present.



The study was also conducted with regard to additional issues that may be associated with the impact of the COVID-19 pandemic on borrowers. The study, with the key questions raised, is also understood to be complementary to recent studies that have focused on the relationship between credit and land (Microfinance Centre 2017 and the unpublished KfW / MIFA 2021/2022 study). In addition, other research was evaluated that, in addition to reaching rural areas of Cambodia, has its focus also and especially on urban areas and in particular Phnom Penh, where the COVID-19 crisis, for example, forced more people than in rural areas to take out loans, especially to finance livelihoods (Murg 2021, EU 2021).

In the context of this study, the question of the general socio-economic benefits of MF and especially its poverty impacts in Cambodia will not be explored in detail. However, it should be noted that critical voices can no longer be ignored, especially since the end of the 2000s,

expressing general doubts about MF as a meaningful means of poverty reduction⁶. Specifically, with regard to the practice of MF in Cambodia⁷, alongside other suggestions there was a basic policy recommendation from the two NGOs Equitable Cambodia and LICADHO (2021) to completely change the model.

The general criticism tends to be based particularly on the argument that MF does not reach the poorer groups in a society, and in the specific case of Cambodia, that it leads to over-indebtedness on a large scale, especially among the poorer social groups, and the aforementioned significant negative consequences, up to and including the loss of land among those affected. In contrast, their importance for promotion of small industry, or of Micro, small and medium-sized enterprises (MSMEs), is less often viewed negatively, although the general debate does not differentiate much within MF. It should be recalled that in Cambodia the term refers not only to microcredit with a private money lender for which no collateral is required, but also investment loans for the purchase of a small truck or a rice mill worth US\$10,000, or even up to US\$25,000 at some “micro” credit institutions.

From the results of earlier surveys conducted by the author in Cambodia, it can be deduced that at least part of the “micro” financing, especially those loans that directly serve the establishment and expansion of MSMEs / SMEs, cannot be denied a predominant, sometimes considerable benefit. In the context of this study, too, the respondents largely come to a positive conclusion, especially in the case of loans used for investment purposes. Moreover, in view of the low capital reserves among the rural poor, without a change in the system (e.g. through the introduction of state subsidies for input provision, although there have been very bad experiences of this in other countries), the availability of agricultural credit is of existential importance for securing cultivation. However, here, too, much more thought must be given to more sustainable structural solutions which would relieve people’s worries about over-indebtedness by providing them with better, more secure income opportunities.

However, one basic problem regarding the significant role MF currently plays in DC must at least be mentioned: Pooja Balasubramian (2021), for example, points to the fundamental problem of the “financialization of social policy” [translated by the author], which tends to increase, pushing individuals and hh further into a debt-poverty trap. In plain language, this means that instead of more money for social security contributions (e.g. unconditional money transfers to the extremely poor), only loans are supported, even with respect to people who already cannot live on their income. At least part of the MF in Cambodia, especially in urban areas, but not only there, went and goes to families to whom this problem applies (cf. also EU 2021: 21f, 35f).

⁶ See, among others, Chowdhury 2009, Hickel 2015 or Mecha 2017.

⁷ Most notably in Bylander 2014, 2015, 2018; Bateman 2017, 2020; Green / Bylander 2021 or Natarajan et al. 2021. See also Rieber / Bliss / Gaesing 2022.

2. National Socio-Economic Context of Cambodia

2.1 Human Development, Poverty and Vulnerability

With 17.3 million inhabitants and a population growth rate of about 1.5% p.a. (cf. World Bank 2022a, estimated for 2021), Cambodia seems relatively insignificant in terms of population between its much larger neighbours Vietnam and Thailand. Nevertheless, the agriculturally important lowland areas are already densely populated and there is a shortage of arable land.

According to the CIA World Factbook (2022), the country's population is composed of 95.4% Khmer, 2.4% Cham, 1.5% Chinese (with a recent upward trend) and other groups with a 0.7% share. Other sources assume much larger shares of ethnic minorities in the total population, including around 3% indigenous groups, which according to the International Work Group for Indigenous Affairs (IWGIA) are composed of 24 different peoples (IWGIA 2022). The official language is Khmer. The ethnic minorities have their own languages, some of which differ greatly from each other. Officially, 97.1% of the population are Buddhists, 2% Muslims, 0.3% Christians and 0.5% members of other religions (CIA 2022 for 2019).

Although gross national income (GNI) data has been steadily increasing over the last decade, with industry in particular showing strong annual growth (and the textile industry alone contributing 40% to GNI), almost one in two workers is still employed in agriculture. The industrial sector employs around 20% of the labour force, albeit with an increasing trend, and the service sector absorbs a good 31%⁸. As early as 2020, agriculture contributed only 22.4% to the GNI, and the service sector 26.6%, while industry now accounted for the largest share at 34.8% (cf. STATISTA 2020).

With the exception of 2009 (plus 0.1%), economic growth in GNI in Cambodia was above 8% p.a. in each period between 2000 and 2010 and has been almost consistently above 7% since 2011 (cf. Tradingeconomics 2018). In the last year before the start of the COVID-19 pandemic, the World Bank still noted an increase of 7.1%, but then for the first time dropped below the zero percent mark, at minus 3.1% for the Corona year 2020 (World Bank 2022a). For 2021-2023, however, economists predict growth of around 5% p.a. again (cf. Tradingeconomics 2022).

Cambodia is ranked 144th out of 189 countries on the Human Development Report (HDR) country list published by the United Nations Development Programme (UNDP), with a HDI of 0.594. Since 2015, the country has thus been in the lower half of the group of countries with "medium human development", measured by social indicators and economic strength. In this group of countries, Cambodia also has the highest increase in HDI value in the last 30 years, just ahead of Bangladesh (cf. UNDP 2020). Nevertheless, the country remains one of the poorest states in Asia, behind Nepal (ranked 142) but ahead of Myanmar (147), Syria since the civil war (151), Pakistan (154) and Afghanistan (169).

Officially, Cambodia has full employment. With almost constant unemployment rates over the last 20 years below 1.5% and in 2020 only 0.3% or, according to another source, 0.13%, one

⁸ However, in the catchment area of industrial zones, many members of families who continue to farm work as wage labourers, which could distort the statistics. In total, before the onset of the COVID-19 pandemic in 2020, there were around 800,000 people, mostly younger women, in the more than 500 factories in the textile industry alone (see Kosal 2019 and Khmer Times 3.12.2021).

would even have to speak of overemployment⁹. However, *de facto* underemployment of the working population, especially in rural areas and in the informal sector in urban areas, is sometimes enormous (cf. CIA 2022, STATISTA 2022). This situation was partly exacerbated by COVID-19, as many people laid off from industry and services tried to make ends meet in an informal trade (street trading) or had to resort to casual jobs.

The rapid economic development with high growth figures for 20 years and a considerable expansion of jobs in the manufacturing industry has drastically reduced poverty in general and especially extreme poverty in Cambodia. Seasonal work for men in construction, labour migration (especially to Thailand) and the expanding textile industry with significant additional employment opportunities for women has raised family incomes for broad sections of the population. In terms of numbers, the poverty rate has more than halved during the lifetime of the Millennium Development Goals (MDGs) and the first years of the Sustainable Development Goals (SDGs), from the previous 30-35% to about 13.5% in 2018/19.

Based on the latest socio-economic survey for 2019/20 and considering the costs of basic needs and a common basket approach, the national poverty line is currently at 10,951 Riel or US\$2.70 p.c./p.d., taking into account COVID-19 impacts. This means that the poverty rate has risen again to about 18%. In Phnom Penh, this figure is only 4.2%, in other urban areas it averages 12.6%, and in rural areas, where almost three quarters of the people live, it is 22.8% (cf. KoC.NIS 2020; World Bank 2022b).

Poverty thus shows an extreme urban-rural divide. Around 90% of the poor live in rural areas. Nevertheless, there are also significant pockets of poverty in the cities (visible e.g. in the form of medium-sized and small slums along railway lines, swamps / lakes, riverbanks, etc.). Apart from income, poverty in rural areas is characterized by a lack of social infrastructure compared to urban centres. For example, health services are often difficult to reach (poor tracks and expensive transport) and they offer poorer service.

Using the Oxford Multidimensional Poverty Index, the poor population is estimated to be 37.2% in 2019 (= 6.131 million inhabitants), but this is extrapolated from 2015 figures. 13.2% of them lived in severe multidimensional poverty. A further 21.1% of the population was also classified as vulnerable to multidimensional poverty, resulting in a total of 58.3% of all people in Cambodia being considered poor or at risk of poverty based on the criteria for multidimensional poverty (cf. Andersen 2019; OPHI 2020).

Together, 55.4% of people (= 8.486 million individuals) in Cambodia were still living just below or just above the poverty line five years ago (cf. UNDP 2017), making them vulnerable to a significant extent. Vulnerable in this context means that their income is at most twice the income set for the international poverty line, including the monetary value of subsistence production. Even minor economic crises, the illness of a full earner or a drought in agriculture can rapidly plunge a hh back into deep poverty. Therefore, many who succeeded in leaving the poverty line behind find themselves below it again a short time later (cf. OECD 2017). The impact of COVID-19 confirms this basic problem also for the present (cf. EU 2021, UNICEF 2021).

⁹ Statistical figures for Cambodia can vary considerably depending on the source for the same year. It should also be noted that statistics are often extrapolated based on older census data or separate hh surveys, and that external shocks such as the 2008/09 financial crisis, drought years or now the COVID-19 pandemic can lead to distortions.

Determining the actual disposable income of households in Cambodia is extremely difficult given the attempts of statisticians (e.g. the World Bank) to adjust to the actual purchasing power of Riel or US\$ in the country. Nominal gross domestic product (GDP) p.c. is US\$1,655; according to the World Bank's purchasing power parity (ppp) calculation method, GDP is US\$4,421 (cf. Knoema World Data Atlas 2022)¹⁰.

Fig. 2: House of an extremely poor family (with ID Poor status) in a village in Battambang province. The land was provided free of charge by relatives in this case, as in 3.2% of the cases in our study.



A recent study by Symbiotics cites concrete *income data* for workers in Cambodia. According to this, in 2019, in a sample of 293 respondents, the average monthly income was US\$867 / ppp. The GDP contribution was US\$360 p.c. / p.m. at the same time (2020b: 24). In a more realistic calculation of ppp, this figure in US dollars is likely to be half of the values given, with average incomes in rural areas and for primarily agriculturally oriented hh being significantly lower again (cf. KoC.NIS 2020: 109ff). A better insight into real wages is provided by the government-imposed minimum income, which was set at a Riel equivalent of US\$194 from 01 January 2022¹¹. Few of the workers, especially the factory workers who are predominantly

¹⁰ Nominal GNI p.c. adjusted by the World Bank with a ppp formula. This formula is relatively complex and often to a considerable extent ignores the fact that poor population groups have to spend a high proportion of their expenditure on basic foodstuffs such as rice, wheat, millet or maize, the cost of which is almost the same worldwide. In Cambodia, energy is also very expensive. This reduces real purchasing power, especially for the poor, in relation to average purchasing power, ppp-adjusted purchasing power estimate of the World Bank.

¹¹ See *prakas* (Decree) No. 264/21 “regarding the minimum wage for 2022 as applicable for workers and employees in the textile, garment, footwear, and travel goods and bag industry sectors” of the Cambodian Ministry of Labour and Vocational Training. Source: <https://t1p.de/kpg5w> [5-2022].

female, are likely to receive more than this minimum wage. In addition, in the sectors of the economy not covered by the decree on the minimum wage, there are no minimum wage rates so far, which means that in some cases significantly less is paid¹². This narrow wage base of broad sections of the population must also be considered when talking about loans and the ability of households to repay them in later chapters.

Income generation and *labour migration* are directly linked in Cambodia. Internal migration within the country clearly ranks ahead of taking up work abroad, with the latter focussing mainly on Thailand and less frequently on Malaysia. Particularly in the provinces bordering Thailand, many people, mainly family fathers and older sons, work at least seasonally in the neighbouring country, where wages are two to three times higher than in Cambodia. Sometimes whole families move to Thailand for a few months a year, or married couples who leave their children with their grandparents in the meantime. The significance of this segment of labour migration is so great in certain regions that FSPs offer loans in Thai Bath, for example, in Banteay Meanchey, and also accept savings deposits in Bath.

Internal migration, which is by far the most significant in terms of income generation, in many cases leads to temporary or permanent dual residency, at least of part of a family. This particularly affects Phnom Penh, where, according to ID Poor staff, tens of thousands of households take up temporary residence in order to return to their villages regularly during the growing and harvesting season. The exact extent of this particular form of labour migration has not become clearer even through the 2019 Census. The fact that families in Cambodia respond flexibly to work opportunities was already evident in previous INEF surveys¹³. The interviews conducted as part of this study also show that a relatively large number of families in their home village were “not there right now” or had “recently moved away”. This flexibility has some consequences with regard to the financial sector, in that, for example, credit contracts are “carried” from one place to another, and it thus remains unclear in a number of cases whether, for example, a loan was taken out for needs in the city or (still) for agriculture.

Poverty, Health, COVID-19 and Credit Consequences

INEF’s previous studies on Cambodia have already addressed the links between poverty, nutrition and health (cf. Bliss 2017, 2018, 2021b). Without wishing to present this context in more detail in this analysis paper, two important observations must be made with regard to the socio-economic context and against the background of possible restrictions in the quantity and quality of food in the affected families to ensure timely loan repayments.

- (i) The health situation in Cambodia has not improved to the same extent as the poverty figures have declined. Restricted growth is observed in children, and especially anaemia in women. Hunger (= lack of access to food) is not so much the cause of the problem as undernutrition and, above all, malnutrition. Thus, a high morbidity rate continues to be seen especially among children under five years of age. The World Bank sees considerable deficits here in Cambodia compared to other members of the same country group (lower middle-income countries)

¹² For example, Mam Rithy, Chair of the Cambodian Tourism and Services Worker Federation spoke of wages between US\$80 and US\$130 in a July 2019 event. Due to COVID-19, among other factors, there are unlikely to have been any wage increases in the meantime (cf. VOD, of 17 July 2019; source: <https://t1p.de/6cax> [5-2022]).

¹³ Cf. e.g. Hennecke / Bliss / Schell 2018 in the context of “social land concessions”.

(World Bank 2021). In this context, malnutrition and undernutrition lead to mental and physical developmental delays at a later age, which in turn result in poor school performance and limited working capacity and performance later on (cf. UNICEF 2017, 2022; USAID 2018).

- (ii) This initial situation poses a considerable problem for the health development of the population and especially of children if, as will be explained later, one of the frequently cited measures in the case of loan repayment difficulties is the reduction of food quality, which is an important means of saving household expenditure in favour of regular loan repayments (cf. AusAid 2021: 61; EU 2021: 35; UNICEF 2021: 55f, 71).

However, a more detailed study on the nutritional consequences of the COVID-19 pandemic in the context of loans is still required. The relatively well-advanced recovery of the economy and the resumption of tourism since February 2022 should ensure an increase in employment and thus increased incomes again. It can only be hoped that the first priority will be avoiding further reduction in the quality of food in the affected households.

Finally, in the context of the relation between poverty, nutrition and COVID-19 consequences, it should be noted that during the pandemic, since June 2020 (figures as of October 2021), a total of 678,459 or 19% of all households received unconditional cash allocations (i.e. social assistance payments) from the government through the ID Poor programme¹⁴. Beneficiaries were the poor already identified under ID Poor, as well as the elderly and persons with disabilities who were particularly affected. Digital payment methods were utilized which were already widely used in Cambodia. For the period June to December 2020 alone, US\$300 million were earmarked for this purpose, and around US\$500 million for the period June to November 2021.

2.2 The Agricultural Sector

Although 32.1% of the total land area of 176,515 km² (plus 4,520 km² of water area) is theoretically considered to be arable land, only 22.7% of the land area is actually cultivated. This is partly due to flooding during the rainy season, with only 0.9% having year-round crops (e.g. cashew nuts, pepper, and fruit trees) and about two percent (about 3,640 km²) being irrigated all year round. 8.5% of the land is available as permanent pasture. Partially heavily degraded forests, in which the most valuable part of the tree population has been cut down, make up 56.5% of the land area. 11.4% of the land belongs to other categories, plus a significant amount of inland waters such as the Tonle Sap, totalling 4,520 km².

The 2019/20 *socio-economic census* estimates that 30% of the population is engaged in agriculture as skilled labour: 28% of men and 33% of women (KoC 2020). Our survey shows, however, that in the villages studied the proportion of households and persons who derive their income primarily from agriculture or consider themselves farmers is significantly higher, at 38.4%. In addition, another 20.4% of respondents say that agriculture is their second most important source of income.

A structural cause of *poverty in rural Cambodia* is the fact that many families, even in rural areas, have limited access or no access to land. On the one hand, there are large private farms,

¹⁴ For details on ID Poor, the process, coverage and reception by the poor themselves, cf. Hennecke / Bliss 2018.

some of which are in foreign hands (often as *economic land concessions* of thousands of hectares), and on the other hand, there are smallholdings and microholdings of less than one hectare or completely landless families¹⁵. Many people eke out a living as day labourers in their home village or one person in the family works seasonally in a factory in the urban centres (especially women in the textile industry) or abroad (especially men in neighbouring Thailand). In our sample, 31.2% of all respondents (N = 1,388) reported that wage labour was their main source of income. It was additionally noted that the daily wage in agriculture was about US\$5-6 per day.

Another factor responsible for the persistent poverty and high *vulnerability* of families that are not explicitly poor is the susceptibility of agriculture to extreme weather events such as prolonged droughts or floods, which causes considerable fluctuations in annual harvests and corresponding incomes. Climate change could further exacerbate the consequences of extreme weather events¹⁶. This has implications for medium-term financial commitments, for example through loans.

Fig. 3: Processing of cassava / manioc after harvest; most of the sale goes to Vietnam as cattle feed.



Surprisingly, figures from WFP et al. (2021) suggest that agriculture and livestock farming lost particularly high numbers of *jobs* at times during the 2020/21 COVID-19 pandemic, up to 24% at times according to interval surveys. However, the Socio-Economic Impact Assessment of

¹⁵ A very good source on this topic is the interactive map of land ownership sizes for all *communes* of the country (as of about 2015) at <https://opendevelopmentcambodia.net/topics/land/> [5-2022].

¹⁶ In the World Risk Index, Cambodia is ranked 15th behind Bangladesh and Fiji. In comparison, Germany is only ranked 161 despite the increasing extreme weather events and the Ahr Valley disaster in 2021 (cf. WorldRiskReport 2021, source <https://t1p.de/9ot7f> [5-2022]).

July 2021 also states that errors may have occurred in these figures, which could be due to the widespread parallel employment among many households. For example, respondents who were primarily engaged in agriculture may have seen employment losses as relating to their second or further occupation rather than to their main agricultural occupation. Finally, the same study also notes that, as a resilience strategy among many households against the impact of the pandemic, many respondents who lost their jobs (at least temporarily) in other sectors took up farming as an alternative (ibid. p. 46).

2.3 Non-Agricultural Employment and COVID-19

The considerable *growth rates* in the last decade are, as already noted at the beginning, mainly due to the emerging industry, in particular the textile sector. The number of jobs alone, which grew from 200,000 to 700,000 between 2004 and today, especially for (young) women in the textile and footwear industry, shows the considerable importance of this sector. The construction industry with an estimated 200,000 jobs, clearly visible especially in Phnom Penh but also in the other larger urban centres and in infrastructure development, as well as tourism with up to 500,000 employees, also contributed significantly to this growth in recent years (cf. CIA 2022).

The *COVID-19 pandemic* has affected the country's economy, and thus employment to a significant extent, through various preventive measures implemented relatively strictly in Cambodia. This has affected the informal sector in particular, which has not been able to benefit from wage continuation payments or, like the country's export-oriented industrial enterprises, from the immediate reactivation of production after the shutdown was lifted.

Despite the pandemic, according to data from STATISTA, the *service sector*, which has always been accustomed to over 6% annual growth rates, continued to develop positively at 6.8% in 2020 and 6.9% in 2021, although these figures are based on estimates.

However, the *tourism sector* and its downstream sectors suffered extremely from the shutdowns related to COVID-19. One study points to the extreme losses of the industry, which still generated US\$4.9 billion in revenue in 2019 but fell 80% to just US\$1.023 billion in 2020 (see Pechet / Augustine 2021). Above all, the crisis was caused by the absence of international visitors with purchasing power, while national tourism provided a small, intermittent substitute. In 2021, with a continuation of the shutdown, there will have hardly been any improvement in terms of visits from abroad. Overall, 99% of all businesses in the tourism sector are thought to be negatively affected, half of them very severely¹⁷.

Trade and especially *industry* have been much less affected by the pandemic, with the main focus being on temporary short-time work and selective, in some cases large-scale redundancies, which, however, were for the most part only of a temporary nature. WFP et al. speak of individual waves which at certain times affected up to 18% of respondents in different samples (August 2020) and were otherwise at 10% in February 2020 or 7% in March 2021 (WFP et al 2021: 30ff). The consequences of the dismissals were, apart from (rare) permanent job losses, above all lower incomes, which at certain times affected one employee in every two. Only a small proportion of those affected could count on the social assistance payments mentioned above (see Chapter 2.1).

¹⁷ An overall picture of the sector's situation between 2020 and mid-2021 is provided by The Asia Foundation in its Impact Assessment 2021.

In a succinct analysis in mid-2020, UNIDO confirmed significant impacts of the pandemic on Cambodia’s *manufacturing sector*, particularly in the general textile, garment, footwear, food and beverage industries. The main issue was caused by demand problems, which led to reduced turnover and corresponding staff redundancies (cf. UNIDO 2020). However, there have also been numerous cases where workers could not get to their workplace due to shutdowns. In both cases, there was a significant loss of revenue and corresponding difficulties with payment obligations.

The socio-economic analysis of WFP et al. (2021) as well as the European Union (EU) study presented at the end of 2021 on responses to COVID-19 impacts in the urban milieu deal intensively with the effects of the *economic impacts* on workers. From the latter study in particular, it is clear that these impacts focus primarily on two areas. The first is the reduced resources available for feeding the affected households. The second is the question of how existing debts can be repaid in the face of unexpected reduction in incomes due to COVID-19. In a sample of 277 households, 73% reported income losses and 55% indicated resulting food insecurity.

In its outlook, the Asian Development Bank (ADB) expects Cambodia’s *economy* to grow by 5.2% in 2022 and by as much as 6.5% in 2023. Industry is expected to grow by 8.1 and 9.1% respectively in the same period. In contrast, the service sector will grow at a slightly lower rate of 4.8% in 2022, then more significantly by 6.8% in 2023 due to the Southeast Asian Games taking place in the country. Agriculture is projected to grow by only 1.2% over the forecast period (see ADB 2022: 295ff). The latter indication is important for the issue of debt, as a large number of the loans included in this study (80 or over 11% of all loans) were taken out by small farmers primarily for the purchase of agricultural equipment and even arable land.

3. Methodology of the Study

The present study is based on a combination of different methodological approaches, several qualitative and one quantitative. The study is based on the experiences gained in Cambodia during the previous five INEF BMZ studies conducted in the 2016-2018 period. These focused intensively on national development issues, especially in the agricultural sector, as well as various aspects of poverty reduction in the country. Based on these, a *secondary analysis* of the available sources was carried out, which included the academic discussion on MF in general and in the specific case of Cambodia, but also the statements of domestic and foreign NGOs and donor organizations, press articles as well as published and unpublished analyses on the MFI sector. The source analysis was supplemented during the preparation of the field phase by *interviews* with key stakeholders, which included the German donor side (BMZ, implementing organizations, embassy), the NGO sector, financial experts and country experts on Cambodia.

The *field phase* of the study, which lasted from early February to mid-March 2022, included a standardized hh survey of a total of 1,388 hh, which, unlike the NGO surveys and several studies conducted by donors, did not require any preconditions such as over-indebtedness or even the existence of current or settled loans. Therefore, it was also possible to conduct this survey absolutely anonymously, so that the women and men interviewed could be sure that it would be impossible to trace their statements¹⁸.

This is important because the existing empirical studies, from Dannet Liv in 2012 to the fund-financed and donor-financed analyses in 2017 and 2021, were always carried out on the basis of lists of borrowers and thus with knowledge of the names, addresses, other contact data (including telephone numbers) and, of course, the credit situation of the clients. There is a partly repressive political background in the country. In addition, in South-East Asia it is almost obligatory to be polite with respect to both present and absent persons. In view of these factors, it is not to be expected that there will be any personal criticism of, for instance, loan officers, MFIs or banks. Indications of unethical or even illegal behaviour are hardly to be expected in such interviews – at least if the informants cannot be sure that third parties will not find out about it.

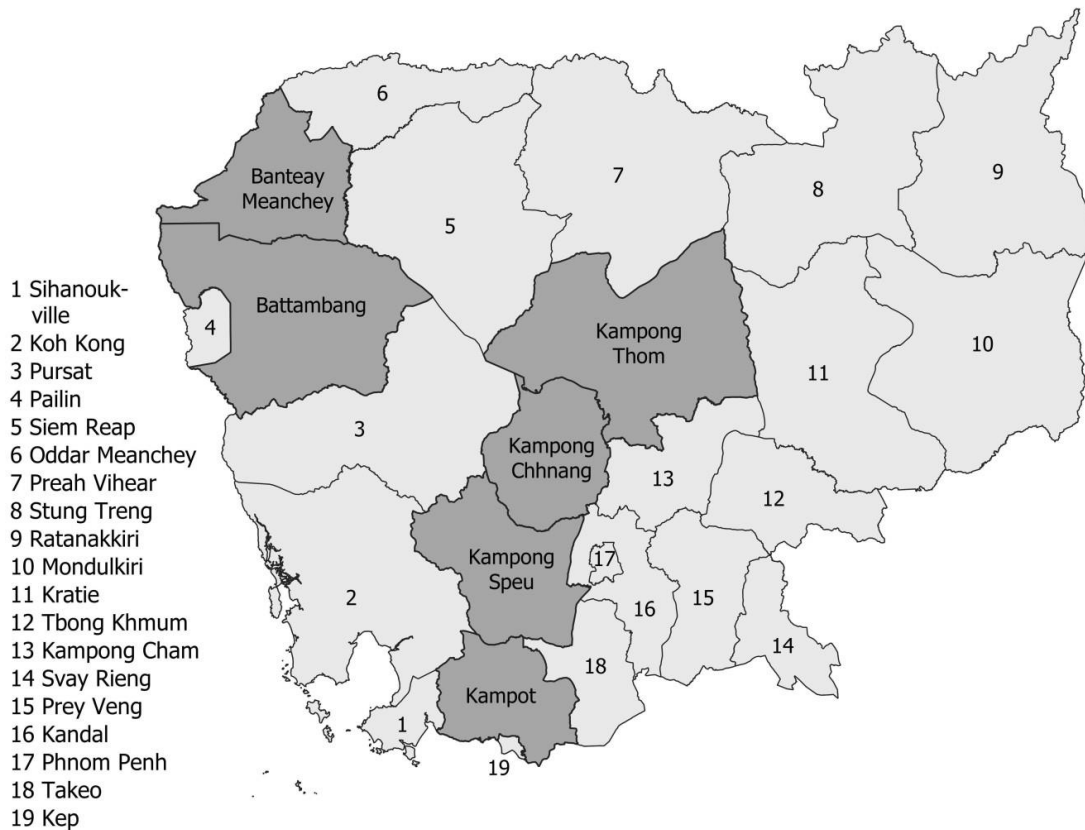
However, the experience of our study showed that even with the assurance of the highest possible anonymity, personal verbal attacks against the representatives of the MFIs and banks remained the exception, at least in hh surveys conducted with the help of mobile devices. The situation was different in informal discussions with affected people as well as with village chiefs and representatives of the communes, who expressed themselves very clearly on several occasions with regard to the acquisition of loans and the omnipresence of the MFI in their village or commune.

The *selection of households to be surveyed* was carried out as follows: In a first step, with the kind support of the ID Poor Department in the Ministry of Planning, six provinces were selected with different characteristics such as relative socio-economic situation, agricultural

¹⁸ Anonymity was also promised in other studies (cf. Kumari 2020), but absolute anonymity was not possible in all cases, if only because the interviewees were selected on the basis of a current loan with an MFI or bank and corresponding client data such as name and telephone number were known in the survey plan. In our study, the randomly selected hh were previously unknown. No names or other personal data that would allow re-identification were recorded in the context of the interview, and even village names were not recorded. The only fact recorded is the municipality in which clients were interviewed, and how many in each (see Appendix).

conditions (e.g. role of cash crops), credit penetration, labour migration, etc. Battambang, Banteay Meanchey, Kampong Thom, Kampong Chhnang, Kampong Speu and Kampot provinces made the list. In Figure 4 it can be seen that this created a kind of traverse from northwest to southeast.

Fig. 4: Cambodia and its administrative units. The numbers refer to the six provinces included in this study: 1 Battambang, 2 Banteay Meanchey, 3 Kampong Thom, 4 Kampong Chhnang, 5 Kampong Speu, 6 Kampot. Source: Pruß (2022).



In each of the provinces, two districts were included in the study and in each district two communes were included, in each of which again one village was selected at random and without prior notice on the basis of the national census list (Table 1)¹⁹. Accordingly, the survey is based on hh from 24 villages. Districts and communes were selected firstly according to their proximity to urban centres (provincial capitals) or important trunk roads, and secondly according to their greater distance from corresponding pull centres and thus relative disadvantage, e.g. in terms of services and communication. Practice has shown that even commune centres and villages situated a few kilometres away from a main road and a larger town were hardly accessible after rainfall, which relativizes their "favourable situation".

In the villages, hh were selected by the count method, i.e. every third, fourth or fifth hh, based on hh numbers from census data, skipping hh where no one was present. Although participation in the survey was voluntary and the hh members present (husband or wife as

¹⁹ The tables refer to the Appendix.

hh manager) were politely asked about their willingness and, although the topic of loans is of course sensitive *per se*, there were very few refusals.

What is the representativeness of the sample, given that there are around 14,000 villages in Cambodia? According to Krejcie / Morgan (1970: Table 1), for a given population of one million, a sample of N=384 is sufficient to obtain a confidence level of 95% with an assumed standard error of 0.05. Populations exceeding one million (Cambodia has 3.58 million hh in 2020, according to the NIS) hardly increase the required sample size at all. Sample calculators, for example, give N=385 for a population of 10 million (e.g. UCSF Sample Size Calculators, Qualtrics, Uni-Köln Webrechner).

The hh survey itself was conducted by eight university students who had to demonstrate a basic knowledge of English. However, they worked with a bilingual questionnaire and tablet programme, so there were hardly any language problems. The only difficulty, apart from reaching three villages because of the poor access roads, was the fact that two village chiefs (*mephums*) were not only unimpressed by the team's appearance but were downright angry. During the conversation it quickly became clear that they had assumed that the survey was to be carried out on behalf of FSPs and was aimed at credit acquisition. This is at least an indication that the villages in question were more than just saturated in terms of credit. In addition, in the other villages it was also found that sometimes during the interviews loan officers were present in the village and in some cases even "followed on from" the team members in the hh after the interview.

Parallel to the hh surveys, team members interviewed the respective *mephums* - when they were present and willing to be interviewed - in the context of a semi-structured *intensive interview*. Here, questions were asked about the extent of borrowing, the problems that may exist in repaying loans, the question of land sales in the context of repaying loans and also the informal credit trade in the village and the commune. In total, such a conversation was held in half of the reference villages.

Parallel to the inclusion of *village chiefs*, discussions were held with representatives of the communes, in most cases the commune leaders (*mekhums*) themselves or the "clerk", i.e. the person who issues and registers the official documents in the rural community. Thus, at least in some cases, the number of land titles documented by the commune as collateral for loans in 2021 could be recorded more precisely. It was possible to include a total of 28 *mekhums* and *mephums* in the study.

The interviews with the *mephums* and the *mekhum* or his representative were particularly important for two reasons: firstly, because with regard to soft land titles the *mephums* virtually have to confirm the documentation of the traditional rights of use and therefore, in the end, not a single title of this kind used to secure loans can come into being without their intervention. On the other hand, in both cases, i.e. hard and soft titles, the commune administration issues the title confirmations to be deposited with the FIs. In this way, it is possible (with some effort) to determine approximately the number of loans secured p.a. by land titles; moreover, both representatives know the situation in their administrative area very well. Both are also usually involved when there are repayment problems or other difficulties with loans.

In order to at least attempt to obtain different views (even if they were oppositional) on credit and the behaviour of the MFIs and banking industry, in a total of 23 of the 24 villages included in the survey *Focus Group Discussions* (FGDs) were conducted, to which borrowers were invited alongside other people who explicitly stated that they did not want a loan. Even if the principle of courtesy with regard to the conduct of loan officers was maintained here,

problems in the initiation, management and repayment of loans became clear from the discussions, in some cases much more pointedly than was evident from the hh surveys. Participants who did not have current loans were virtually witnesses at the FGDs to problems that had become public knowledge among borrowers in their villages in the past.

Fig. 5: Typical commune administration building, as constructed under an ADB programme in all six sample provinces.



The first interim results of the research were discussed with various stakeholders during the field phase in Cambodia and then, after the hh surveys were completed, in a second round with the BMZ, participating implementing organizations and representatives of one of the MF funds that continues to be involved with German funding. The author also had policy discussions in Cambodia with several representatives of MFIs and bank management about the MFI sector and FI practices.

The evaluation of the data and the preparation of the preliminary report took place from mid-March to the end of May 2022. In June 2022, a presentation of the preliminary results of the study took place in Phnom Penh with the participation of representatives of the National Bank, MFIs and banks as well as civil society. The results were incorporated into this final version.

4. The (Micro) Credit Market in Cambodia: An Overview

4.1 Development of the “Micro” Financial Sector in Cambodia

1990 was the key year in which, among other things, the first initiatives were adopted on the initiative of the UN Security Council and in particular its five permanent members to put an end to Cambodia’s international isolation after years of the Pol Pot regime (1975-1979) and the subsequent Vietnamese occupation (1979-1989). A vanguard of the later United Nations Transition Authority in Cambodia (UNTAC, 1992/93)²⁰ landed in early November 1991 in a country whose economy remained grounded after the start of the civil war in the context of the Indochina War (1970 to 1975) and the economically suicidal Pol Pot phase. At that time, GNI was around US\$170 p.c. / p.a. and most development indicators were nowhere near their pre-war figures, let alone the levels at the end of the Pol Pot dictatorship²¹.

In the wake of UNTAC, international NGOs (I-NGOs) in particular, which had already been active in Cambodia with sporadic social programmes under the Vietnamese occupation, also began to get involved in agricultural financing. In addition, there were programmes, e.g. by UNICEF, especially for women, which included the first, initially very modest loan elements. The development of these contributions up to the emergence of the formal MF and today’s banking sector is described in detail by Ron Bevacqua (2017) and will be summarized here in its most important steps:

- (i) Initially conceived as accompanying measures, microcredit offers developed from small local initiatives into independent development cooperation projects, which led to the establishment of numerous village banks and, in the next step, to national NGOs that were still supported by I-NGOs for some time, but then became more or less independent. Relevant actors in this context were UNICEF, which first switched from providing emergency aid free of charge to providing loans in 1988, followed from 1990 onwards by USAID, the World Bank and, a little later, UNDP and the International Labour Organization (ILO). These, in turn, worked through I-NGOs such as World Vision, CARE, the *French NGOs Partenariat Pour le Développement au Kampuchea* (PADEK) and *Groupe de Recherches et d’Echanges Technologiques* (GRET), as well as national NGOs. The founding years of the MFI sector between 1990 and 1994 are already described by Bevacqua as “An Industry is Born” (cf. Bevacqua 2017: 72ff.).

The *Association of Local Economic Development Agencies* (ACLEDA) is the most striking example of this development, as today’s most popular and widespread bank in Cambodia was initially established only as a 1993/94 merger of Local Economic Development Agencies (LEDA) into one single NGO. LEDAs used to be small service providers that were intended to help with the demobilization of former soldiers and their reintegration into the local economies and, in this context, granted loans to the members of the target group. One year later, in a similar fashion, the EU Commission *Programme de Réhabilitation et Appui au Secteur Agricole du Cambodge* (PRASAC)

²⁰ For a comprehensive source on UNTAC, cf. Trevor Findlay (1995) or a concise summary in: Cambodia - UNTAC. Background. Source: <https://t1p.de/j0t46> [4-2022].

²¹ On the Indochina “Vietnam” war and the years that followed, cf. David Chandler (2008), Erich Follath (2009), Jonathan Neale (2001, especially pp.185-207), Ian Mabbett / David Chandler (1995), and in the context of reconstruction and the emergence of the MF sector, cf. also Ron Evacqua (2017).

founded a second NGO-MFI with the aim of serving 60,000 borrowers in 1,000 village banks in six provinces of Cambodia (cf. Bevacqua 2017: 96ff.).

- (ii) In the next step, the NGOs ACLEDA and PRASAC - as with other similar constructs that play an important role in this study, such as the two MFIs AMRET and LOLC or the Sathapana Bank - became registered MFIs that granted micro, small and medium loans on a very large scale. They gained a very dense network of agencies over time, not only in the provincial capitals but right into rural centres, thus also enabling financial inclusion in rural areas of Cambodia for the first time.
- (iii) In 1999, ACLEDA had just over 58,300 borrowers with a portfolio of US\$13.7 million, 27 offices in eleven provinces, 330 staff and had already shown two years of positive balance sheets. At the end of the same year, the Cambodian Banking and Financial Institutions Law was passed, which led to 15 of the FIs already established in the country having to give up in the wake of the newly imposed rules. ACLEDA (like PRASAC) was not one of the latter but took the opportunity to transform from an NGO into a bank²². At the same time, the acquisition of deposits from development finance organisations began, which included the International Finance Corporation (IFC), a subsidiary of the World Bank, two other donors and, for the first time, the DEG, which, like the others in the quartet, contributed US\$490,000 to ACLEDA. The NGO ACLEDA itself remained the largest shareholder of the new bank, with a shareholding of 45% (cf. Bevacqua 2017: 166ff.).
- (iv) From 2006 to 2010, the MFI sector was encouraged to expand its services and credit offerings in line with Cambodia's development planning, in order to underpin the already significant economic growth. This planning was particularly influenced by the second Financial Sector Development Strategy formulated by the ADB. In addition, to raise capital domestically, also at the initiative of the ADB and through a project financed by it (Developing Deposit Services in Rural Cambodia), massive efforts were made to further develop savings services. Saving was not only intended to mobilize capital, but also to lead to better financial management in hh. At the same time, some of the loans previously granted in foreign currency were converted into Cambodian Riels. To date Riels and US\$ are treated as largely compatible in the credit business (cf. Bevacqua 2017: 191ff.).
- (v) Finally, Bevacqua describes the phase from 2010 to 2016 as the maturity phase of the MF industry, which, however, was soon to be confronted with a number of problems. First of all, a significant increase in loan volumes can be observed, both in terms of the number of clients and the amount of the individual loans. While the former figure was just over 300,000 in 2005, it rose only slowly to around 400,000 by 2010, only to increase by 50% to 600,000 in 2011. In 2013, the sector reached 1.3 million customers, and in 2016 it reached 2.1 million. In the same period, the amount of credit increased from little over US\$100 million to just over US\$600 million in 2011, reached the two billion mark in 2014 and was just over US\$3 billion in 2016. In this context, the amount of individual loans rose from US\$343 per contract in 2008 to US\$560 in 2011, and then increased much more rapidly from year to year (2012: US\$678, 2013: US\$846, 2014:

²² In this context, Bevacqua (2017) cites a total of 14 organizations that provided rural loans in 2000, still including some I-NGOs such as CARE and World Vision (p. 195f). ACLEDA alone was by far the largest MFI as of December 2020, with just over US\$65 million in outstanding loans out of a total of US\$114.4 million, followed by PRASAC with about US\$13 million.

US\$1,140, 2015: US\$1,460 and 2016: US\$1,507) (for all figures, see Bevacqua 2017: 209ff.).

According to Bevacqua, a positive observation during this phase was that, on the one hand, the individual loan size increased, but the number of poor borrowers also increased, i.e. the MFIs did not (yet) focus primarily on more solvent clients. Another positive aspect of this period is the very high repayment rate of over 99%, which indicates that the loans were used for investments in farms and agriculture, thus increasing incomes (ibid. 219ff.).

However, he also notes that at least some of the borrowers may have borrowed too much money. Another survey conducted in 2012 among 2,000 borrowers in seven provinces, cited by the author, showed that 22% of the sample were “insolvent”. This study, published by Darnet Liv in 2013, was commissioned by three investment funds, two of which are still active in Cambodia today with German funding (BlueOrchard and OikoCredit). And it does indeed show – long before a 2017 study sponsored by KfW, among others, with partly similar results, and before the renewed massive wake-up calls from LICADHO and others in 2019 and beyond – that a dangerous development was on the horizon here.

The author emphasizes that the study only refers to selected villages in Cambodia that are “saturated”²³ in terms of credit and that no conclusions can be drawn about over-indebtedness in the country as a whole. However, of the 1,480 respondents (not 2,000 as stated by Bevacqua), when considering repayment amounts in relation to net income, 22% were actually in a situation that Liv had to describe as insolvent or over-indebted. 465 borrowers were again interviewed separately in qualitative terms in order to find out their individual assessment regarding the handling of the loan and, if applicable, their difficulties with repayment. Here the result was that only 6% could be classified as over-indebted (Liv 2013: 10, 15)²⁴.

Two further studies, a study by Tanwi Kumari (2020) on the perspective of debtors on consumer protection in the context of MF and a study conducted again on behalf of donors with the participation of KfW at the end of 2021, put the criticisms of LICADHO and a number of financial experts into perspective with regard to the problem of over-indebtedness as well as the assessment of the framework conditions for their loans. However, unlike in our study, the interviews in both studies were not conducted entirely anonymously since the sampling and the personal approach were carried out on the basis of and with reference to MFI data. Hence the interview partners could not entirely exclude that their answers might be combined with their personal data.

²³ In the study, the criterion “saturated” is defined by the ratio of the number of households in the village to loan amounts. However, it remains unclear whether a poverty factor was considered. According to Liv, the result is as follows: Out of 14,074 villages in Cambodia, 914 (6%) were saturated in terms of credit (= “market penetration was over 100%”); 1,260 villages (9%) had a very high market penetration (75-100%), 2,444 villages (17%) had a high market penetration (50-75%), but 62% of all villages had only a moderate (25-50%) or low market penetration (less than 25%) and 914 villages (6%) had no penetration at all (Liv 2013: 13).

²⁴ Relevant sources for the period between 2010 and 2016 also include Bylander (2014, 2015), MIMOSA (2015), Bateman (2017a, 2017b) and, last but not least, the Balance Study (2017), which was funded by German DC, among others.

Finally, for the period 2010 to 2016, a look will be taken at the MFI income figures that Bevacqua drew from the annual reports of the eight most important MFIs or banks. According to these, the return on equity at ACLEDA Bank was between 18.2% in 2015 and 27.6% in 2011, at Amret between 21.9% in 2012 and 35.9% in 2015, at LOLC between 15% in 2010 and 40.9% in 2015, and at Sathapana Bank between 6.5% in 2016 and 35.9% in 2015 (op. cit.: 231).

- (vi) The last phase from the end of 2016 until today, which is no longer covered by Bevacqua, is characterized by a further expansion of loan volumes, but above all by the discussion about saturation in the MFI sector, considering the indicator of a "loan penetration over capacity" (cf. MIMOSA 2020)²⁵. As of the end of 2019, the Cambodia country report on the Microfinance Index of Market Outreach and Saturation (MIMOSA) states that the rate of credit penetration in the country has now reached between 21.8 and 32.9 borrowers per 100 adults, which according to the indicator means a rating of "6", the highest possible value (MIMOSA 2020: 7)²⁶.

The rating of "6" in the context of the MIMOSA report is also the highest of all countries surveyed. The report also assesses the regulatory area as insufficient, both in terms of the general quality of regulation (i.e. the specifications of the CBC and the MFIs / banks themselves) and in terms of consumer protection against over-indebtedness, as well as with regard to transparency in loan sales, repayment and debtor rights in general. In contrast, MIMOSA explicitly emphasizes that there is a great deal of transparency with regard to the general data situation on the credit system, which at least somewhat alleviates the overall situation of increasing indebtedness (ibid.).

Two other points become clear in the MIMOSA report: Firstly, the positive observation that there are only very few debtors with several current loans in Cambodia is put into perspective by the fact that the amount of individual loans is increasing considerably, leading to increasing risks, especially when considering the growth in GNI. Secondly, with additional FSPs entering the market, the report assumes a sharp increase in competition between MFIs since 2016, for both small and medium loans (US\$5,000-20,000) (ibid.). This is a finding that has direct relevance to our study when it comes to the nature of credit acquisition, potentially increasing over-indebtedness (especially of poorer hh) and ultimately the obvious unresolved ethical challenges for the sector.

During the COVID-19 crisis in Cambodia and under the impact of increasing debt, the NBC issued a circular (B7-020-1748) dated 27 March 2020 to the financial sector, asking its stakeholders to be flexible on debt repayment. Although the circular mainly referred to commercial enterprises, but also to their workers in the textile industry, most banks and MFIs reacted positively with respect to loans to other clients, either by extending the repayment periods (while maintaining the interest obligation) or by

²⁵ We do not see a contradiction here with the statement by UNCDF, that in 2021 33% of the population of Cambodia was excluded from formal financial services. With these 33% the question is not one of access possibilities, as we see these as basically being present everywhere. Instead the people concerned themselves either do not use FSPs, for whatever reasons, or are not allowed to do so.

²⁶ According to this indicator, 1 means undersupply with credit, 2 and 3 the normal state and 4, 5 and 6 market saturation (loc.cit. User Guide: 1).

offering to restructure the current loans²⁷. In a further letter dated 20 April 2020, FSPs were asked to waive penalties on loans (B7-020-657). However, these solutions were cost-neutral for the industry in that there was no change in loan amounts and interest income.

4.2 The Formal Actors in the Microfinance Sector and their Positioning

4.2.1 Introduction

In general, due to the overall inhomogeneous or extremely broad credit sector in Cambodia, there is an extremely difficult situation in which two groups of FIs have to be considered: (i.) the banks, MFIs and Rural Credit Institutions (RCIs) (all three groups registered with the Central Bank of Cambodia) and (ii.) the private money lenders, who on the one hand run businesses with an official pawn shop character and on the other hand are to be distinguished from the "private money lenders", operating on a purely informal basis (Chapter 4.3).

The three segments of the first group, i.e. banks, MFIs and RCIs, overlap in their offerings through their presence in the MF market, although only some of the banks, such as ACLEDA, Hattha and Sathapana Bank, explicitly uphold the tradition of MF understood as a contribution to poverty reduction. ACLEDA in particular, with 314,755 Small Business Loans at the end of 2021 out of 427,331 active loans²⁸, primarily sees itself as an SME development bank. Banks and MFIs can lend and, depending on their licence, also accept savings deposits. RCIs are only allowed to grant loans.

With respect to the second group, the pawn shops, there is no concrete data on the number of players or on the total amount of money in circulation, either from the National Bank or from third-party sources (Section 4.2.4).

4.2.2 MFIs and Commercial Banks

The six "big" microfinance Institutions among the 81 MFIs (which both lend and offer to accept savings deposits) have a combined presence of 183 branches in provincial capitals and another 564 in district centres as of the end of 2020 (see NBC 2020: 40). The number of employees is surprisingly high. PRASAC had 9,091 employees in 2019, Amret had 4,599 and LOLC had 2,757 (NBC 2020: 42). Of these, a large proportion are field staff²⁹, who are responsible for acquisition and loan servicing and in many cases also for collecting instalment payments. In interviews, this was described as an important contribution to financial inclusion. In this way, the home visits were said to give clients access to financial services that they would not otherwise have.

Among the *commercial banks*, ACLEDA and the fast-growing Sathapana Bank are the most relevant players in the MF sector. The former is the most widespread FSP in Cambodia, with 21 branches in Phnom Penh alone and 242 branches in the provinces. Sathapana Bank is ranked third with 20 branches in the capital and 153 in the provinces, only just surpassed by

²⁷ These are the findings of our interviews with CEOs involved, see also Phomra Saray in a VDB Loi article of 08.04.2020 (VDB-Loi is an association of leading legal consultancies in Cambodia).

²⁸ Cf. the latest data provided to the author for 31.12.2021.

²⁹ Almost all of them are men, partly on the grounds, which cannot be entirely dismissed, that "working on mopeds on bad tracks and working in households is not without risks" (as stated by a branch employee).

number two, Hattha Bank, which has 22 branches in the capital and 155 in the provinces. In terms of number of employees, ACLEDA ranks first by a wide margin with 12,013 (2020), followed by Hattha with 4,382 and Sathapana with 4,322 employees (NBC 2020: 22f).

The group of MFIs and commercial banks has been relatively well regulated for several years - at least in theory - by the NBC (cf. NBC 2016, Youdy 2021). Most recently, according to Youdy, the NBC also adopted the *25 Basel Core Principles*³⁰ and plans to implement the principles in further guidelines.

The MFI sector itself, represented primarily by the Cambodian Microfinance Association (CMA), also under pressure from academic and civil society criticism of the MF sector, has developed its own Compliance and Good Loan Practice guidelines. According to the author’s conversations with several CEOs of MFIs and banks, these are also implemented in practice, at least by most members of the CMA. In March 2022, the Lending Guidelines of the association, which had been in place since 2016, (cf. CMA 2021) and only committed its members on a voluntary basis, were replaced by a Code of Conduct, now applicable to all MFIs (cf. CMA 2022). However, all interviews with bank or MFI managers revealed that black sheep certainly made the general picture darker. Nonetheless, exact numbers of cases where the prescribed standards are circumvented are (allegedly) not known.

Financial inclusion is an important concern of the NBC, as explicitly emphasized in the interview with the author in February 2022³¹. However, concrete measures, for example in school curricula, are less common than high-profile conferences, mostly held at provincial level, where the issue is presented to the press. In 2015, 59% of adults in Cambodia already had access to formal financial services³², and the figure had risen to 67% by 2021 (MAP 2021: 96). All interlocutors from MFIs and banks in the study emphasized their special contribution to the goal of broad financial inclusion, e.g. by expanding their services through presence in the area wherever possible. In one case, the “service at the front door” was also justified with this goal, although this will have to be discussed (Chapter 4.4).

A theoretically important player in the field of agricultural finance is the *Rural Development Bank of Cambodia* (RDBC). However, the project on support for agricultural value chains, which was assisted by the ADB and others from 2008 to 2012, already clearly shows the priority of larger loans over needs-oriented support for small agricultural enterprises. Within the MF programme, approximately US\$6.5 million were spent on MF during the 2008 term, and only €6.3 million in 2012. In contrast, in the same time frame, SME support grew from around US\$6 million in 2008 to US\$48.3 million in 2012 (cf. Khiev 2013).

Today, the RDBC offers three programmes on its website. Firstly, SMAEs Loan Under Special Program of the Government offers two-year loans ranging from US\$5,000 to US\$200,000 at 5% interest. Support is provided for vegetable and fruit production, animal

³⁰ See Guidance on the application of the core principles for effective banking supervision to the regulation and supervision of institutions relevant to financial inclusion, version of December 2015 (cf. Basel Committee on Banking Supervision 2015).

³¹ The National Financial Inclusion Strategy, adopted by the Council of Ministers in July 2019, is important for this (cf. NBC 2019c).

³² Of these, 17% accessed banks and 42% accessed other formal FSPs. Twelve other percent of adults used only informal FSPs, and 29% had no access to FSPs at all (see NBC 2019c: IX). What is interesting in this context is that the low awareness of financial matters and the low level of financial literacy are blamed for this, not the lack of availability of the FSP itself.

husbandry, aquaculture and the food processing industry³³. A second programme, SMEs Loan in Agriculture Sector, is geared towards the promotion of agricultural value chains with financing volumes of up to US\$100,000 at 9% interest and over US\$100,000 at 7.5% interest³⁴. The third programme, Agriculture Cooperative Loan, is, as the name explicitly states, aimed at the approximately 1,200 agricultural cooperatives registered in Cambodia under the 2015 Cooperative Law. Working capital is given for three years between US\$5,000 and US\$100,000, investment capital for seven years between US\$5,000 and US\$200,000, the former at 10.5% interest, the latter at 9.5%³⁵.

What all RDBC programmes have in common is that collateral in the form of “hard” or “soft” land titles (see Chapter 5.4) is required, and that they do not play a role (at least not a recognized one) in the context of our hh survey. This is especially the case since the minimum loan amounts are around US\$1,700 higher than the average loan amount (median value) of the hh surveyed and, according to information provided, the procedure is even more complex than with MFIs and banks. There is also little to no awareness of these credit lines among the 15 cooperatives we visited.

4.2.3 Rural Credit Institutions

The Rural Credit Institutions are *de facto* “small MFIs” that are only allowed to grant loans and, like banks and MFIs, have to adhere to the interest rate cap of 18% p.a. enacted in March 2017 and also have to prepare detailed business reports. The NBC lists few details about the RCIs in its 2020 annual supervisory report, including their company addresses. This shows that by far the largest group of RCIs, namely 126 out of a total of 246, have their headquarters (often also the only office) in the catchment area of Phnom Penh. 15 RCIs are based in Kandal, twelve in Battambang, five in Banteay Meanchey, etc. (NBC 2020: 80ff.).

The legal basis for the current 246 RCIs listed by the NBC is a 2017 National Bank ordinance (*prakas*), which requires an RCI to show share capital of 200 million Riel, or about US\$49,500, in addition to various bureaucratic obligations. According to §4 of the decree, the tasks of an RCI have to be limited exclusively to the granting of “small credit”. According to §21, an RCI can apply for MFI status after three years if it has demonstrated good practice (cf. NBC 2017). The turnover of individual RCIs is rather modest, with total outstanding loans of around US\$123 million in 2020, averaging US\$0.5 million per institution (cf. NBC 2020: 15). If an average amount of US\$1,500 per loan were assumed, the average RCI would only have a good 330 clients. In its report for 2020, the NBC even calculates only around 64 transactions per RCI (2020: 16).

RCIs play virtually no role in the literature. However, individual names appear in LICADHO’s reports, where it is suggested that they have a certain supremacy even over MFIs in individual municipalities and districts. In our surveys of the almost 1,400 hh in 24 villages, they play only a minor role.

4.2.4 Pawn Shops

Pawn shops have been legalised since 2010, but in 2012 there were reportedly only a little over 100 officially registered in Cambodia and another 800 without licences. This prompted the

³³ Cf. <https://t1p.de/92i62> [5-2022].

³⁴ Cf. <https://t1p.de/mpkq9> [5-2022].

³⁵ Cf. <https://t1p.de/ss2t2> [5-2022].

Ministry of Economy at the time to warn the public against buying goods looted and stolen by petty criminals in these shops³⁶. To ensure that pawn shops are not opened arbitrarily everywhere, Decree No. 28 requires a share capital of US\$19,000 and a registration fee of US\$500 (cf. Vinaya 2018: 4). Our interlocutors could only estimate how many such shops there are in the country today. In any case, the lower limit was set at somewhere around 1,800 shops.

The shops are mainly found in towns and in the immediate vicinity of markets. Here, smaller loans are usually granted in exchange for a deposit which is given, usually gold, precious metal jewellery, or even the ownership documents or registration papers for mopeds or motorbikes. In individual cases, land titles are also accepted and otherwise, depending on the specialization of the shop, also laptops, mobile phones, etc. The value of the deposit is usually significantly higher than the loan amount. However, the government has set a limit of US\$5,000 for land titles (cf. *ibid.*: 2).

The loans are usually granted with short terms and both sides normally assume actual repayment. If this is not done in due time (or with additional costs after an agreed extension of the deadline), a deposit is deemed to have been sold to the pawn shop. Interest rates are well above the MFI market, with an information platform from Malaysia’s RHB Bank quoting 1.8 to 3.5% p.m., or 21.6 to 42% p.a.³⁷. Illegal pawn shops are said to take significantly higher interest rates. The Cambodian legal consultancy Vinaya quotes interest rates for 2018 of a minimum of 3% p.m. and a ceiling of 15%, which would amount to 180% p.a. It is curious that the aforementioned Decree No. 28 leaves the interest rate up to the free agreement between the shop and the debtor. It is still unclear whether the new supervisory authority which has been operating since July 2021, the Non-Bank Financial Services Authority (NBSFA), will become active with respect to an interest rate cap.

RHB Bank’s platform page on pawn shops also addresses the fact that stolen valuables may well be offered there, although reputable businesses may insist on demanding proof of ownership for the items used as a deposit.

4.2.5 Interest in the Formal Sector

The *general interest rate level* for loans in Cambodia in the local currency Riel, which is relatively firmly pegged to the US dollar, is comparatively low at 10.5% in 2019 and 10.3% in the last reporting year of the NBC 2020, when compared to countries with unstable currencies and significant economic risks; in US dollar terms it is even slightly below the level for Riel, at 9.1% in 2020³⁸.

However, the low interest rates, which are even significantly below this value for large investments, do not apply to the high-supervision microcredit market. In the case of loans that are truly “micro” (less than EUR10,000), almost all MFIs and the 245 Rural Credit Institutions are at the maximum limit of 18% set by the NBC, or instead, as it is calculated in Cambodia, at 1.5% per month. In addition, a commitment fee of 1% to 1.5% is usually taken, so that an

³⁶ In the Phnom Penh Post of 12.03.2012 under: Ministry matters: Pawnshops must apply for licence. Source: <https://t1p.de/8cztm> [5-2022].

³⁷ See GoWave by RHB “Pawn Shops: 5 Things You Should Know”, at <https://t1p.de/8huna> [5-2022]. The platform also warns against dubious business practices of individual pawn shops. <https://t1p.de/8huna> [5-2022].

³⁸ For example, in the Central Asian country Tajikistan, which ranks 125th on the UNDP HDI list, 19 places ahead of Cambodia, but has a currency which is not pegged to the US\$ (Tajik somoni), real interest rates range from 24% to well over 30% in some cases.

interest rate of 19% applies almost universally to the formal microcredit market. In addition, there may be a penalty interest for late repayment, a practice which was only partially prohibited by the NBC during the COVID-19 pandemic.

However, with refinancing interest rates of 7 to 8% for MFIs, the seemingly very high interest rate of 18 plus about 1-2% fees is not necessarily considered usurious, even though the balance sheets of Cambodian MFIs and banks show immense profits even for the Corona year 2020. In the discussions with the CEO and the heads of the credit department, it was pointed out that even 18 or 19% did not always cover the costs in view of the very intensive loan acquisition, appraisal and customer service after the money had been allocated, which initially involved half a dozen meetings with the applicants and subsequently at least twelve visits for the instalments, which were usually repaid monthly in cash, and even more visits in the case of repayment problems.

Fig. 6: Loans with terms of one to two years are needed to purchase the hand tractor (also in the “construction kit” for this “small truck”). The cost ranges from US\$1,500 to US\$3,500, depending on the range of accessories.



Cambodian borrowers have significantly fewer problems planning ahead for their financial burdens than borrowers in countries with unstable currencies and high inflation rates, because of the extensive pegging of the Riel to the US dollar. This saves them from having loans taken out in US\$ but paid out in local currency, which are to be repaid in local currency but at current US dollar exchange rates at the end. This is currently the case in Turkey and means that such loans become more than 75% more expensive than at the time the contract was concluded. For example, since 2013, Riel exchange rates have consistently ranged from an initial 4,037 to the current 4,080 Riel per US dollar, while inflation has generally only been around 3% or less.

Since the Thai Bath is also extremely stable, borrowers can currently even choose at many MFIs and banks whether they want to have their money paid out in Riel, Dollars or Bath.

If the pawn shops are assigned to the formal sector, no one can speak any longer of relatively "low" interest rates in comparison with MFIs and banks, or at least of "reasonable" interest rates in view of the distribution and management costs (Section 4.2.4).

4.3 The Informal Credit Sector

Money lenders continue to be the subject of horrifying reports in the news to this day, especially in countries such as India, which are associated with gangs of thugs as money collectors up to and including the murder of the debtor in case of repayment difficulties³⁹. In Cambodia, the attitude of the population towards the money lenders is very varied. Some see them as loan sharks who exploit people's plight and make big profits with high interest rates. Others, however, see "their" money lender as being a neighbour in the village who provides them with an unbureaucratic source of quick loan disbursements, even if this costs additional money in view of the interest rates⁴⁰.

In individual cases, money lenders are even the last resort, making it possible to remain in the formal credit system (which is usually much cheaper) in the long term by advancing the money needed to repay the MFI or bank loans if their own incomes are not sufficient for repayment. In this way, (expensive) money can be borrowed, so that the outstanding instalments can be paid on time according to the repayment schedule, thereby enabling a new loan to be taken out quickly from the MFI or bank, from which the capital and interest of the loan are then settled by the money lender. The debtors therefore owe the possibility of remaining in the formal system to the private money lenders. This is first of all a rescue for over-indebted hh, even if in the end it is not uncommon for the over-indebtedness to get completely out of control due to this "credit ping-pong"⁴¹ and land or other farm assets may have to be sold.

The informally operating private money lenders have their own *interest and repayment rules*. These are treated much more flexibly than those of MFIs, but always result in (significantly) higher interest rates. Here, 2-3% p.m. are quite common, i.e. 24-36% p.a. During the research, however, interest rates of 10% p.m. (i.e. 120% p.a.) were also mentioned for short-term loans, which are mostly taken out in case of an accident of a relative, serious illness or crop failure, and this was far from being the upper limit, according to the approximately 40 interviews with village chiefs and local government employees and during some FGDs. In one case, it was reported that 1% interest p.d. had been taken, which should not be surprising if the "formal" pawn shops are already legally allowed to take up to 15% p.m., i.e. 180% p.a. (See section 4.2.4).

³⁹ For example, in The Week of 30.3.2018 the article "*Inside the bloody world of India's mafia loan sharks*" at <https://t1p.de/aktq> [5-2022].

⁴⁰ These different assessments are well illustrated in the study by Karaivanov and Kessler (2018) on Thailand. This study also shows that high social capital of debtors in informal money lenders can lead to significantly lower interest rates than those offered by the formal sector, but that it can also entail the risk of significantly greater social pressure on debtors with regard to repayment.

⁴¹ The term was even used by bank or MFI representatives and – albeit with different words – quite openly even in FGDs.

In contrast to the largely implemented transparency rules at MFIs and banks regarding interest and repayment (see Fig. 7), on the one hand, the agreements between debtors and money lenders are obviously unclear to many of the interviewed hh representatives and participants in the FGDs. For example, they only know the amount paid out and the payment amount after the agreed period, but they cannot name an interest rate. On the other hand, according to village chiefs and *mekhums*, village money lenders are also increasingly adapting to the security measures of the MFIs. For instance, for medium amounts they demand the moped registration or the identity cards of the borrowers (the latter being a clearly illegal practice), and for higher amounts they demand land titles as collateral. These are then authenticated by the respective village chief and the municipality, as with formal MFIs.

Fig. 7: Five of the six repayment schedules of this debtor, who borrowed about US\$10,000 to buy a used truck, comply with the CMA rules (dates, repayment contribution, remaining debt are clearly indicated on the printouts).



Formal FSPs also see their function as being a correction to the traditional lending market. ACLEDA Bank was also supported by German DC in its important function of being a fair and much cheaper alternative to private money lenders and their sometimes oppressive conditions. Since private loans have to be resorted to again and again in order to repay formal loans on time – and thus to maintain creditworthiness with MFIs / banks – this function has lost some of its credibility. This is always the case when a debtor, despite unclear or even insufficient cash flow, gets an additional loan for loan repayment. Here, the business with the money lenders is virtually pre-programmed.

4.4 Indebtedness and Over-Indebtedness: Causes, Dimensions and Consequences

4.4.6 The Causes of Indebtedness and Over-Indebtedness

The history of MF in Cambodia (see Chapter 4.1) showed that the problem of increasing over-indebtedness and the associated risks for the MF sector were more than just hinted at by 2013 at the latest with the study by Dannet Liv. The donor-funded study of 2017 (cf. Micro Finance Centre et al.) was, unlike many critics of the sector policy, not only based on abstract official statistics of the NBC, but on the direct statements and assessments of 1,660 active debtors. With this, the problem of over-indebtedness of a larger group of borrowers must have been clear to all actors in the sector. Both MFI and bank management, representatives of the National Bank of Cambodia, the Cambodian Microfinance Association, the Credit Bureau Cambodia⁴² and, of course, those responsible in bilateral and multilateral development cooperation as well as in the investment funds involved, knew, that, depending on the reading, 28 to 50% of the hh surveyed were over-indebted - for which a variety of reasons were also given in the study.

At the end of 2017, the CMA had already published an addendum to its Lending Guidelines from December 2016, which recommended even more careful lending and, above all, the disclosure of loans to the CBC within five working days in order to prevent parallel multiple borrowing by clients. In addition, no loan was to be granted to applicants who already had group or individual loans with more than three FIs (cf. CMA 2017). The paper assumes that on the one hand the previous guidelines had already helped to reduce the risks of an overheating market and the danger of an over-indebtedness crisis. However, monitoring data showed that, given a rapid increase in loan volume from US\$1,640 in 2016 to US\$2,368 the following year (an increase of 44%), there were significant risks. Many borrowers had replaced their current loans with higher ones before repayment, with 30% switching to other MFIs. At the same time, however, no correlations of the new loan volumes with increased incomes of the borrowers were discernible – in other words, the loan volumes grew strongly, while the incomes relevant for repayment remained the same.

In summary, what are the causes of debt? Since 2012/13, there have been numerous academic studies on this question, some of which, however, contradict each other. Although the consequences of the debt situation are not yet to be mentioned here (on this see Section 4.4.2), the following strands of argumentation emerge from the literature and the numerous interviews conducted in the course of this study:

- (i) There is no doubt that the rapid *economic development* of the last decade is also due to the availability of capital for the establishment and expansion of SMEs and MSMEs. However, not all enterprises were able to be (sufficiently) successful, so that over-indebtedness and loan defaults were bound to occur as a matter of course.

⁴² The CBC maintains a database that records all loans granted in the formal sector in terms of their history (date, size, repayment). All RCIs, MFIs, banks and leasing companies are required to report the relevant data to the CBC within five days of signing the contract. If this is not done, penalties are stipulated. The five-day deadline is relatively new, as the previous monthly reporting left too much room for multiple loans to be taken out. From 2016 to 2020, the number of FSPs involved grew from 132 to 168, including all MFIs but only a very small number (eight) of RCIs – making what is in itself a good system very full of holes in the area of smaller loans.

- (ii) Moreover, at least the situation in the last five years is partly due to the almost *complete saturation in certain regions* of Cambodia in the market segment of “microfinance”⁴³ while at the same time the presence of banks, MFIs and other FSPs, measured in terms of the number of players and branches, is continuously increasing. This applies not only to the provincial capitals, but also to the district centres and not infrequently even to the centres of larger communes (rural communities). Especially the smaller provincial centres as well as all medium-sized towns are visually dominated by the mostly new and almost always above-average elaborate glass buildings of the leading credit institutions (see Figs. 8 and 9).

Due to the often daily presence of so-called loan officers of the MFIs in the villages, access to loans is, with a few exceptions, possible even in the last hamlet, without an applicant having to leave the village at all.

- (iii) The (at least near) market saturation in the MF sector, with many FSPs having *excessive growth ambitions*, along with strong regional competition, leads to “offensive” or even clearly aggressive solicitation. This is practised (a) in order to obtain additional loans or to increase existing loans from clients who are already supplied, (b) to poach customers from other FSPs and / or to “encourage” them (in some cases, according to several statements, very insistently) to take out another loan with their own FSP in addition to their current loan or (c) to - according to several interlocutors - “insistently” solicit a loan for persons and hh who previously were not interested in taking out such a loan.
- (iv) The *competitive situation among FSPs* which, in the absence of major differences in interest rates and fees, cannot lead to any genuine competition, also causes some of the actors in the MF sector to ignore the credit histories of applicants that can be retrieved from the CBC, i.e. their already existing significant indebtedness. As long as loans can be secured by hard and, if necessary, soft land titles, not infrequently no attention is paid to the cash flow necessary for payments to be made without any problems. “Black sheep” among MFIs do not seem to care at all about the cash flow just as long as land titles are available as collateral⁴⁴. According to some interviewees, the latter is also one of the main reasons for the over-indebtedness of many hh.
- (v) Particularly in the area of loans taken out by *private informal FSPs*, the sometimes horrendous interest rates lead to over-indebtedness in emergency situations. In the interviews with *mekhums* and *mephums* as well as in FDGs, interest rates of up to 1% p.d. were mentioned in this context, and in one case even a doubling of the loan amount, payable after 30 days.

⁴³ For example, the Micro Finance Centre et al. study already found that based on MIMOSA’s definition Cambodia had already reached an almost 100% MF saturation level in 2017, except for Phnom Penh. The argumentation regarding a continuing open demand in the same report is not convincing, at least for MF according to the Cambodian definition. On the other hand, there is still an unmet demand for actual “micro” financing for small-scale farmers (cf. Section 7.1).

⁴⁴ These allegations, repeatedly made by LICADHO and Equitable Cambodia, among others, and most recently taken up by FIAN (LICADHO 2019, 2020b, 2020D, EC / LICADHO 2021, FIAN 2022), were also confirmed in several interviews with high-ranking representatives of reputable MFIs, where the extent of dubious application checks was stated as “perhaps 10%” or, conversely, “up to 90% check carefully”, which, with 1.9 million formal loans in Cambodia alone at present, would represent a thoroughly frightening figure. The representative of one rural commune also commented unmistakably: “Microfinancers don’t go by the pay or income (of the borrowers), they just focus on the land titles.”

- (vi) Because such *loans* have to be taken out at very short notice, especially by *poorer households*, in the event of illness or accidents of family members – because there is no alternative in order to get money – hardly anyone thinks about the costs and consequences at the moment of signing the contract. But these very expensive loans are also taken out to repay formal loans on time, e.g. to avoid being "blacklisted" by banks and MFIs and to prevent access to further loans.
- (vii) One factor leading to *some households having largely sole responsibility* for their over-indebtedness is the very widespread willingness in Cambodia to make relatively risky investments, especially consumptive ones, even without initially relying on a savings balance or other own resources. For example, families often do not want to postpone a material improvement in the hh (such as the purchase of a moped) until their income situation develops accordingly, but rather want to achieve this as quickly as possible through full financing, which is necessary in this case.
- (viii) At the same time, loans for the financing of investments in agriculture or trade are replaced by *economically ineffective loans* for the purchase of mopeds / motorbikes or improvements to the house. Little consideration is given to whether, in the end, material prosperity is actually weakened by this behaviour precisely because of the very significant interest burdens. In any case, the behaviour very often leads to over-indebtedness.
- (ix) It can be observed that vulnerable hh tend to *overestimate their own economic situation* or to deliberately disregard it when applying for a loan. In urban areas in particular, this is also due to the fact that salaries and wages often do not cover the cost of living, and every small setback (especially illnesses and accidents) forces people to take out loans. If medium-term and long-term shortfalls in the cost of living are "bridged" by income through credit, this inevitably leads to over-indebtedness. This also applies to loans that are in addition to those already in progress, which are just barely covered by the cash flow when additional loans are taken out in the wake of income shortfalls.
- (x) It is also very frequently reported by interviewees that although allegedly investment-related borrowing is formally correctly stated and checked in the applications, the money disbursed is used *purely for consumption* for the hh improvements mentioned (in this case "misused" from the FSP's point of view). As a result, no economic return is generated and thus the predicted cash flow cannot be attained. Even if MFIs discover this in the course of monitoring, the competitive situation and the fact that payments are made on time – whatever the consequences for the debtors – leads them to accept the "reallocation" of use.
- (xi) In some cases – the extent of which is highly disputed in the literature as well as our interviews – *gambling debts* and a widespread *betting desire* are responsible for the taking out of loans that are not at all covered by income⁴⁵.
- (xii) Finally, a number of over-indebted women and men have been prepared to take out a loan (which was not always carefully considered) simply under *family pressure* or out of solidarity and / or friendship with friends or neighbours. Finally, situations in which persons have acted as guarantors for third parties without having had any

⁴⁵ This is probably where private money lenders come into play, as the procedures of MFIs are too complex for the rapid need for money in such a case.

economic benefit from the loan, but then the worst-case scenario occurred in which the persons then did not have sufficient ability to pay, are also no exception. For a participant in one FDG, such a guarantee amounted to US\$5,000, for which she in turn had to contract five different loans herself – and finally had to sell part of her land.

- (xiii) In addition to the above-mentioned reasons for over-indebtedness, there are the *effects of the COVID-19 pandemic*, on which a large number of studies are available for the last one and a half years (e.g. EU 2021). According to this study, at least temporarily, significantly lower hh incomes have caused the reduction in the ability to repay. This particularly affects individual sectors such as tourism, small businesses, but also services and the manufacturing industry.

Fig. 8 and 9: New MFIs and bank buildings dominate the landscape in many places, at least as far as newer and modern buildings are concerned.



The possibilities of over-indebtedness are therefore numerous. There are many self-inflicted cases: a recognisable economic miscalculation, acting as a guarantor for third parties without being economically qualified to do so, incurring expenses that cannot possibly be paid with one's income without additional sources, and so on.

On the other hand, there are obvious cases where *lack of knowledge about financial issues* may be partly responsible for the later over-indebtedness, but this lack of knowledge was exploited to grant (excessive) loan contracts (because they were secured by land titles).

This category also includes (however much the need for borrowing may be understandable in such cases) the granting of a loan that is used *to cover a shortfall in budgetary expenditure for an indefinite period* but is recognisably not repayable from current income without the sale of land and / or other valuables.

4.4.7 Dimension and Consequences of Indebtedness and Over-Indebtedness

This section only deals with the verified figures of the NBC and the public expert debate. The impact of the debt issue on the hh surveyed in our research is discussed in Chapter 6 in more detail.

On the *extent of indebtedness*, the National Bank of Cambodia lists the following figures as of 31 December 2020:

- 3.520 million current consumer loans with total outstanding debts of US\$32.1 billion.
- 5385 commercial loans with combined outstanding balances of US\$5.6 billion (2020: 15)⁴⁶.

Regarding the *current credit transactions* (contracts) with the same status as of 31 December 2020, the annual report states:

- A total of 4.9 million transactions were carried out in the whole year, of which 1.5 million were carried out by banks (30.3%) and 3.3 million by MFIs (66.8%).
- Leasing companies were involved in only 130,003 transactions (2.6%).
- Only 15,737 transactions (0.3%) are recorded for the 246 RCIs. However, there are doubts as to whether the RCIs, which are known to be hardly represented with (current) data at the CBC, have actually fulfilled their reporting obligation to the NBC.

Precise and, above all, official figures, for example from the NBC, on the *over-indebtedness rate* in recent years are missing or are contradictory.

An *indication of over-indebtedness* is the fact that 2.7 - according to another reading 2.8 million - of a total of 3.6 million hh in Cambodia are said to have had debts in 2020. With loans amounting to an average of US\$4,280 in 2020, these hh would have had more debts than the annual income of 95% of all Cambodians (cf. Vicheika / Duncan 2022, EC / LICADHO 2021). The comparison with 2017 is particularly drastic, when the average debt was only US\$2,368 (see GoC.NIS 2020: 118)⁴⁷.

The *overdue loan repayments* (+30 days) do not indicate over-indebtedness. In December, 2020 the overall rate was only 1.69% with the highest share in personal consumer loans (at 2.92%), 2.51% in agriculture, 1.5% small business and only 0.93% in mortgage loans (CBC 2020: 66). However, it has already been pointed out that even in the case of serious payment difficulties, borrowers in Cambodia look for stopgap solutions (such as reducing the quality of food or the repeatedly mentioned sale of land) in order not to be noticed as defaulting clients.

The repeatedly cited study by the Microfinance Centre et al. from October 2017 also cites the very low number of loans repaid with a delay of at least +30 days (or which were completely overdue), amounting to only 2.2%. However, it is clearly stated that, depending

⁴⁶ Cf. also CBC 2020: 56f.

⁴⁷ A third source cites the average debt amount per household of US\$3,609 for 2020, with reference to the CMA (AusAID 2020: 31). This sum is also repeatedly mentioned in the press (cf. Blomberg / Dara 2020, Borgenproject 2021).

on the criteria applied, between 28 and 50% of all respondents were over-indebted at the time, and between 11 and 28% were “insolvent” (loc. cit.: 46). These are alarmingly high figures, especially as, in 2017, the average loan amount (with incomes which were certainly not massively lower than in 2020) was just US\$2,368, or only 54% of the current amount (cf. GoC / NIS 2020: 118).

In the same context, however, the statement can be found a little later that only 18% of the debtors felt that they were exposed to greater burdens when repaying their loans. Another 32% felt rather lighter burdens, and 50% no burdens at all (op. cit.: 48). Given that the study was conducted among borrowers of twelve FSPs, inevitably using private contact details and probably knowing credit histories, no other answers are to be expected. When an interviewer comes from someone’s own bank, not formally representing them, but nonetheless sent by them, who would tell that interviewer that he or she has significant repayment problems on a loan from that very bank or MFI?

The third donor-funded survey in 2021, which was methodologically similar to that of 2017 and conducted only by telephone because of the COVID-19 pandemic, finds, that out of 961 respondents, only 5% found loan repayment a heavy burden and 11% had to take out another loan to repay the previous one. A total of 27% felt a “heavy burden” (see above) or a “burden” and 54% of all respondents (N=831) felt a greater burden (than before) due to the COVID-19 pandemic. The study therefore concludes that for three out of four clients, loan repayment is not a burden. It is unclear how this can be possible in view of the relationship between the average loan amount and the annual income⁴⁸.

Another survey conducted by telephone in early 2020 on behalf of the CMA, also based on client data, found that 17% of the 1,053 respondents had loan repayment problems (Kumari 2020).

Overall, despite the lack of official figures on over-indebtedness, it must be assumed that at least a quarter of all private hh with current loans are over-indebted. The upper limit may be an estimated 50%. However, the cash flow calculation considering credit burden / income p.a. could at least theoretically lead to an even higher figure.

When analysing over-indebtedness in Cambodia, it should not be overlooked that many families take on considerable burdens to repay their debts on time in order to be able to be seen as “good debtors”. Without wishing to discuss the extent of these burdens and their legal assessment (are they even partly human rights violations?), the most important burdens are listed here⁴⁹:

- Reducing food expenditure, buying cheaper and less nutritious food ingredients (AusAID 2021, EC / LICADHO 2021, EU 2021, Kumari 2020, WFP 2021).
- Purchasing (food) on credit (EU 2021, WFP 2021).
- Liquidation of savings and sale of movable valuables (AusAid 2021, EC / LICADHO 2021, EU 2021, LICADHO 2019, WFP 2021).
- Combining households (within the family) to save costs (EU 2021).

⁴⁸ I.e. if the hh selected for the survey corresponded to a normal distribution of all borrowers in Cambodia, for whom it is known that the loan amount would have to exceed the annual income.

⁴⁹ Incomplete summary from the available recent studies, the order without assessment of relative relevance.

- Trying to get loans from relatives (AusAID 2021, EU 2021).
- Asking for (general) help from relatives (EU 2021).
- Rotating loans (from formal to informal and vice versa) (AusAID 2021, EU 2021, LICADHO 2019).
- Restructuring, increasing and / or extending the duration of loans (AusAID 2021, EC / LICADHO 2021, EU 2021).
- Selling land or other productive capital (AusAID 2021, EU 2021, EC / LICADHO 2021, LICADHO 2019, WFP 2021).
- Taking children out of school (AusAID 2021, EC / LICADHO 2021, EU 2021, LICADHO 2019, WFP 2021).
- Emergency migration, for example to Thailand (AusAID 2021, EC / LICADHO 2021, LICADHO 2019, WFP 2021).
- Child labour (AusAID 2021, EC / LICADHO 2021, EU 2021, LICADHO 2019).

Households with ID Poor status received unconditional cash transfers (comparable to social security payments) (EU 2021, WFP 2021); some hh had to go begging (WFP 2021); very few hh committed illegal procurement of funds (WFP 2021). There is little distinction between land sales and house sales, some of which involve land, and in the case of land, whether it is farmland or (partly) residential land.

4.5 German Engagement in the Cambodian Microfinance Sector

German involvement in the MF sector in Cambodia dates back to the time of the restructuring and increasing regulation of the FSP sector in 1999/2000. However, bilateral engagement has declined recently and is now primarily indirect through participation in MF funds.

In 1999, German support initially included a credit line of 7 million German marks (DM). As part of ACLEDA’s general lending business, these funds were to be used to refinance loans to microenterprises and small enterprises for productive investments (incl. operating resources). The funds repaid by the borrowers were also to be used again for the purposes mentioned. A target group and impact analysis from 2001 attested to the credit line’s great success in strengthening small businesses, where above all additional jobs were created. However, many of the microloans granted, proved to be ineffective, and during the 1999-2001 period, which was still a rather turbulent phase, they were very often used e.g. only for the purchase of small amounts of gold as a safe store of value⁵⁰.

Since 2000, through KfW and the DEG, which also aims at “entrepreneurial DC”, German state development cooperation has repeatedly participated directly in the refinancing of MFIs, including ACLEDA Bank in Cambodia. In recent years, however, there has been no new support for the MF sector or financing of the MF business share of MFIs that are also active in general commercial financing. For example, the most recently approved DC funds explicitly aim to promote small and medium-sized enterprises (SMEs), whereby in some commitments the average loan amount of the MF is to be a maximum of EUR10,000. A detailed list of the

⁵⁰ Result of the *Impact Analysis (Target Group Analysis) of the Micro Finance Program “ACLEDA”* study by Frank Bliss and Stefan Neumann (2001) for KfW based on 100 surveys of private hh and owners of small businesses (unpublished).

funds disbursed since 2015 as well as the MF recipients can be found in the Federal Government's answer to a minor question by the parliamentary group DIE LINKE of 26 January 2021⁵¹.

Currently, 96% of DEG's funds go to Cambodian commercial banks (mainly ACLEDA Bank and Hattha Bank) for the purpose of SME promotion. As of 31 December 2021, direct commitments amounted to approximately EUR46 million, of which only EUR1.8 million was to an MFI or a MF deposit-taking institution. However, an additional investment by DEG is still ongoing in the Cambodian-Laos-Myanmar Development Fund II, which is also active in Cambodia, among other places, but does not invest in the financial sector as of the reporting date of 31 December 2021. The aim of the investments is not direct poverty alleviation, as targeted by microloans, but to promote the creation of new jobs, the generation of (additional) local income and the development of markets and sectors, i.e. typical SME financing.

KfW Entwicklungsbank, which operates on behalf of the German government and used to be an important player in MF in Cambodia, is currently only indirectly active with a total of three financing contributions: (i) a participation in the MIFA (Microfinance Initiative for Asia) Debt Fund (ii) a further participation in the *Microfinance Enhancement Facility* (MEF) fund and (iii) a participation in the fund Advans S.A., which in turn holds an interest in the Cambodian MFI Amret.

The last project for direct support of the financial sector consisted of a total of four subordinated loans (= loans to be serviced only after claims of other creditors in the event of insolvency of the borrower) to the ACLEDA Bank to refinance MSME loans in Cambodia, Laos and Vietnam. This project has now been completed. The objective and intended use of the subordinated loans to the ACLEDA was to promote employment and income through the regional expansion of financial services along agricultural value chains.

The aim of the joint participation of *International Finance Corporation* (IFC) / World Bank, the Dutch development bank FMO, the *British Commonwealth Development Corporation* (CDC), the French *Agence Française de Développement* (AFD), the *European Investment Bank* (EIB) and the KfW in the *Advans-Microfinance Group*⁵², which includes several local MFIs – among them the Cambodian MFI Amret – is to support the group in its objectives. These include: (i) building a group of model FIs to help strengthen local businesses, create and sustain jobs and improve the living standards of clients, as well as meeting the financial service needs of small businesses and populations with limited or no access to formal financial services.

The participation in the MIFA Debt Fund contributes to the refinancing of qualified smaller and / or younger MFIs in Asia in the area of MF and expands the range of financing options in the areas of local currency financing and subordinated loans. As a result, mainly MSMEs / low-income private hh are supported in a demand-oriented manner. This funding supports employment and living wages. Through the activities of the MIFA Debt Fund and its financial

⁵¹ Cf. Deutscher Bundestag [German Federal Parliament] 18th legislative period, Drucksache [printed matter] 19/26121. Berlin. According to this, DEG invested EUR76.651 million of its own and budget funds in Cambodia in 2015-2020. KfW Development Bank has disbursed a total of EUR32 million to one MFI and one bank (ACLEDA) since 2015. Another seven MFIs are indirectly provided with loans via structured funds. According to the federal government, it is impossible to determine exactly how much money goes directly to the MFIs in Cambodia within the framework of the funds, as the money from individual investors is not earmarked for a specific purpose.

⁵² See at <https://www.advansgroup.com> [5-2022].

resources for technical assistance (*Technical Assistance Facility*) in the Renewable Energies (RE) segment, investments for climate protection are promoted⁵³.

The MEF fund supported the refinancing of 139 MFIs in 45 countries at the end of 2020, with a volume of outstanding funds of US\$584 million. The fund was initiated in 2009 by KfW and IFC with the aim of supporting economic development by providing short-term and medium-term loans to FSPs to promote MF and small (micro)enterprises. Loans are to be granted in particular to low-income groups within the population (cf. MEF 2022)⁵⁴.

In summary, it can be stated with regard to the German government’s involvement in the MFI sector in Cambodia that the formerly very significant German contributions to MF have mostly been transferred to the segment of SME support, and today MF support by DC still takes place primarily through refinancing of MFIs via funds. Direct bilateral interaction, i.e. coordination between BMZ and the implementing organizations on the one hand and the Cambodian partners (MFIs, banks, national bank if applicable) on the other, has been replaced by contractual relations between the German donor side and the management of the supported funds. It is therefore only indirectly possible to exert influence on the partners. Any necessary changes in the lending practices of MFIs and banks in Cambodia can nevertheless be demanded by the German side through the conditions agreed with the funds and the dialogue with the fund managers mentioned.

4.6 Cambodia’s Microfinance in the Public Debate in Germany

4.6.1 The Debate

The public discussion about the over-indebtedness of numerous hh in Cambodia reached Germany at the latest when the report on “Land Loss and Abuses in Cambodia’s Microfinance Sector”, published by the two Cambodian human rights NGOs LICADHO and Sahmakum Tean Tnaut (STT) in 2019, reached German non-governmental organizations, especially FIAN. FIAN is primarily involved in the fight against hunger and the right to food access for all, through campaigns as well as research and information work. The topic *Cambodia, microfinance and land loss* has been dealt with very intensively by FIAN at times since 2018⁵⁵ and, among

⁵³ According to KfW’s communication of April 2022, the total volume of the MIFA is US\$163.3 million (total subscribed capital). Of this, KfW contributed a total of EUR57 million, with EUR19 million as a supporting contribution, EUR31 million from BMZ trust funds, and an EU contribution of EUR7 million in third-party funds. MIFA’s total loan portfolio is US\$133.7 million (EUR118 million), and the loan portfolio in Cambodia is US\$22.6 million (EUR20 million).

⁵⁴ Also according to KfW’s April 2022 communication to the INEF research team, the total volume of the fund is US\$602.9 million (total subscribed capital). KfW’s investment in the fund as a supporting contribution comprises US\$130 million (EUR121.8 million) and EUR198.1 million as a fiduciary holding of BMZ, making a total of EUR319.9 million. The fund’s total loan portfolio is US\$545 million (EUR481.2 million), and the fund’s loan portfolio in Cambodia is US\$45 million (EUR40 million).

⁵⁵ For example, FIAN in Germany was probably the first organization to draw attention to the 2019 LICADHO study. In the issue of FoodFirst 2/2020, FIAN then reports on its own research on the ground (Source: <https://t1p.de/fwu8c>). In April 2020, FIAN took up the issue again, now in light of COVID-19 with reference to the consequences of the pandemic for many indebted hh in Cambodia (source: <https://t1p.de/f42zu>). In May 2020, the NGO published a video of interviews in Cambodia on over-indebtedness (source <https://youtu.be/D-ttfWUyJ70>), followed by a short report on its homepage and a reference to the second LICADHO study on labour migration (cf. LICADHO 2020b) due to indebtedness

other things, influenced the two inquiries of the parliamentary group DIE LINKE in the German Federal Parliament.

LICADHO and STT also triggered an intensive discussion on international level with their report, which led to statements worldwide in parallel to the German debate. Even if, as David Hutt points out in *The Diplomat* of 3 October 2019, the report was prepared on a very narrow basis of only 28 hh in four provinces and, moreover, the problem of hh over-indebtedness in Cambodia has been a current topic for years, the author points out the considerable relevance of the issue and the fact that the problem has so far remained largely unresolved.

The over-indebtedness discussion in Cambodia's MF sector had already been going on in expert circles since the early 2010s. In 2017, with the repeatedly cited study of the Microfinance Centre et al. (which was co-edited by German state development cooperation), considerable problems of over-indebtedness became apparent. It is therefore rather astonishing that another two years had to pass before the LICADHO report appeared in 2019. Only then did *Der Spiegel*, an important German magazine, take up the topic (07 August 2019), and on 21 December 2020 the topic of indebtedness reached the German Federal Parliament⁵⁶.

The reaction to the question of the party DIE LINKE was quite self-critical. In the federal government's response, as well as in an accompanying press release, it was stated that the federal government took reports seriously made by Cambodian human rights organizations on numerous cases of extrajudicial forced land sales documented in 2019, as well as cases of child labour and debt bondage. It was in regular exchange with the relevant actors in Cambodia⁵⁷. Before possible further steps, however, the Federal Government saw in particular the need to increase the statistical evidence on debt issues in Cambodia. Nevertheless, the federal government had already dealt with the issue in detail during the government consultations at the end of September 2020. However, the German government also pointed out that the partners in Cambodia acted on their own responsibility and without outside influence, with regard to the loan conditions and the formalities in the awarding process (cf. Deutscher Bundestag 2021a: 7).

Against the background of the inquiry, the German KfW, as an actor involved in the refinancing of Cambodian FSPs, virtually acting as a representative of the lenders, initiated a second study (2021) together with a fund partly financed by the German side (BlueOrchard). However, this study is seen as being methodologically problematic, as is also expressed in the Federal Government's answer to a renewed inquiry by the parliamentary group DIE LINKE of 14 February 2022 (see Deutscher Bundestag 2022).

Reference has already been made to FIAN's simultaneous publication of a problem compilation on over-indebtedness in Cambodia and the related land issue. Most recently, on 03 May 2022, FIAN, in a joint press release with EC and LICADHO, also reported that a complaint had been made to the ombudsman's office of the World Bank subsidiary IFC for human rights violations in the MF sector. This is directed against six MFIs and banks that are said to be financed by the IFC and "also by German development banks and private investors". ACLEDA, Hattha Bank, Sathapana Bank, Amret, LOLC and PRASAC are

dated 6.5.2020 (source <https://t1p.de/8bqhd>). Further reports follow, which also refer to the LICADHO studies on the indebtedness of textile workers (cf. LICADHO 2020d), the last LICADHO study on the topic published together with EC in mid-2021 (EC / LICADHO 2021) and LICADHO's own report from February 2022, which summarises the overall documentation of LICADHO (FIAN 2022).

⁵⁶ Cf. "Lukratives Geschäft mit der Armut" by Vanessa Steinmetz, Source <http://t1p.de/81by> [5-2022].

⁵⁷ Cf. Deutscher Bundestag 2020b.

mentioned in detail, which are claimed to have received or still receive funds from KfW, DEG, Oikocredit, Tridos Bank, Invest in Visions, Bank im Bistum Essen and GLS Bank, among others (FIAN 2022b: 20ff).

4.6.2 Consequences of the Debate

In view of the considerable debt problem, Natarajan et al. (2021) raise the *question of the general purpose of MF in Cambodia*, at least as long as loans are intended to cover the gaps that arise because wages are often not sufficient for subsistence, which of course cannot work if there is a persistent shortfall. This is said to be the case for a very large proportion of urban loans in particular, which are used to cover the cost of living to a greater extent than in rural areas.

Fig. 10: A house in a village in northern Cambodia that is neither poor nor particularly good in terms of standard, similar to those seen for about 50% of the families visited as part of the hh survey. In the foreground there is a *kuyūn*, which is being used here as a “small truck”.



Since 2019, *FIAN and the Cambodian NGOs* have specifically formulated the following demands, directed at MFIs among others: (i) a right to debt relief and (ii) the return of land titles “confiscated” in the context of MF. Generally, (iii) MFIs should not be allowed to take land titles as collateral for new loans, also from an international perspective. (iv) The pressure on borrowers to sell land to repay loans should be stopped. The Cambodian government is being asked to work with MFIs and their shareholders to launch a debt relief programme to reduce the number of land sales. Another important recommendation is that the government and international development community should create the legal basis and infrastructure for MFIs to be replaced in the long term by a system of “community- and member-owned local financial institutions” (LICADHO 2019: 15).

FIAN is also calling on the Cambodian government to cancel debts and provide adequate compensation to borrowers who have suffered human rights violations due to over-

indebtedness. Furthermore, FIAN is calling for far-reaching reforms, such as client protection laws and independent monitoring mechanisms, to protect people from aggressive lending and debt collection practices. International donors are urged not to make new commitments to MFIs and banks until human rights violations in the sector have been fully investigated and far-reaching reforms in the sector have been implemented, etc. (FIAN 2022a: 27f).

For *our study* the following aspects and questions are particularly relevant (see also Chapter 1):

- What is the level of indebtedness in an open sample of 1,388 rural hh?
- How are the loans used and with what results from the borrowers' point of view?
- What is the borrowers' experience with the general loan management, starting with the acquisition of the loan and the conclusion of the contract, up to the monitoring of the repayment and, if necessary, the search for solutions in case of default?
- To what extent do borrowers have problems with the repayment of the loans? How do these manifest themselves in everyday life? What could be done to find a solution?
- Were and are land titles confiscated by MFIs and banks in the event of payment difficulties and if so, to what extent, or was there other pressure to sell land to secure loan repayments?
- What, if any, was the process leading up to the loss of the land? Who was involved, where did the land go, and what were the consequences for those affected?

Finally, the question will be addressed whether the practice of MFIs and bank microfinance suggests the need for a general departure from the approach or whether the primary focus should be on reforms in the MF sector.

5. Land, Land Rights and Land Grabbing in Cambodia

5.1 Land as the Livelihood of a Majority of the Population

Around three quarters of all families in Cambodia live and rely on agriculture. Therefore, access to arable land and the availability of land are extremely important for these households. If they were to lose land use rights, those affected would be deprived of their livelihoods.

Drastic historical events have led to repeated significant changes in land tenure through the colonial period, the brief but disastrous Khmer Rouge phase (1975-79), the Vietnamese occupation period and most recently the 2001 land legislation in the reconstituted Kingdom of Cambodia. In addition to small farms averaging 1.6 hectares (ha), there are numerous large so-called “economic land concessions” (see next section, Section 5.2) as well as large farms belonging to higher state officials or the military. This has significantly worsened access to land for the mass of the farming population, and 29% of all farming families today own no land at all (any more).

Given the small areas of land, a large number of families can hardly produce more than is necessary for their own subsistence. The system of irrigated rice cultivation dominates. Only a small portion of irrigated land is used for other crops, which are instead produced mainly in rainfed agriculture (so-called *chamcar* cultivation). Small plots of land and pressure to use marginal land reduce the resilience of many smallholder families and landless farmers (who account for almost 30% of farmers) to the impacts of climate change and frequent weather variability in agriculture (cf. Hennecke et al. 2017).

5.2 Land Grabbing in Cambodia

Speculations on the stock exchange with basic foodstuffs increased from the 1990s onwards. In this context, from 2007 onwards, according to some sources, a significant increase in the prices of basic foodstuffs can no longer be denied (cf. RESET 2011/2014, WEED 2021). In contrast, Will et al. find little to no impact of financial speculation on the price level or volatility of agricultural commodities, at least until 2012 (cf. Will et al.: 2012).

What is more undisputed, however, is that in the wake of the financial crisis of 2007/2008, the search for new investment opportunities led to a massive entry of financial sector entities (especially investment funds) into agriculture, i.e. into the acquisition of arable land. The decisive factor here was the consideration that the world population would continue to grow for some time and that food production would therefore also have to increase considerably. Initial investments in Brazil, Argentina or Indonesia were soon complemented by investments in African countries, which promised less security but an even larger profit margin (Liberti 2012:100f).

Cambodia is in no way exempt from foreigners and locals seeking for holdings. As early as at the beginning of the 2000s, large-scale land grabbing took place in Cambodia and has since been the subject of numerous publications. For example, through the designation of so-called economic land concessions, the country has opened the door to perhaps just barely legal, but often also illegal land grabbing. Although the law stipulates that a concession must be limited to 10,000 hectares, adjacent concessions have been granted in the past (cf. Pearce

2012)⁵⁸. At least until a few years ago, initially no questions were asked about the existing property relations when concessions were granted. Later this was only done rather superficially. Thousands, if not tens of thousands, of farmers who had cultivated the land for generations or used it as indigenous people for hunting and gathering were expropriated, mostly without compensation, and had to earn their living as agricultural labourers on their former property (cf. Kruchem 2012, Hennecke et al. 2017).

In this context, the Cambodian NGO LICADHO documented land expropriations in favour of oil at an early stage. By 2012, according to the NGO, two million ha had been allocated to 227 companies, more than half of Cambodia's exploitable land at the time. The government at least confirmed the allocation of 1.2 million ha to 118 companies, including 28 from China⁵⁹ and 27 from neighbouring Vietnam, plus concessions for mining for another 1.9 million ha of land. According to LICADHO, this together accounts for 22% of Cambodia's land area (Kruchem 2012: 51). Regarding the current status of *land concessions* (scope, location, concession holders by national origin, etc.), reference should be made to the continuously updated documentation of the NGO LICADHO, which currently covers 302 concessions of a total area of approximately 2.2 million ha (see LICADHO 2022b).

INEF's own investigations in 2016-2018 revealed that some of the concessions had to be returned because they were allegedly never used. According to the Council for Agricultural and Rural Development (CARD), this covered over 1.2 million ha by 2018. However, interviews revealed that the term "unused" was mostly not true, at least in the case of forest areas, because after restitution all economically usable tropical timber had disappeared in the forest areas.

In the context of concessions, large-scale expropriations could be carried out virtually "legally", because the registration of property titles for farms and other land users, which was supposed to be accelerated by the new land law in 2001, progressed only slowly. Even today only about 70% of it has been completed⁶⁰.

In Cambodia, for example, the rural population has lost large parts of their landholdings and thus often the basis of their economic existence – and in the case of indigenous people, their social and cultural life – due to delayed and unclear registration efforts of land titles. At the same time, land which actually still has unclear property titles is generously allocated to others by the government.

Against this background, the question arises whether land sales in the context of microfinance and unethical loan acquisition and granting, as well as land grabbing as a goal, have anything to do with each other.

⁵⁸ The author devotes an entire chapter in his volume "Land Grabbing" to Cambodia (Pearce (2012: 234-246), as does Kruchem (2012: 45-66).

⁵⁹ On the Chinese foreign investment strategy in the agricultural sector, cf. Squires (2018).

⁶⁰ A new investment law of 15/10/2021 is intended to facilitate "high-quality" investments in Cambodia on the one hand, and to protect natural resources and give greater consideration to social aspects on the other hand. The latter certainly could also be related to expropriation issues (cf. Bulman et al 2022). However, the term "quality" is not defined in this context and many previous expropriations in favour of investor companies have also clearly violated applicable national law.

5.3 Microfinance Institutions and Land Grabbing

It is sometimes suggested that banks and investors work together to obtain land cheaply, taking it from farmers and selling it at a high price for development. In this way, for example, hundreds of hectares of farmland are said to have changed hands in Ouagadougou, the capital of the African country Burkina Faso, and several thousand percent profit was made⁶¹.

In the case of the relationship between MFIs and debtors in Cambodia, no such relationship can be observed. None of the Cambodian MFIs interviewed is interested in taking the land used as collateral from insolvent debtors. On the contrary, in the discussions with six large MFIs or banks, it was explicitly emphasized that even with the best chances of a positive court ruling, legal action to achieve expropriation was avoided wherever possible. Two reasons are given for this: on the one hand, such a procedure can take two to three years even if the outcome is positive, and poorer debtors and tightly measured collateral would end up with the bank bearing all the costs. Last but not least, the banks are not interested in “lawsuits against poor people” also because of the great pressure built up by the critical civil society interventions in the last three years.

The fact that smaller MFIs are also following this trend was noted by the commune and village representatives. In a total of almost 50 interviews, only two court cases could be cited that had just been concluded or were still ongoing, but these were not about microfinance, but about larger business loans of US\$50,000 or US\$100,000 (e.g. building a rice mill).

However, banks’ or MFIs’ interest in land is also hampered by the fact that even in the case of a final judgement in favour of the bank, the land title itself would not go to the bank, but – according to the information provided by a commune chief – there would only be a forced sale and a loan repayment from the proceeds.

It can therefore be generally stated that connections do not seem to exist between loans and land sales on the one hand and land grabbing on the other hand. However, given the fact that the evidence of land title ownership (from the borrowers’ point of view “their land titles”) is held by the FSP, it cannot be ruled out that the threats by loan officers that they will “confiscate the land” if repayment is not made could lead to panic sales of land by the borrowers in case of repayment difficulties, given their limited knowledge of the law.

5.4 Land Law and Credit

To understand the role of land or land titles as collateral in bank and MFI loans, a final reference should be made to the development of land law in Cambodia and why problems can certainly arise here. The history of land law in Cambodia over the last 150 years has oscillated between privatization during the French colonial period and nationalization in the wake of the establishment of the communist regime and renewed privatization in recent decades (cf. Diepart 2015).

Since 1989, Cambodia has been engaged in a re-registration of all land titles, but progress has been extremely slow and was further modified by the new land law created in 2001, so that by 2017 only four out of around seven million land units had been officially mapped and registered (see Hem 2019). However, according to the new law, all land actually used by the cut-off date of 30 August 2001, unless explicitly claimed as state land, is considered eligible

⁶¹ Author’s 2019 interview with NGO representative in Ouagadougou.

for registration, i.e. even with a complicated procedure, it is highly likely that a title entry will be obtained in the end.

The land registered in the national cadastre to date has resulted in the issuance of “hard” land titles by deed poll, which are alienable under current law, with no distinction between settlement land and arable land. Areas that have not been registered so far often also have documents – albeit no longer legally valid today. Even if these are missing, the land used by families for generations (with interruptions during the Khmer Rouge period, among others) and its boundaries at village and commune level are generally known. However, if a village has not yet had its turn at registration, the population here lacks definitive legal certainty, which is why the rights of farmers are considered “soft land titles” despite the general informal recognition.

Soft land titles can cause problems for a bank or MFI because, in the event of the insolvency of a debtor who wants to sell his / her land or is ordered to sell by a court, the land may be claimed by third parties as their property or even be classified by the state, for example, as illegally occupied and therefore liable to confiscation.

Essentially, hard and soft land titles are equally recognized as collateral for loans (mostly above a certain amount, often US\$1,000). If a borrower has a hard title, the bank or MFI receives a confirmation from the *commune*, which is used as collateral. At the same time, the land title in the commune is blocked for the owner, so that no sale is possible and the title cannot be used as collateral for another loan. In the case of a soft title, confirmation is given by the village chief that the family has already cultivated the land before the 2001 cut-off date and can therefore expect a title entry. This is confirmed in the municipality, a copy is handed over to the bank or MFI (recently possibly also to private money lenders) and at the same time, like the hard title, a block is placed on it. If the soft titles are nevertheless taken by FIs as collateral and they are confirmed in the form mentioned, this is done rather for a “pedagogical reason”: to oblige the client and to create social pressure.

Compared with hard land titles, soft land titles have the consequence that MFIs, for example, take into account the greater risk of soft titles when calculating interest rates. For example, in one of the FSPs involved more closely in our study, an entrepreneur pays 1% interest per month (= 12% p.a.) for a US\$25,000 business loan if he can prove a hard land title, but 20% more at 1.2% (= 14.4% p.a.) with a soft land title as collateral.

Hard land titles or the formalization of land titles are not infrequently seen as a prerequisite for access to credit, as formalization is sometimes significantly justified with the credit access argument. However, Lawry et al. in their review of 29 studies on the impact of land tenure titles in the context of investment and agricultural productivity development do not see a strong link, understood as the *sine qua non* of title security for access to finance. In contrast, there is a loose connection between land title security and investment in agriculture (2017: 70ff), which is certainly often only possible indirectly through loans.

In Cambodia, land titles are often required as collateral even for small (micro) loans of less than US\$1,000, but depending on the MFI, they are generally required for loan amounts of US\$1,500 to US\$2,000 or more, so in this particular case at least, title security is an essential precondition for access to credit and thus for investment and productivity development even for small agricultural enterprises.

6. The empirical Findings: The Connection Between Loans, Over-Indebtedness and Distress Sales of Land

Note: The figures for the household surveys in this chapter have always been rounded down to the first digit after the decimal point, so that slight deviations in the sum in relation to the individual items may arise, especially in tables with several items. In some contexts, case numbers are specified "at least" – minimum numbers. This is because, for example, certain questions from household members could not be answered specifically with yes or no, because only the husband or wife, father, daughter, etc. of the actual borrower could be found as interview partners. In these cases, the numbers given are a minimum number, i.e. a particular characteristic may well apply to more hh than the number given expresses. For the very important question for this study "Have you sold properties in the past due to loan repayment problems?", for example, six interviewees said they were "unsure", so there could well have been up to six more sales. In contrast, only the unambiguous (minimum) numbers are always taken into account in the evaluations and the indication of percentages.

6.1 The Surveyed Households and Their Socio-Economic Situation

The socio-economic situation of the 1,388 hh in the sample is approximately equivalent to the general situation of the rural population of Cambodia. This is largely the case for those among the poor who are listed under ID Poor, as well as for the vulnerable sections of the population.

The household survey includes a total of 1,388 households (cf. Chapter 3 regarding methodology), with men being interviewed in 833 cases (60%), women in 462 cases (33.3%) and both together in 93 interviews (6.7%). Of the hh, 1,065 (76.7%) were led by men and 322 (23.2%) by women. According to the mean average, as well as the median, households contain five people (Tables 2-5).

In the *socio-economic rating* of the hh, we asked the interviewers to assess the housing situation according to previously established criteria⁶². The result was that of the 1,388 hh, almost 7% were classified as *extremely poor* and almost half (48.7%) were classified as at least poor. 40.4% of the respondents assumed that they had *medium living conditions*, and only 4% considered themselves to be *wealthy* (Table 6).

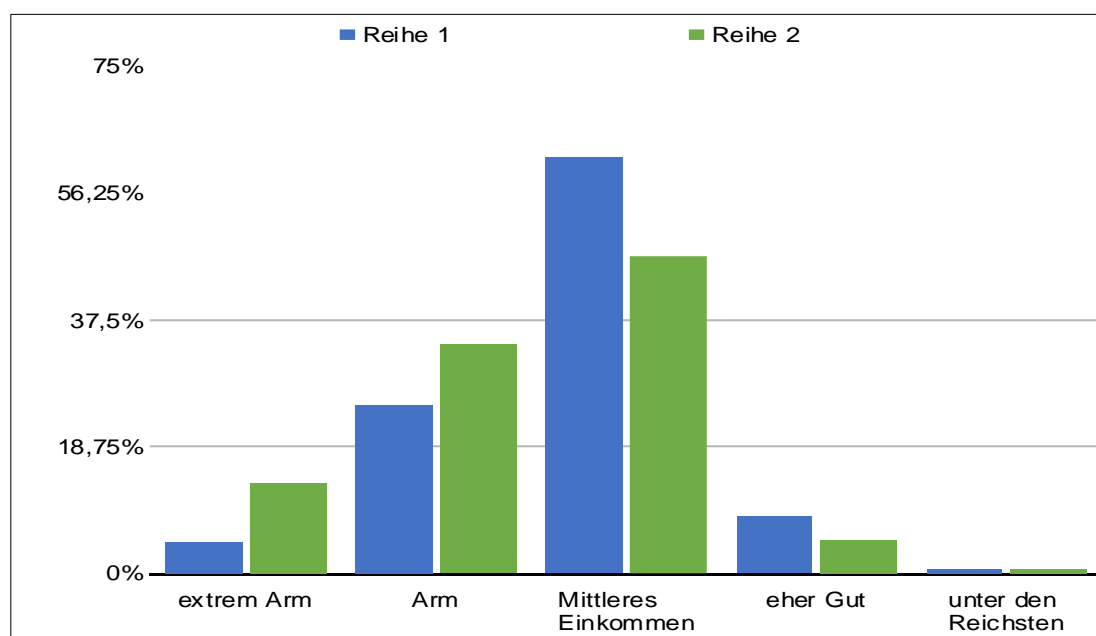
At the end of the interviews, the interviewees were asked about their *socio-economic self-assessment*, with the following result⁶³: With 6.8% classified as extremely poor (lowest fifth),

⁶² These were, among others, type and size of the house, outbuildings, overall layout with access, recognisable inventory such as *kuyūn*, rice mills, cars, motorbikes, especially (prestigious) solid wood furniture under the pile dwelling or in the entrance area, etc.

⁶³ The classification was based on the principle of the five socio-economic quintiles, as often used by the World Bank (cf <https://t1p.de/hh6f5> [5-2022]), adapted here as follows: (i) Very poor (food insecurity, not enough and poor quality food); (ii) poor (no problems to get enough food for our households, but housing is bad and there is little or even no money left for clothes, school, health care etc.); (iii) medium (enough money for food, a simple but good house, some household appliances, and enough money to send our children to school and also to pay for simple health care.); (iv) rather well to do (a good house, motorbike/s, a hand tractor and other household appliances and no problems to pay for schooling, health

the result was almost identical to that of the third-party assessment. However, with 0.6% for “among the richest” (top fifth, sufficient to be assessed as wealthy) this group was significantly lower. If the category “rather well off” (fourth fifth) is added to this group, the group has a total of 112 households (8.1%). For the other values and the differences between households headed by women and those headed by men, see Fig. 11 and Table 78. The most striking thing about this comparison is that the interviewers assessed a combined 55.7% of the households as poor and very poor, but only 33.8% of the households in question assessed themselves as poor (468 out of 1,387 hh).

Fig. 11: The socio-economic self-ranking of households according to five quintiles (from left to right: extremely poor, poor, medium income, rather well of, among the richest well off; blue men, green women).



In both cases, however, the poverty figures are clearly above the official classification according to the criteria of ID Poor. According to the latter, 9.7% were recorded under ID Poor 1 and 7.4% under ID Poor 2 (Table 5). This means that 17.1% of the households in the sample are in a situation that can be described as poor to extremely poor according to national criteria. This is similar to the official result of the ID Poor classification by the Ministry of Planning for the six sampled provinces, ranging from 11% (Banteay Meanchey) to 23% (Battambang) poor with the ID Poor card⁶⁴.

The differences between self-evaluation and external evaluation, as well as the data on ID Poor evaluation, can be easily explained against the background that, according to the figures in our compilation in Chapter 2.1, almost half of all households in Cambodia are to be seen as

care.); and (v) amongst the richest (very good house, a car and/or a tractor, furniture, luxurious household appliances like large TV, air conditioning, computer etc.).

⁶⁴ In between these figures, there is Kampong Speu with 16%, Kampong Thom with 17% and Kampong Chhnang and Kampot with 18% each (cf <https://www.idepoor.gov.kh/reporting/builder> [5-2022]). The overall national rate is about 20% and covers about 700,000 hh (ID Poor Department verbal note 5-2022). On ID Poor in general, cf. the INEF study by Hennecke / Bliss 2018).

vulnerable, i.e. these households have a budget just above the poverty line and therefore must be seen as in permanent danger of poverty.

The relatively high external assessment and self-assessment as extremely poor or poor can also be explained by the high number of hh who, when asked about major challenges in the last two years, state e.g. that they had suffered significant losses in their agricultural production (292 hh = 20.8%), the loss of their job (239 hh = 17%), reduced income-generating work with loss of income (203 hh = 17%) or a serious illness or the death of a relative (120 hh = 8.5%). In total, 989 household representatives (71.3%) reported having faced such a severe challenge, and seen statistically each household had an average of 1.5 such problems (Table 12).

One positive factor for almost all households is the fact that *residential buildings* and the land belonging to them are predominantly owned by the residents – this was the case for 1,322 hh or 95.2% of the sample. Only 8 hh rented their house, and 58 (4.2%) got it for free (mostly from relatives and on the latter’s property) (Table 10).

Also, 928 hh (66.9%) own their own *farmland*. However, even taking into account the very small amount of rented or borrowed land, the average ownership is just 1.2 ha. 55% of the hh with their own land own less than one ha and only 28 hh (3%) more than six ha. The median is even only about 0.5 ha (Tables 14-15).

The diversification of *sources of income* among the hh of the sample is considerable. As central sources of income, at least 870 hh mention agriculture (63.5%), 638 wage labour (46.2%) and 328 (23.7%) trade or commerce (Table 17). In addition, the following are mentioned: Keeping of cattle, sheep, goats and pigs 178 hh (12.9%), keeping of poultry 200 hh (14.5%), permanent (private) employment in the service of one person 134 hh (9.7%), permanent employment (public sector) 60 hh (4.3%), self-employment in handicrafts 68 hh (4.9%), guest worker remittances 62 hh (4.5%), support from third parties 21 hh (1.5%), fishing/fishing ponds 15 hh (1.1%), and “other sources” 32 hh (2.3%). Since we knew from previous surveys that many sources of income could be of similar significance for the respondents, up to three mentions were allowed. Accordingly, statistically each household has 1.8 “main sources of income”.

The question was asked of the respondents who is the *principal earner of income*, i.e. who earns the most money for the household. It is interesting to note that in 51.2% of the cases, “husband and wife together” were mentioned, in 32.9% of the hh the husband was stated as the main earner, and in 9.9% the wife. The son (3.5%, the daughter (1.7%) and “others” (0.8%) were also mentioned (Table 16).

Finally, a look will be taken at *access to public services*, which can also provide information about living conditions. 96.8% of all hh are connected to a public water supply, which is much better than the national average for rural regions of 77.8% (cf. CIA 2022 for 2017). At 83.6%, the proportion of households with good sanitation facilities is also much higher than the national level for rural areas, which is only 55.5% (ibid.). Finally, 90% of all hh in the sample have access to grid electricity, which is also above the (already high) national rate of 82.9% (2020) (World Bank 2022a). The days of the basic mobile phone are also over in the villages in the household survey. 81.3% of the sample, or 1,129 hh, now have a smartphone, tablet or even a laptop (Table 11).

6.2 Credit Figures and the Reasons for Taking Out Loans

The proportion of hh with current loans is slightly below the national average in Cambodia. The main reasons for borrowing are investment in the home, in an (existing) business and in the agricultural business. The proportion of loans for consumption is relatively high.

Of the 1,388 hh surveyed, 770 hh currently have *at least one loan agreement* – this amounts to 55.5%, and thus lies several percent below the estimated national average. However, conversely, within the sample only 30.5% had not taken out a loan during the last five years. 14% had thus had a loan that has been paid off in the meantime. Thus, 69.5% of all interview partners (964 persons or hh) were able to report experiences with their own loans.

Our survey included *all current loans* of households, with 672 hh (i.e. 87.3% of hh with current credit) having only one contract. A considerable number, 78 (11.3%), have two contracts, 17 others (2.2%) have three contracts, one person has four and another has five. Together, these 770 households have a total of 893 current loans.

From the surveys of the *mekhums* and *mephums* (see Box) as well as the results of the FGDs, we know that the community representatives as well as the village chiefs have very precise knowledge of the number of indebted hh in their *commune*, but the FGD participants tend to overestimate it. Figures which can be objectively ascertained are the numbers of new loans taken out where land was documented as collateral. In six offices the following figures were cited: (i) for 2021 about 600, (ii) for 2021 866, moreover in January and February 2022 already 161 more, (iii) for 2021 537 and a further 82 up to February 2022, (iv) about 100 in 2021, (v) 457 in 2021 and (vi) about 300 in 2021, since then a further 80. Roughly compared with the number of households in the communes, this would equate to between 2% and 17% of the hh in the commune every year having to secure loans with land.

Table 28 of the Appendix lists the *reasons for taking out* of the largest current loan⁶⁵ among the at least 770 hh with current loans. According to these figures, the financing of *investments in a new house* (185 mentions or 16.8%) or the extension and improvement of an existing building (90 mentions = 8.2%) together constitute exactly a quarter of all loans. In addition, there are the 27 hh (2.5%) who bought non-agricultural land, mostly if not exclusively building land. In the case of the buildings themselves, only a very small proportion can also be classified as commercial investments, if, for example, a rice mill hangar or a shed is erected for practising a trade.

In second place is *investment in a business*, with 211 mentions (19.2%). This mainly involves the opening or expansion of a village shop for food and household items, but also the financing of additional trade (e.g. buying up paddy rice).

In third place is the *purchase of agricultural inputs*, at 131 hh (11.9%), and equipment at 16 hh (1.5%) (almost exclusively *kuyūns*), together these constitute only 13.4% of all stated uses for loans for largely agriculturally oriented hh. In addition, however, there are 56 hh (5.1%) who bought farmland, which increases this figure (use for agricultural purposes) to a combined 18.5%. Unlike this survey, the commune leaders and village chiefs who were interviewed named investments in agricultural equipment as one of the main reasons for loans being taken out.

⁶⁵ For each household with one or more current loans, the question was asked first about the most important, i.e. largest loan, followed by the second largest, etc.

Almost one third of the reported positive effects of current loans relate to these two areas, business investments and investments in agriculture (see Table 42).

Other important reasons for borrowing are the purchase of a moped or motorbike (66 hh = 6%), health care (46 hh = 4.2%), education (40 hh = 3.6%) and food (42 hh = 3.8%). Some better-off households used their credit to buy a car (22 hh = 2%) or truck (11 hh = 1.0%). 29 hh or 2.6% state that they took out a loan to repay a current loan, i.e. to take on more debt than before because they had problems repaying the last loan.

The special role of borrowing to cover current previous loans was also emphasised by 21 of the 28 local officials interviewed. 23 of them even named covering living costs as a reason for borrowing. While only a relatively modest proportion of reasons, 6% of mentions, relate to the purchase of motorbikes, according to the *mekhums* and *mephums* they clearly rank first among the mobile goods that are covered by credit. However, they probably also mean those purchases that are bought directly from traders via instalment payments. These purchases, as well as hand tractors purchased by instalments or, if applicable, smartphones, refrigerators and other household appliances, do not appear in our case figures on indebtedness and would have to be added to the cash loans, which are focussed on here, in order to be able to determine the total indebtedness.

People do not like to talk about loans taken out in connection with gambling debts or persistent gambling addiction. Understandably, they do not appear as a reason for borrowing in the household survey. However, they were mentioned by several *mephums* in the context of informal loans, but may also play a role in some formal loans which are “misused”. A total of 8 of the 28 interlocutors spoke about the “repayment of gambling debts”.

Ultimately, almost all loans for the residential domain are *consumption expenditure*. In any case, it is only rarely the case that they increase the household’s income. Conversely, the loan-based investments for education and health, perhaps even for some of the mopeds, may stabilise or even help increase incomes in the long term. However, in the short term and at least during the term of the loan taken out for this purpose, they are hardly able to compensate for the additional expenses of the families for loan repayments.

In contrast to the study on the urban area (EU 2021), in our study hh who have taken out loans to cover food expenses represent a small minority of only 3.8%. In urban areas, on the other hand, 57% said they had taken out loans because of falling incomes and therefore to cover the cost of living, which may have largely amounted to spending on food. The low percentage of loans in our study for this purpose is explained by the relatively high degree of *subsistence farming* of many households, more than three quarters of which are self-sufficient in basic foodstuffs from their own agricultural production for at least half the year (cf. Table 13).

Box 1: The importance of village chiefs (*mephum*) and commune leaders (*mekhum*) in general and in the credit context

At village level, a *mephum* (almost all of them are men) has a considerable control but also support function for the local population, in addition to general duties for the administration of the rural community. He is therefore involved in almost every official communication between citizens and the state administration, for example when an ID card is applied for, the ID poor identification of a household is pending or when a school scholarship is at stake. Chapter 5 showed that the *mephum* must also confirm the “soft” land titles before they can be used by the *commune* as security for loans. Consequently, he is already aware of many things *ex officio* in the context of loans. He is also rarely unaware when repayment problems emerge. Very many debtors, as well as a number of FSPs, see the *mephum* either as “their” mediator or at least as someone who brings both parties together. In our interviews, almost all village chiefs also said that they prepared cover letters for many loan applications from villagers in order to help them.

Without the commune leader or his clerk, the provision of credit security through land titles is not possible and almost all official communication goes through the administration, and even if an FSP has problems with debtors over the repayment of a loan, which is actually a matter of private law, the loan officer or his boss turns to the *mekhum*. This also applies in the rare cases when legal proceedings are initiated. Since the *mekhum* meets the village chiefs almost daily, he also misses few of the apparent problems which emerge in one of the villages under his administration. Therefore, the information provided by these two municipal representatives are very important sources for understanding village credit.

6.3 Taking out Loans

Female household members are strongly or predominantly involved in the taking out of a loan. Even though the ideas are primarily developed within the family, the proportion of “suggestions” from FSP representatives is relatively high. Four-fifths of all loans are made within the formal sector.

As a rule, a person takes out a loan if he or she does not have sufficient savings for an economic or private investment or a consumer item, cannot obtain what is needed, e.g. by paying in instalments, and no one in the family will cover the costs. This is indeed the case for the majority of the households surveyed, but by no means for all. For example, out of 615 households that do not currently have a loan, as many as 300 (48.8%) had actually intended to take out money but then did not do so (Table 21). The reasons for this are very interesting in our thematic context: In addition to 99 interviewees who did not need the money in the end, 265 said that they had not taken out the loan because they were afraid, they would not be able to pay it back. A further 27 had already had bad experiences of repayment problems themselves and 11 referred to bad experiences of third parties with loans (Table 22).

In this context, a note on the subject of “saving” should be inserted. In contrast to the reported 52% of households with savings accounts nationwide (cf. UNCDF 2022), only 155 hh (11.2%) in our sample reported having an active savings account. This number is surprisingly low, although some hh may still have an informal savings option or, for example, may not consider the participation in an agricultural cooperative as a savings deposit, and the number could in fact increase somewhat. Even though saving is promoted in public – albeit to a lesser extent than borrowing – the low level of financial literacy of many rural households may also

contribute to the underuse of this important tool. Since many Khmers seem to like to borrow quickly without saving first, the issue would have to be brought much more strongly into the overall discussion.

Of all households that had ever taken out a loan, in 555 hh (58.9%) the idea for the first loan came from the husband and wife together. In another 189 cases (20.1%), it was the woman who had the idea. But in 146 cases (15.5%), the idea seems to have come up only through a representative of an FSP. Only in 60 hh (6.4%) was it the husband's idea, in 25 cases (2.7%) it was the son's, in 20 (2.1%) it was the daughter's, some borrowing was suggested by grandparents and in 34 cases the idea was put to the eventual borrowers by other relatives, neighbours or friends (Table 58).

Who signed the loan agreement in the end? As was the case for the idea of the loan, in the majority of cases (458 cases, or 59.4%), the spouses jointly signed the contract for the current loans. And again, with 200 hh (25.9%), there are more women than men who signed a contract on their sole responsibility (108 hh = 14%) (Table 29).

Many ODA contributions to refinance FSPs are aimed at gender equity, as is explicitly the case with part of the German funding for the MF market in Cambodia. The data from MFIs and banks, as well as the results of our survey, show that in Cambodia loans to women exceed the share of loans taken out by men, at least in the lower segments. There are several reasons for this. However, our information does not confirm that the high proportion of women is because women have a better repayment rate for loans than men worldwide and are therefore favoured by FSPs⁶⁶.

In the final report of the *Socio-Economic Survey 2019/2020* for Cambodia, the sources of credit for rural areas are given as follows: 36% from banks, 49% from MFIs, 5% from relatives and 4% from informal money lenders. Other sources are friends and neighbours, landlords or traders (2020: 119). Pawn shops are not explicitly mentioned.

For current loans, as many as 97% of respondents were able to indicate the source of their main loans, at least in relation to the FSP category: 429 hh or 55.7% of the current loans originate from MFIs according to the survey, with hardly any difference between women-led and men-led hh (53.8% vs. 56.2%). Loans originated from banks for a further 195 hh (25.3%) and again 26.1% for male-headed households and 22.2% for female-headed households. In 63 hh (8.2%) the loans came from relatives, neighbours and friends, in 60 cases (7.8%) from private money lenders or pawn shops, in 23 hh (3%) the interviewees were unsure or did not know (Table 27).

This means that 81% of all current principal loans come from FIs in the formal sector and only 7.8% from informal (professional) FSPs, with private loans being even slightly more numerous than the latter.

In the case of second current loans, the weightings shift somewhat more in favour of private lenders and informal money lenders (together 30.5%, although the number of cases is low). For the other loans, the number of cases is too small to be able to read a trend.

The idea of also asking for the names of the lending MFIs and banks proved to be less effective, as only a small number of respondents were able to name the lenders without referring to the contracts, which were often not available at the time, or the names mentioned

⁶⁶ Cf. the meta-study of 350 MFIs in 70 countries conducted by D'Espallier et al. in 2009, which confirms precisely this.

could not be assigned to any of the MFIs or banks listed at the National Bank. PRASAC, Amret and AMK were the most mentioned MFIs with collateral. Among the banks, the ACLEDA bank was far ahead of the others.

As already noted in the Box, *mekhum* and *mephum* are both involved in the verification and certification of land titles as collateral for loans. From the interviews with both groups of officials, however, it also emerges that the *mephum* often performs another, even dual role. On the one hand, he helps the men and women of his village with the purely formal application process, as they are often not very well versed in the bureaucratic procedures involved in loan applications. On the other hand, according to their own statements, certain *mephum* also agreed to provide applicants with a kind of character reference in order to increase the likelihood of a positive credit decision. However, MFI representatives also speak with village chiefs to find out more about the socio-economic situation of applicants. In one interview, the *mephum* even stated that he is consulted on almost every application. Another *mephum* objected to being approached by MFIs about it, and a third stressed that he did not want to have anything to do with MFIs and their loan officers (cf. also Chapter 6.7).

6.4 Loan Size and Conditions

The average size of current loans in the sample is higher than the national average in Cambodia. A considerable share of the loans goes to poor households, at least some of which by definition cannot be expected to be able to repay them (because they are classified as ID poor).

While in our entire sample 55.5% of hh have at least one current loan to service, the *proportion of poor households* with ID poor status who have one or more loans is only less than 20% lower, at 46.5%. 90 out of 111 indebted households in this group have a single loan to repay, 16 other hh (14.4%) have two, four hh have three and one hh even has four loans to service (Table 79). Two-thirds of them, i.e. 75 hh (67.6%), are indebted to MFIs and banks, 15 each to pawn shops / private money lenders or with relatives, friends or neighbours. One hh in the sample took out a loan from a village savings and credit organization that explicitly promotes itself as a champion against private money lenders (Table 81).

The average loan size for this group of borrowers is US\$2,172, with a median of US\$1,000. US\$10,000 was given as a maximum and US\$100 as a minimum (Table 80). This means that the average loan amount is about half of the national average of all “micro” loans – but this is for people who, by definition, are just living at the subsistence level. According to the criteria for over-indebtedness, they therefore have no available residual net income at all⁶⁷ with which they can repay debts.

Table 83 shows gender-disaggregated details on the current loans of ID Poor households. According to this table, 68 loans were taken out by ID Poor households with a male head and 42 by households with a female head. 20 loans amount to less than US\$250, with those taken out by women slightly outnumbering those taken out men. It is interesting to note that for loans of less than US\$1,000, both genders are almost equal: 52.3% for women and 54.5% for men. For loans above US\$5,000, the picture is similar: 9.5% for women and 10.3% for men as head of household. Note that these percentages are for a total of only 110 loans⁶⁸.

⁶⁷ I.e. repayment instalments higher than 50% of the net surplus that a hh earns from its income after deducting all living expenses.

⁶⁸ One questionnaire was left blank with respect to amounts.

A second calculation on the proportion of poor people with current indebtedness is made below on the basis of the group of hh which classified themselves as extremely poor or poor (Table 78). This group is likely to comprise the bulk of the 239 hh officially classified as ID Poor, but an additional 230 hh to bring it down to the figures of Table 78 with 469 hh (poor and extremely poor). Of these 469 hh, 246 (43.1%) are in debt. The average loan amount of US\$2,632 is even higher than that of households falling under ID Poor. The median is also 40% higher, at US\$1,400. There are 31 hh currently servicing two loans (6.6% of hh in debt) – a number which is significantly lower than that of ID Poor households. However, 12 other hh have three current loans and another hh has four.

Credit sources of poorer households without ID Poor status showed a similar situation to those with the status. Of the 246 hh with debts, 169 cases (68.4%) were borrowed from MFIs or banks, 34 hh from private money lenders, another 32 hh (13%) from relatives, friends or neighbours, and five other cases (2%) from village credit organizations.

In our sample, after adjustment of the data, the *average loan amount* of all hh with current loans is US\$5,183 on their most important loan, with a median of US\$3,500 (Table 23). Those 80 hh who indicated a second loan are in debt with an average of US\$2,907, but here only with a median of US\$1,000 (Table 24). Half of the borrowers thus have debts of less than US\$1,000, some inevitably much more than the average. However, those 13 hh with a third loan have a considerably lower average loan size, namely US\$1,017, with a median of only US\$750 (Table 25).

It is not only the average amount of the main loans which confirms the fact that we are hardly dealing with classic “micro” financing. In particular, the number of loans in the upper range is surprising (Table 23A). Thus, although exactly 300 or 42.6% of all loans are in the range that many interlocutors described as typical for rural areas and the pre-financing of agricultural production or the financing of farming equipment (i.e. US\$1,000 to 2,500), there is a dominant share of larger loans, at 57.4%, and among these, 74 or 10.5% even exceed the limit that for some interlocutors from the circle of MFIs is no longer considered microfinance, but already as SME financing, possibly transitioning into the area of mortgage financing. From US\$10,000 upwards, it was mentioned that there were significantly more favourable interest rates, and that the awarding of loans was no longer decided at the level of the credit officers in the field offices.

We can only speculate with respect to the reasons why the average “micro” loan amount in our sample is about 20% higher than the national average. The EU urban study found average outstanding loan amounts of US\$2,728 for the 277 hh interviewed and a 70% share of indebted hh in the sample (2021: 36). Thus, the smaller consumption-oriented loans in the cities could statistically somewhat pull the average loan amount down, given that today the average for all microcredits nationwide is about US\$4,280 to US\$4,385. The loans in our sample were more often for purposes of investment.

In this context, it should not be concealed that the loan amounts referred to in Green / Bylander (2021: 215) for 1997, at the beginning of microfinance in Cambodia, were between US\$25 and 50, which is around 0.6 to 1.2% of today’s average loan amounts.

The *loan conditions*, especially the interest rate level, have already been dealt with in Chapter 4. The interviews with local authorities essentially confirm that formal FSPs comply with the 1.2% rule (= 18% p.a.) among formal FSPs, and that informal *money lenders* are sometimes astronomically higher. However, as part of our household interviews and supplementary qualitative surveys, we also wanted to know to what extent clients were aware of the other loan modalities in addition to the interest rates.

In interviews with local authorities, it was repeatedly emphasized that many debtors have little or no *knowledge about the terms of their loan contracts*. A commune administration chief reported the percentage of such borrowers to be between 60 and 70%. The same man also referred to the pressure which MFIs put on their staff to recruit new clients and put pressure on people to take out loans. “When credit officers come to people’s houses every day, then it is obvious that they will borrow money. In general, people know too little about the credit process. It would be good if we had this topic in school lessons.”

The household survey paints a much more positive picture. With regard to the most important loan currently underway, almost two-thirds of the 708 respondents to the open-ended question about available information stated that they were well informed about the *repayments* (what amounts and when?). 26.8% also knew when the repayments would be finished and 27.9% indicated that they were also informed about this by the loan officers during their visits (for the monthly collection of repayments) (Table 32). However, the use of digital media for customer information is still not widespread. Only 26 people (3.7%) referred to information channels in this regard.

Given the difficulty in understanding financial terminology and the fact that not all household representatives interviewed were also the borrowers themselves, it was not possible to gain clear indications for all hh interviewed of the *repayment conditions* for the current loans. However, it is very clear that three quarters of the contracts (572 = 75.4%) do not have grace periods, i.e. a loan has to be repaid from the first month (Table 36). Few contracts (4.1%) set grace periods. However, 99 (15.6%) of the contracts are based on the so-called “balloon” method, i.e. either only interest is paid over the term of the loan, but the principal is paid as a lump sum at the end, or nothing is repaid at all during the term, but principal plus accrued interest are paid together in one payment at the end.

These statements are made purely from memory. Only in special cases were the interviewees additionally asked to provide more detailed information from their loan contracts or repayment schedules. The interviewers were then able to learn that the FSPs had almost always presented the borrowers with clear and very concise repayment plans.

The results for the questions on the information situation for all loans in the last five years were also predominantly better than would have been expected from the interviews with the local authorities and the FGDs. The question of whether they had been informed about the importance of collateral in general was answered positively by 72.2% of all responding household representatives. However, the question was also answered negatively by 23.6%, and another 4.1% were unsure about this. Only a smaller proportion of respondents, however, could relate to the question about available information on interest on arrears and the risk of losing the collateral if repayments cannot be made. Of these, 60.6% were sufficiently informed and 30.1% were not sufficiently informed (Table 64).

On the durations of their loans, 89.1% said that they knew and only 6.3% said that they did not (with a further 4.6% being unsure) (Table 65)⁶⁹. The due dates for repayments were also known to 80.2% of the respondents and unknown to 12.3% (Table 66). The situation is somewhat worse with regard to information on complaints mechanisms. Here, around two-thirds (65.4%) of 862 respondents felt sufficiently informed (Table 67).

⁶⁹ Again, as with the other questions, the information was almost always given only from memory and against the background that the interviewers were not to press anyone for an answer.

Since the topic of *collateral* and the *role of land titles* play a major role in the present study, several questions deal with this context, especially since 5.1% of the loans were aimed at the purchase of additional farmland and 2.5% at residential land. Table 37 shows that 78.8% of all collateral for the most important current loan to the FSPs consists of land titles. 486 loan contracts (52.7%) are secured with land titles related to a residential house, and another 241 (26.1%) with titles for farmland.

In several interviews, local officials pointed out to us that the FSPs wanted as many land titles as possible as collateral for a loan, that is, they sometimes also wanted to have loans secured by a significantly higher or even multiple equivalent value. Accordingly, of the 246 hh who could answer the question in relation to agricultural titles, 106 hh (43.1%) indicated that they had "pledged" one land title, but about the same number (105 hh (42.7%)) indicated that they had to provide two titles as collateral. 25 hh (10.2%) even had to pledge a third title (Table 38).

Overuse of land titles by the FSPs seems to be even clearer with respect to the pledged land areas mentioned by the hh. Only in 38 of 210 cases (18.1%) was the title limited to up to 0.5 ha. With estimated average land prices for arable land starting at US\$8,000/ha, such a pledged land title should be matched by a credit of at least US\$4,000, with one ha of land correspondingly a credit of more than US\$8,000, etc.

However, a more precise calculation correlating the areas with the actual loan amounts disbursed in our sample neither confirms that FSPs generally claim too many land titles, nor that the value of collateral in the form of land titles generally exceeds the loan amounts. Thus, from the available data, we were able to calculate that the value of a land title is roughly equivalent to a loan of US \$4,729. US\$10,111 was paid out per ha of land submitted as collateral through titles. This corresponds at least to the value of most arable land. The situation might be different for residential land, which in one documented case could be as high as US\$50,000 per ha even in a village, and in a second was around US\$25,000 (cf. Chapter 6.8).

And the survey revealed another problem. Of the 245 hh that had to pledge land titles as collateral, only 5 hh or 2% managed to do so with less than 25% of their total arable land, another 17 with up to half of their land, but 141 hh (57.6%) had to pledge their entire holdings of arable land (Table 40). This also confirms the "over-collateralization" of loans through land titles.

A correlation between ID Poor hh and collateral compared to non-ID Poor hh is shown in Table 82. According to this, ID Poor hh had a loan level that, with a mean value of US\$2,172, on average represents less than half of all recorded loans in the sample. However, they had to provide less collateral than the non-ID Poor hh (34.5% remained without collateral, compared to only 14.6% for the latter group). Houses were very rarely mortgaged alone (only one case in each group). In contrast, houses together with land titles were taken as collateral most often, in 48.2% of all loan contracts among ID Poor hh and 66.4% among the other hh. Agricultural titles alone were used to the extent of 14.5% for ID Poor hh and 34.6% for all others. Only in the case of non-ID poor hh were there isolated cases of means of transport, hh land or agricultural equipment being used as collateral (8 cases or 1.2% of the collateral)⁷⁰.

⁷⁰ It should be taken into account that there were some multiple mentions here, because, for example, in the case of individual loans, both an agricultural title and a title for house and the associated land were used.

6.5 Credit Management and Restructurings Related to COVID-19

Credit management is generally reported as good by the hh. One shortcoming is the relatively low level of information among many hh about complaint and information possibilities. The regular home visits by FSP representatives are to be questioned.

The organization and control of repayments play an important role in the management of current loans. Many MFIs and even banks continue to provide doorstep services to clients, i.e. the interest and repayment amounts, which are usually paid in monthly instalments, are collected by loan officers in cash at the borrowers' door. One CEO spoke of an important contribution to financial inclusion in this context. In another context, however, this practice was also mentioned as a considerable cost factor, which is probably also partly responsible for the high interest rate level in the MF area. It is obvious that this practice is also intended to achieve a second goal: the monthly visits enable absolutely perfect monitoring of the repayment, and any problems that arise can be discussed immediately and tackled, in particular in the interest of the loan officers.

This interest consists in "good overall management" of the respective loan, i.e. ultimately in a punctual repayment. In addition to their salaries, field staff in particular also receive bonus payments that can significantly increase their salaries. Accordingly, wherever repayments are made in cash at the door, the loan officers are the first to notice if a hh has repayment problems. Before an official problem case occurs, they can try to give advice to those affected. The various actors have very different opinions on the nature of this advice. Here, the assessments of the NGOs involved in the known case studies and those of the FSPs, funds and donor-initiated studies are diametrically opposed.

Although none of our interviewees from MFIs, banks and CMAs denied that there were unpleasant practices here, these were said to be very rare at their institution and against the background of the ethical guidelines and good complaints mechanisms. However, interviewees did not want to exclude the possibility that there are "black sheep", as already mentioned, in unknown numbers. Direct questioning can obviously contribute little to this issue, while conversely many affected people argue very openly when their cases are taken up as examples by the NGOs involved. In our focus group discussions, too, at least one or two references were made to the pressure of the loan officers with regard to repayments, but it was emphasized even more that it is in the borrowers' own interest to make payments on time, in order not to run the risk of being blacklisted and therefore not receiving any more loans in the future.

An unpublished study initiated by FSPs on behalf of the donor side at the end of 2021 concludes that in 99% of all cases, MFI staff always behaved ethically in all matters towards the debtors. They had neither exerted pressure with regard to (immediate) payments, nor with regard to the sale of valuables, nor had they forced them to sign anything. Also, 90% of the almost 1,000 hh interviewed by telephone were said to have indicated that they had any difficulties in working with MFIs, even though 27% of the clients found repayment itself a burden. Overall, only a handful of clients were said to have felt pressured to sell something from the family property, have to pay a penalty or take on additional debt (cf. Chapter 6.7).

In our study, the tendency to treat even non-present persons with the utmost respect and not to complain about them to third parties was clearly evident, although to a somewhat lesser extent than in the study just mentioned. Only one person (out of n=906) reported unfriendliness on the part of MFI bank representatives when applying for loans, but nonetheless 30 (3.3%) said they were uncertain about this (Table 60). During the loan servicing

– i.e. the repayment phase – there was also only one reference to unfriendly behaviour, but 14 mentions by debtors that they had at least not been treated disrespectfully and again almost 30 indications by interviewees that they were not sure about the behaviour (Table 61).

However, the answers to one question provides space for reflection. This was the question we asked with regard to borrowers' ability to repay – namely whether the loan officers or credit officers were sure that the applicants would be able to repay the loan when they signed the contract. In this regard, 705 (out of 857 statements) answered yes (82.3%), but 76 (8.9%) answered no, and another 76 (8.9%) said they were unsure (Table 63). Even if these are of course subjective assessments, they confirm that not all loan commitments may have been made based on proper cash flow analyses.

Complaints mechanisms and communication with FSPs

A relatively large group of respondents in our survey pointed out, despite very high satisfaction with the support provided by the representatives of the MFIs and banks, that they were hardly or not at all aware of complaint mechanisms in case of unclear information or other challenges (e.g. regarding the repayment situation). Out of 862 stakeholders, although 564 (65.4%) said they had been informed about the complaint mechanism, 239 (27.5%) said they had not been informed about it (Table 67).

Tanwi Kumari surveyed the 1,053 clients of three MFIs with a view to consumer protection and praised a very high level of satisfaction with the products, the service around the loans, the respectful treatment of debtors by the staff and even the prevention of over-indebtedness. However, she also had to note that large numbers of the respondents were not aware of the complaint mechanisms of the contract MFIs. Many also felt inadequately informed about fees and various other contract conditions (Kumari 2020). Even the donor-initiated study from the end of 2021 already cited, which comes to a very positive conclusion regarding loan servicing, has to state that 49% of the customers surveyed did not know what to do in case of a complaint.

Regarding the problem of insufficient complaint possibilities or probably general communication beyond the individual relationship with FSP field staff, it should be noted that at least some FSPs have created relatively easily accessible possibilities for direct contact on their homepage in the last two years. It also became clear from some interviews with CEOs that in the meantime there are broad offers for complaints or contact via the central bank and its provincial offices. However, at least the English homepages of some MFIs and the NBC do not yet offer any links for contacting them in the main navigation.

Changes in current loans due to COVID-19

Social consequences caused by COVID-19 were to be mitigated by a directive issued by the NBC on 27 March 2020, which recommended that all banks and MFIs should restructure the current loans of private and business borrowers who had run into financial problems (cf. CMA 2020). In our sample, when asked if there were any FSP-initiated changes to the repayment terms of the main loan due to the economic crisis caused by COVID-19, 464 (73.4%) of 632 respondents said that there was no such intervention. On the other hand, 138 said that there was, and another 30 were unsure.

Of the 138 hh who clearly confirmed a restructuring initiative, 117 (84.8%) see an improvement in their conditions, but 21 (15.2%), however, even see deterioration (table 44). Positive changes include signing a new loan agreement to repay the old one, and extending

the repayment period without changing the conditions (i.e. waiving penalty interest, for example).

From the perspective of the municipal authorities, COVID-19 has exacerbated the problem of loan repayment. 11 responses assume that the situation before the pandemic has not changed compared to today, but 10 see increased problems and two see an improvement in the situation. The reasons given for the deterioration are the decline in purchasing power due to the shutdown as well as unemployment, but also the increase in loan amounts or the fact that people have taken out additional loans.

6.6 Loan Effects From the Debtors' Point of View

The majority of all respondents attribute a good effect to the current loans, above all in the economic domain. Income increases are mentioned first. Negative effects or side effects of even positively assessed effects include repayment problems with loans.

The majority of hh with current loans rate the effects of the loans on their living situation as positive. Of 761 respondents, 93 (12.2%) were very positive about the impact of their main loan, 173 (22.7%) were positive and 361 (47.4%) were somewhat positive. Together, therefore, 82.3% are satisfied with the effects of this loan taken out. Conversely, 23 (3%) refer to very negative effects, 24 (3.2%) to negative effects and 76 (10%) to somewhat or rather negative effects (Table 41). Alongside the 82.3% predominantly positive effects, there are therefore 16.2% predominantly negative effects. At least 31.7% of hh have problems with repayment. However, the group which sees the results of borrowing (so far – because we are talking about current loans) as negative is only half of this size.

Fig. 12: The somewhat futuristic-looking new construction of a residential building, for which a long-term loan was taken out at more favourable conditions (10% instead of 18% interest rate).



Among the *positive impacts*, increases in income ranked first with 212 mentions (32.4%), followed by gains in house and land ownership with 200 mentions (30.5%) and movable assets such as motorbikes, cars, agricultural machinery, etc. with 1,111 mentions (17%). However, for 20 hh (3.1%), the “positive” effects include loans to repay other loans in order to be able to save the collateral (e.g. land) from being lost / sold (Table 42).

Only 58 hh (16.2%) reported *negative effects* when asked about the improvement in their living situation due to the main loan. However, when it came to general negative effects that also occurred due to borrowing, there were 350 people who had something to say (Table 43). In this context, the distress sales that have occurred so far represent only a vanishingly small group, with 9 mentions. In contrast, there are 243 hh (69.4%) who have problems repaying the loan itself. Positive effects on the one hand are thus accompanied by negative effects for more than half of all households who answered the questions about effects – and the majority of these are related to the problems of being able to raise the money for repayment and interest.

6.7 Repayment Difficulties and the Reaction of Creditors

Despite a very high repayment morale and less than 1% loan defaults, almost half of the respondents have more or less major problems with repayment. The role of FSP representatives in repayment problems remains somewhat unclear.

From the point of view of the 28 interviewed representatives of rural communities and villages, those households that have several loans running at the same time are the ones most affected by repayment problems. In another context, our interviewees had already pointed out that over-indebtedness also comes about through the frequent practice of covering one loan by taking out another higher one. This is confirmed by the results of the household questions in various places (cf. Tables 28, 42, 47 and 51). In the EU study on urban coping with the COVID pandemic, as many as 57% of respondents confirmed that they *took out (new) loans* as an emergency solution (2021: 21).

Many interviews with local authorities and representatives of FSPs, as well as the results of FGDs, confirm the *high repayment morale* of Cambodian borrowers, which is also repeatedly mentioned in the literature. It is clear, at least from the discussions with the representatives of the FSPs and the FGDs, that the threat of sanctions also plays an important role here. In some cases, participants as well as household representatives pointed out that just admitting to FSP representatives that they have a problem with debt repayment, and even just not being able to make repayments on time, reflects badly on them in the public eye.

There are obviously two areas of experience involved here. On the one hand there is the expectation that defaulting debtors will be removed from the list for future potential loans. On the other hand, there is the attractiveness for the FSPs of the idea of replacing a difficult loan with a (larger) new one – and still being relatively sure of getting back the money lent in the end because of the pledged land titles. The former factor may lead to the fact that in the EU-initiated survey in urban areas, as many as 28% of respondents stated that they would accept a reduction in daily food expenditure in order to repay their debts (2021: 36), but that they would avoid discussing repayment problems at all costs.

This explains why on the one hand, based on several questions, our hh interviews revealed an exceptionally high proportion of indications of *repayment difficulties*. Up to 457 hh (= 49.9% of the respondents) had problems. However, about one third of the respondents apparently decided – not surprisingly given what has been said – not to approach their lending FSPs with a request for talks and suggestions for solutions (cf. Table 69).

No clear correlation can be identified between the amount of the loan and repayment problems. However, an above-average number of hh had problems with repayment in the ranges US\$501-1,000 (11.9% of those who had problems), US\$4,001 to 5,000 (11.3%) and over US\$7,501 as well as over US\$10,000 (14.7% and 11.3% respectively).

Of those who had chosen to address the problem openly, more than three quarters were nonetheless able to report a successful solution, which was generally a restructuring (sometimes an increase) of the current loan (Table 70).

If almost all creditors try to repay their loan(s) according to plan as far as possible, then there is by no means always pressure to be exerted by the FSPs. This already became clear in an earlier evaluation⁷¹. It is also confirmed for the urban area in that "...families are demonstrating high levels of commitment to loan repayments, and are paying their loan repayments regularly" (EU 2021: 36).

However, it is not only the NGO reports cited which show a clearly different picture, at least in those cases where debtors have actively gone public. In our study, one *mephum* reported that, to his knowledge, MFIs did not care why someone could not repay their debts. In any case, the loan officers allegedly always recommended selling valuables or land. They were said to exert considerable pressure on the debtors. Finally, our interlocutors from the FSPs also confirmed that the loan officers are indeed encouraged to talk to the clients in case of stagnating repayments, but only according to their own ethical guidelines, and this meant not putting pressure on them and talking with them about solutions.

Whether the pressure was massive or not, just the daily presence of the FSP representatives in the villages combined with the monthly house visits will more or less constantly remind the debtors of their debts and their repayment. (In a village with 750 hh and 60% indebtedness, monthly visits to each household with a loan entail a total of 450 visits a month or about 20 per working day, made by a dozen FSP representatives with their mopeds.) The fact this presence can certainly be successful from the MF sector's point of view is also shown by the figures in Table 59 in response to the question "How did you choose the loan provider for your loans?". Many respondents referred to their own previous experience with loans (226 = 19%), and a quarter were made aware of an FSP by relatives, friends and/or neighbours (299 = 25.1%). The largest group ultimately influencing the selection of a lender was the financial sector itself: 345 (28.9%) were approached by representatives from the MFI sector, 182 (15.3%) by banks and 61 (5.1%) by private money lenders. This amounts to a total of 49.3% for whom the approach by FSPs led to a contract.

In contrast, "normal" advertising or a neutral source of information played only a minor role with 29 mentions or 2.4% of all loan transactions. Against the background of the repeatedly cited financial illiteracy and credit illiteracy of wide circles of the population, this is an almost toxic information scenario with regard to such an important matter as loans and credit risks, which can determine the life of a family.

⁷¹ Evaluation commissioned by KfW in 2001 by the author and others, not published.

Commune leaders and village chiefs are more likely to be on the side of the borrowers than on that of the financial service providers

Contrary to some negative findings in EC / LICADHO (2019) or LICADHO (2020b), which at least in individual cases see a negative role of village chiefs and commune leaders in the forced repayment of loans, the 28 municipal functionaries interviewed were more likely to show themselves as critics of MF. The fact that there were not more who agreed to be interviewed was even due to some *mephums* who were so massively opposed to the FSPs’ behaviour in their villages that they were not even willing to talk to assess the situation neutrally. One *mephum* initially even wanted to prohibit interviews with hh of his village because he assumed that the team wanted to conduct a study on behalf of the MF industry.

Accordingly, in some villages we found explicit offers to settle disputes at the village level, which also take care of negotiations between over-indebted hh and FSPs. In several villages, reference was made to the existence of dispute resolution committees that operate informally under the coordination of the *mephum*. One village in Central Cambodia, for example, has chosen a completely different path. In order to prevent the frequent conflicts between money lenders and debtors in advance, a community money saving system was established here, which, with 2% interest p.m., should at least put the informal FSP sector out of business. Similar models were practised in two other villages.

However, there were also cases where borrowers stated that they were reluctant to approach the commune leader or village chief. After all, they cannot help either, because “we can’t suggest anything except that they lower our interest rates, but in the end we have to pay”. This feeling of “having to accept fate” was a widespread mood in many FGDs. In this respect, the offers of mediation by the municipality and the village chiefs are, on the one hand, an indication of their goodwill and non-partisanship, but – apart from certain exceptions – they can achieve little. At most, social pressure on private money lenders is possible, provided they come from the same village as the *mephum* and the debtors, as said in one case. However, it could not be verified whether it was of any use to “prohibit private money lenders from accessing my village”, as another village chief emphasized.

6.8 Loans and Land Sales: Numbers and Circumstances

From the household survey it became clear that with around 60 people in the sample who had to sell land within the last five years to repay loans, and so on average around 1.2% of the hh p.a. in the sample are affected by this problem. This is an expected but nevertheless alarmingly high number, given the discussion about land loss due to overindebtedness.

In total, the interviews with the representatives of 964 hh with credit experience in the last five years revealed that 61 of them or 6.2% of the sample had to sell a piece of land to repay loans (or three hh of these 61 were about to sell at the time of the interview in late February / early March 2022). Roughly calculated at 61 hh over five years, it is 12 hh a year or (more accurately) 1.27% of the sample p.a. that sold land for the purpose of loan repayment or were in the process of selling at the time of the survey. Table 84 shows that of these sales, 14 can certainly be assigned to ID poor households and 44 to other households. This means that the percentage of ID poor households that were forced to make a sale, at 14 out of 91 households

(= 15.4%), is a little larger than for the others, where 44 out of 373 hh (= 11.8%) were affected by sales⁷².

There is no clear correlation between the amount of a loan and land sales. Those who were forced to sell land were both borrowers in the lowest range, up to US\$500 (eight hh of those who wanted to make a clear statement on this), and hh in a higher range with loans of over US\$5,100 (eleven hh).

For comparison in the literature: Figures on the frequency of land sales due to over-indebtedness have so far only been based on small samples which, as with LICADHO, are not representative, or on estimates. Green / Bylander (2021: 214), citing previous socio-economic household surveys, state that in 2009, 6.93% of all hh sold land in the reference year, of which 18.58% sold it to repay a loan. In 2016, it was 2.29% of all hh, with 19.32% of these due to a loan repayment (2021: 214).

If we compare these figures with our results, we come to roughly the same conclusion when we look at 2009: according to us 1.24%, and according to Green / Bylander 1.28%. However, the comparison with 2016 looks different: according to our figures, as before, 1.24% of the sample had to sell land, while in Green / Bylander's study it is only 0.44%. If our results were representative of the situation – which they are in many ways compared to numerous other indicators – then the percentage of land sales for debt repayment has returned to 2009 levels. 2008/2009 were the years of the global financial crisis. In 2009 Cambodia only experienced 0.1% in GNI growth. This was its absolute low in the years up to the COVID-19 year 2020 (which showed a decrease of 3.1%). With the pandemic and the debt crisis today, the predicament thus seems considerably similar to that of 2009.

There were only a few cases mentioned in which an FSP representative made a specific *recommendation to sell land in order to repay loans*. However, we have to assume a certain bias among the household representatives, who seemed to be aware of the negative meaning of this statement for the FSP representatives. In FGDs, for example, the topic was apparently deliberately avoided in some cases, with the comment that “land sales are a solution known to everyone”, i.e. people did not need this idea to be suggested to them by others in an emergency situation. It is also possible that the loan officers' decision not to recommend this is already the result of the national debate in Cambodia on land loss through microfinance, where the directive may have come from the FSP managers themselves to avoid the issue as much as possible.

Instead of selling the land, in the relatively few cases where a problem situation became known, the representatives of the FSPs recommended that the borrowers take out another loan to cover the current loan that had run into difficulties (Table 73). The fact that this ends up benefiting the FSPs just as much or probably even more is in the nature of things in the credit sector, at least as long as the coverage of one loan by another is (still) accepted.

It is very interesting to note that pressure on the debtors to sell land came mainly from their own relatives. Of the 25 respondents who said they had been under pressure, only three referred to MFI representatives, and six referred to “business people” (probably people who had heard about the hh's need and wanted to get themselves involved), but 15 referred to relatives, friends or acquaintances (Table 75).

This source of pressure can be relatively easily explained by the obligation to repay the loan, which has already been emphasised several times and which, from the point of view of

⁷² Adding the three cases in the sales process, however, the latter would be 12.6%.

the people concerned, represents the guarantee of future credit opportunities. But that is only half the truth. The other half consists of maintaining social standing, which is why the greatest effort is made to repay the loan on time. However, the preservation of this reputation does not only apply to the borrowers directly affected, but also to their extended family and even their friends, which is why the latter also apply pressure. No one wants to be related to or friends with defaulting debtors.

The respondents were reluctant to provide information on the *prices gained* in the event of sale of land. The few who responded, like participants in several FGDs, described the prices obtained as unfair. This view is understandable, as the sales had to be made within a short period of time.

In the interview, a *village chief* pointed out the problem that, unlike hard land titles, soft land titles are generally difficult to sell quickly and can only be sold at a significant discount in price, as the buyer is taking a risk. A fair price can only be achieved if there is sufficient time to examine a soft title more closely, but this is precisely the time that is often not available in the case of repayment problems.

The claim that loan officers actively searched for land buyers (cf. FIAN 2022: 3; Green 2020) could not be confirmed in our study. Thus, the interviews revealed that out of 46 respondents, 23 of the sales were to neighbours or residents of the same village as well as relatives, 11 to estate agents, 2 to private companies and one plot to the state (Table 77). The FGDs also showed that it is mainly the local population that buys debtors' land. It also became clear in some cases that land can go to local informal lenders. These would then perhaps be those exceptional cases that would suggest a connection between microfinance and *land grabbing*.

Not every land sale means the economic ruin of the debtors, but in numerous cases this is nevertheless probable

The fact that not every (partial) sale of a piece of land necessarily leads to the economic ruin of a family is not only due to the very large price increases for land since about 2010, and especially in the last five to seven years. In the parallel study on the role of agricultural cooperatives in agricultural finance, based on 14 focus group discussions in four provinces, we were able to ask about prices in four cases. According to the report, in 2015 an agricultural cooperative acquired a plot of land in a village with loose mostly residential development not far from a main road, with an area of 1,000 m², for US\$1,500. Today (2/2022), the management is considering selling half of it because the price of the land has risen to about US\$10,000 in the meantime. This would mean a basic residential land price of up to US\$100,000 / ha. In the case of a village somewhat remote from the nearest fixed road, US\$1,875 was paid for 2,064m² in 2018. Today, according to the management, the land is already worth more than double that, which would translate to a commercial value of around US\$18,170 / ha.

Thus, in order to service a loan of US\$5,000 in a debt emergency (or to forgo a loan and its additional costs altogether in the case of sudden health costs), 500 m² would have to be sold in the first case, and 2,750 m² in the second case. 500 m² might amount to a large part of the living space in the first case, but would not necessarily drive the family to ruin. However, the second situation is hardly tolerable. Presumably, the land and the house would have to be sold together.

Likewise, the interviews with representatives of the communes and village chiefs did not support the claim that local authorities summon and intimidate debtors (cf. FIAN 2022: 3, LICADHO 2019: 6). However, this may still have happened in individual cases in 2019, but at

least in the 12 communes and 24 villages in our study, the opposite tendency is evident, namely that the commune administration is more eager to find a joint solution with FSPs and clients. *Mephums* (sometimes very clearly) take the side of the overburdened borrowers. This may also be an indication of the success of NGOs' public relations work on the land sale issue.

6.9 Other Consequences of Over-Indebtedness

As the focus of this study is on the relationship between debt, over-indebtedness and land sales in the context of loan repayment, the broader implications of repayment problems for the families were only touched upon in the empirical part. Restricting consumption, especially of food, was mainly addressed in the interviews and in the FGDs. Many participants in the FGDs complained about the reduced availability of money for food purchases, precisely because the timely availability of money for repayments was particularly urgent. In this context, small loans from money lenders are also mentioned as an additional emergency solution. These are (and sometimes have to be) paid back within a few days.

During the household interviews, the topic was queried in the context of a review of the settlement and effects of all loans that have expired in the last five years as well as those that continue to exist. According to these results, restrictions on consumption expenditure during the repayment period ranked first among the 194 responses, with 71 mentions (36.6%) (Table 57). The second negative effect was the fact that the investments intended to be made with the loan led to financial losses (65 mentions = 33.5), but this does not have to do with the repayment itself.

In the study on the urban debt situation, the need to save on household expenses for debt repayment, and thus also the need to reduce money spent for food, is cited prominently (EU 2021: 36).

In urban areas, *selling valuables* is cited as a solution in 32% of cases, and is therefore second only to taking on (new) debt (57%). Surprisingly, this does not play a major role in the household surveys, at least not for loans that are still current. Suggestions to do so are also moderate, at less than 10% occurrence (Table 73).

One matter which is not mentioned frequently in the discussion about indebtedness and its consequences for families is the issue of *domestic violence*. In our discussions and FGDs, the issue was raised no less than five times, especially by village chiefs, who are often asked to help in such cases. This connection should definitely be taken into account more in further studies on the topic of indebtedness, as the already existing level of violence in families is likely to be additionally increased by the stress in the context of over-indebtedness⁷³.

Child labour occurs only once in the household survey as a confirmed emergency solution for credit repayment difficulties. However, the fact that children have to be taken out of school in order to be able to help generate additional income, if necessary, is mentioned in the FGDs and in some interviews with local authorities. As one *mephum* explained, "a typical solution is that they take children out of school so that they work". Seven percent of the interviewees in the 2021 survey commissioned by the EU on the urban situation in coping with the consequences of the COVID pandemic also mention this problem.

⁷³ For a good overview of domestic violence in Cambodia, see "Cambodia Data Sheet on Intimate Partner Violence", source <https://t1p.de/w2l6r> [5-2022].

The same *mephum* also pointed to *labour migration* to Thailand as a common way to raise the money to repay loans. This was also confirmed by other interviewees and in some FGDs. At least one *mekhum* was able to point out that if both parents had to migrate for work, the children often stayed with the grandparents and could thus continue to attend school ⁷⁴.

It was also repeatedly reported that "*running away from the village*" was chosen as a last resort to get rid of debts. This can not only lead to the loss of the debtors' previous socio-economic existence, but also severely affect other people who remain in the village, as vividly explained in one FGD. A woman had provided a guarantee for an acquaintance and was left with a debt of US\$5,000 after she ran away. She tried to work to pay off the debt, but in the end she had to sell half of her residential property.

In one FGD, the *threat of social destruction* of defaulting borrowers was also mentioned, otherwise more familiar to loan sharks in China⁷⁵: "The private money lender will post her picture all over social media," was the comment made.

⁷⁴ This is apparently not always possible when the whole family moves away, because in Thailand it seems to be difficult to register for school when the migrants' status is unclear. In 2019, for example, around 200,000 children from migrant families (not only from Cambodia) in Thailand were not enrolled in school (cf. UNESCO Institute of 12.1.2022 under: <https://t1p.de/4x5ap> [5-2022]).

⁷⁵ One of many reports on this from 21.2.2022 in "The Guardian" at <https://t1p.de/uhc0b> [5-2022].

7. Findings and Conclusions on “Micro” Financing in Cambodia

This study was prompted by problems seen and confirmed by all relevant stakeholders in Cambodia’s microfinance sector, albeit with different assessments of their significance and impact. Basically, it should be noted that the financial service providers (FSPs) involved today offer their clients more transparent and, above all, much cheaper credit offers in terms of costs, especially in comparison with private money lenders. This observation is initially independent of all the debates about the development of the MF sector towards ever larger loan amounts and increasing indebtedness and over-indebtedness as well as the resulting negative consequences for numerous over-indebted borrowers.

In particular, the results of the household survey make it clear that the majority of all loans have positive to very positive effects from the borrowers’ perspective. They also consider the cooperation with the lending institutions to be rather unproblematic on the whole. Accordingly, hardly any relevant actor is calling for a fundamental cessation of loans and thus “closure” of the microfinance business sector in Cambodia.

The following findings and conclusions are based on the existence of considerable problems in microfinance, which on the one hand are of a fundamental nature, and on the other hand result from a practice of not taking into account the existing and increasingly improving regulations for responsible lending. The discussion about the effects of microfinance in the context of poverty reduction as such can only be touched upon in passing. The same applies to the discussion about the role of the sector in the rapid economic growth of the last two decades in Cambodia.

7.1 General Findings

Very high “micro” loan volumes: With an average loan size of over US\$4,200, the “micro” finance market in Cambodia has currently reached a level that in other countries would predominantly be classified as SME support and therefore no longer considered microfinance. In contrast, according to the World Bank and as confirmed by various interviews, the supply in the lower market segment of up to US\$500 and among the larger micro finance institutions (MFIs) below US\$1,000 is declining, although small agricultural enterprises in particular continue to depend on low-cost, easily accessible loans of up to around US\$2,500, especially for pre-financing the growing season. Declining does not mean that the demand is decreasing, but that the offers are advertised less intensively and access is anything but easy. This is currently leading to increased demand directed at agricultural cooperatives with savings and credit offers as well as – as was at least reported several times – recourse to informal money lenders.

Credit offers available almost everywhere: The general high-volume MF service in Cambodia is now established almost nationwide. MIMOSA 2020’s finding that Cambodia has reached the highest possible level of market saturation is comprehensible based on the available data and our interviews. Additional financing contributions from development cooperation (DC) also seem unnecessary in view of the existing strong competition between the formal MF providers (MFIs, banks and rural credit institutions) for the actual upper “micro” sector (below a limit of an estimated US\$3,000 to 5,000). These formal MF providers are very numerous, down to the district level with offices and field staff.

Dubious business practices due to massive competition: The great competition between formal MF providers triggers questionable and ethically dubious business practices, especially in loan acquisition. It is based, among other things, on aggressive door-to-door solicitation, which was described as “normal” by high-ranking MFI representatives during the research, but is perceived as annoying or even intolerable by numerous community and village representatives involved. In addition, there is a very strong tendency on the part of MFIs and banks to motivate borrowers to take out new loans or to increase existing loans. As in the case of new client acquisitions, this is also rewarded in the pay structure of field staff of MFIs and banks (loan officers). The latter can significantly increase their base salary through good credit management (= good repayment practice).

Movement away from the goal of poverty reduction: Traditionally many actors in the MF sector, particularly the more important ones, saw microcredits as an important contribution towards reducing poverty and helping precisely smallholder farmers as well as poorer urban groups to be able to build their livelihood. This vision seems increasingly to have been lost from view. In contrast, the goal of expansion, of increasing turnover as well as profits, clearly comes to the fore, as is revealed by the annual reports of FSPs and also of the National Bank of Cambodia (NBC). Another indication of this trend is the striving of individual MFIs to get rid of the aura of “micro” involvement and establish themselves as commercial banks.

Many FSPs moving away from small (micro)loans: Small (micro)loans are a particular cost factor for FSPs. Discussions with various CEOs revealed that due to the 18% interest rate cap issued by the CBC in 2017 for all formal FSPs and in view of the more intensive servicing required for these loans and the associated higher costs, the margins on these loans were hardly profitable any more. In many cases, small loan amounts even apparently had to be subsidized internally by the higher income from medium and large loans. This seems to be an important argument for an MFI, and especially a bank, to withdraw from the provision of small (micro)loans as it weighs on the balance sheet.

Interest costs of the “micro” loans are too high: A basic dilemma of microcredits is that, on the one hand, they are linked to the primary goal of helping poor people escape poverty by starting and/or expanding economic activities. On the other hand, they are associated with significantly higher credit costs in percentage terms than a medium or even large loan. While “micro” lending even in the formal, regulated sector does not seem to be possible for less than 18% interest (19 or 19.5% including fees), loans of US\$10,000, US\$25,000 or more can be obtained for a third less, and large loans even for less than half the interest rate of microcredits. Many interviewees see the high intensity of client support (transaction costs) as the reason for the higher cost burden of microcredits. However, FSP coverage in the country is such that some of the face-to-face assistance could be cut down if repayment could be made by bank transfer (e.g. through bank machines, which are quickly increasing throughout the country) or a digital solution, instead of direct payments to loan officers at the doorstep. This would also help to significantly reduce the visits, which are clearly always also used for acquisition talks, and thus help to stop aggressive loan solicitation.

⇒ ***While the higher interest rate can be justified in business terms, it poses a considerable problem in terms of development policy and should be conceptually rethought to a much greater extent than has been the case to date.***

Agricultural financing is inconsistent: In the area of agricultural financing, there does not seem to be a strategy yet, both at the national level and among the FSPs, to substantially reduce costs in this sector. In this context, it is surprising that in discussions with 15 agricultural

cooperatives, on the one hand there was unanimous complaint about the problem of excessively high borrowing costs even for registered cooperatives. On the other hand, the moderate interest costs of the Agricultural and Rural Development Bank compared to the 18-19.5% interest rates in MFI / bank offers were almost unknown to the interlocutors. Among the borrowers in the sample as well, less than a handful referred to this source of credit. The Agricultural Cooperative Development Fund, provided for under the cooperative law introduced in 2015, has only recently begun to be discussed once again. This renewed interest came in the context of a draft decree (*prakas*) with the support of the DGRV (German Cooperative and Raiffeisen Confederation) among others.

Secure land titles are seductive for circumventing rules of “good ethical practice”: The formalization of land titles in Cambodia increases the security of not being arbitrarily expropriated or, in the case of expropriation, of being able to hope for adequate compensation. In addition, a land title also gives poor people access to relatively high loans. In contrast to pilot projects in Ethiopia, for example, where the land is still in public hands, in Cambodia the permanent loss of title is a risk that always accompanies borrowing.

This risk increases here primarily because, in the context of the competitive situation described above and in view of the changed business objectives of the MFIs / banks, the presence of land titles as collateral leads to irresponsible approval of loans in more than just individual cases, despite the relatively good guidelines of the CBC and the recently updated regulations of the CMA. This is also done when the analysis of the *cash flow* clearly indicates that the borrowers would be massively over-indebted by the loan and therefore unlikely to be able to repay the loan without recourse to the sale of land, housing or (in the case of smaller loans) livestock and other movable assets.

⇒ *Although formal land titles can in principle be useful in some cases as collateral for the credit system, in the specific case of Cambodia they are always associated with a risk of loss for debtors due to sometimes irresponsible lending.*

“Black sheep” do occur: there are also “black sheep” in the formal area of financial services, something which was confirmed in all interviews with representatives of the MF sector. There are therefore considerable numbers of agreements that may lead to serious consequences for the borrowers, given the extremely prolific business in Cambodia, which features 4.5 million transactions per year. Even if only 5% of the contracts officially registered with the Credit Bureau Cambodia (CBC) belonged to this group, the situation would be unsustainable. In addition, several hundred thousand more loans come from informal money lenders which, in view of the shifting of loans from formal to informal and again formal FSPs (“credit ping-pong”), further aggravates the over-indebtedness situation.

Multiple reasons for over-indebtedness: The many reasons given for the increase in indebtedness and eventually over-indebtedness among very many hh in Cambodia suggest that there is no individual “culprit” for this state of affairs. This is clear from our hh surveys and further interviews or focus group discussions. On the one hand, there is the competitive pressure of the FSPs – also against the background of changing objectives – which is expressed in the form of unacceptable acquisition methods. On the other hand, there are, for example, misjudgements on the part of debtors, as well as unforeseen events that cannot be influenced, such as the COVID-19 pandemic.

Instalment payment offers increase indebtedness: in the debate on indebtedness, in addition to the actual formal and informal loans, those sales that are made on the basis of

instalment payments must also be taken into account. These include in particular the motorbike offers advertised everywhere, e.g. with “zero interest”. These instalment purchases, which are probably particularly frequent, as well as the hand tractors or smartphones, refrigerators and other household appliances purchased by instalment, do not appear in our figures on indebtedness. They would have to be added to the cash loans on which this study concentrates in order to be able to determine total indebtedness, which is thus likely to be significantly higher.

Low frequency of saving in rural areas: Only 155 out of 1,387 hh included in this study, or 11.3% of the sample, have their own savings account with a credit balance. This fact is particularly surprising because some MFIs and numerous banks also offer savings facilities with relatively good credit interest rates. This wastes a good and profitable opportunity to gain experience in dealing with (scarce) money and thus also to be better prepared for borrowing and dealing with debit interest.

Information on credit generally sufficient: In the past, there have been many complaints about the lack of transparency and even (deliberate) misinformation on the part of the FSPs with regard to loan conditions. Thus, at least in individual cases, over-indebtedness has also been caused by deliberate deception of the clients. In recent years, there seems to have been some improvement in the information policy of formal FSPs. In our surveys, around two thirds of the interviewees were satisfied with what they had learned about collateral and risks from their loan agreement, almost 95% were satisfied with formalities such as loan term, and over 80% with repayment details.

⇒ *However, the number of ill-informed clients is still too high. Individual interviews as well as focus group discussions confirmed that there is a considerable need for improvement here.*

Shared responsibility for over-indebtedness: If loans are needed to finance living costs and are approved, then over-indebtedness is very often virtually guaranteed, especially if the loans are not only intended to bridge a short exceptional situation in the household’s income (such as an unpaid period of illness with otherwise fixed employment contracts), but a persistent shortfall in household needs. Here, on the one hand, the responsibility lies with the MFIs / banks if the loans are openly granted as consumer loans (as also confirmed at least implicitly by the EU study in 2021). On the other hand, the MFI / bank representatives pointed out that a large number of applicants use the money for consumption after having been granted a loan explicitly as a business loan. In these cases, even a previously carefully audited *cash flow* changes considerably and there may be over-indebtedness for which the FSPs are not responsible.

Significant consequences of over-indebtedness: Regardless of the question of blame, it is indisputable that the consequences of over-indebtedness are primarily borne by the over-indebted persons or households, irrespective of the responsibility for this circumstance. If the FSPs record less than one percent loan defaults, this does not mean that loan repayment ends the credit problem for all borrowers. Many of them have had to take out a new loan and are faced with the same or even increased concerns about repayment and the continuation of the already considerable restrictions. As is well known, these restrictions are felt above all in the form of reduced nutrition and quality of nutrition.

⇒ *The official very high repayment rates for microcredit distort the picture with respect to accelerating indebtedness, as they conceal cases where debtors are forced to take out new loans and sell assets in order to be able to make repayments.*

Human rights violations as a result of over-indebtedness: In this context, the results of our household surveys confirm that among the last, but by no means rare, remedies of “repaying a loan by any means” is precisely the sale of land and other working capital. This can lead to a massive reduction in the economic base of a household and possibly plunge it even deeper into poverty than before the borrowing.

However, speaking generally of human rights violations due to the existence of repayment problems with loans is problematic in view of our findings from Cambodia⁷⁶. The problems of the debtors interviewed described in the village studies of the two NGOs LICADHO (2019 and 2020) and Equitable Cambodia (together with LICADHO, 2021), among others, cannot be denied and are confirmed by our additional interviews. All in all, they are likely to be numerous, even on a national scale. However, they represent only partial human rights violations, even in an international comparison of credit practices. This is especially true where borrowers have been directly deceived or deliberately kept in the dark about loan modalities by MFIs and third-party FSPs – in full knowledge of the consequences for those affected. Indirect human rights violations may still be found as a result of irresponsibility in credit analysis that did not lead to the corresponding consequences, i.e. refusal of a loan or reduction of the amount of an excessive loan application. However, irrespective of the question of guilt or responsibility, it should also be noted that the consequence of over-indebtedness of a hh must never be food insecurity for its relatives, child labour or forced labour migration under inhumane conditions.

⇒ In a number of cases, borrowers who have been negligently or deliberately driven into the trap of over-indebtedness suffer human rights violations, although by no means every over-indebtedness situation is to be assessed as such.

Heavy burdens for the borrowers: The over-indebtedness of very many households in Cambodia is a fact not disputed even by the financial institutions involved and many external actors. With regard to the general consequences set out in the main report, our survey found that 16.1% of households with borrowing did not benefit from borrowing and 27.9% had problems with repayment, some of which were significant.

What is also significant is the number of land sales carried out under the pressure of to make loan repayments on time. In our sample, out of a total of 964 hh who had loans in the last 5 years or still have current loans, exactly 61 hh or 6.3% of the sample spoke of having been forced to sell (part of) their land in order to be able to pay the instalments or the

⁷⁶ What human rights violations might be in the context of the consequences of MF would need to be defined more precisely. This can only be outlined in a very fragmentary way here. The definition given by the UN Refugee Agency, if “people are persecuted, threatened or discriminated against, e.g. because of their religion, ethnicity, political opinion or sexual orientation”, then one is talking about human rights violations, is not sufficient for the particular case. There is also no arbitrary deprivation of property as mentioned under Article 17 of the UN Universal Declaration of Human Rights. Poorer nutrition due to over-indebtedness does not constitute discrimination. To make matters more concrete, the International Covenant on Economic, Social and Cultural Rights could be consulted. The obligatory protection of children (§10.3) could be mentioned here, or §11.1, which very abstractly demands an adequate standard of living for families, or the right of everyone to be protected from hunger (§11.2). A state or other actors which deliberately deprives or “takes away” these rights from a person or social group would then be guilty of violating human rights. But does this not require intent? Or is an indirect negative effect on children (pressure on the family to let children work) or on nutrition (reduction of costs in order to be able to pay off the loan) already sufficient to assume a deliberate violation of the MR of those affected?

remaining debt. If this figure is extrapolated to all borrowers in Cambodia, then possibly 167,400 individuals or households were forced to sell land due to over-indebtedness in the last five years.

⇒ *Selling land is the last resort for hh to solve repayment problems in the case of over-indebtedness. This situation is very common in Cambodia as a whole – among the hh interviewed and extrapolated from the sample of this study to the whole country.*

Land never goes to lenders: What we cannot confirm is the confiscation of land titles by lending FSPs. Firstly, there is no legal basis for this (see Chapter 5.3) and secondly, even the indirect route of forcing the debtors through the courts to sell the land for the purpose of loan repayment is rarely used, or not used at all by some MFIs. The village chiefs interviewed stated that they were not aware of any cases where this had nevertheless taken place, and the commune leaders knew virtually of no cases.

The real problem is different: the vast majority of the borrowers themselves try to sell mobile valuables (especially jewellery) in order to be able to pay the instalments on time. Only if this and maximum restraint in budgetary spending are not enough, attempts to sell land will be made. Through the interviews it can be seen as certain that the idea of selling the land may come from the loan officers or may be suggested to the debtors by their relatives. With respect to the loan officers, this behaviour does not constitute responsible loan management on the part of the FSP. However, there are only infrequent cases where there is evidence that the sale of the land is advised by loan officers.

No pressure from local authorities on debtors: It cannot be confirmed on the basis of our sample and the results of the focus group discussions that village leaders or commune leaders exert pressure. However, it cannot be ruled out that this is sometimes done by corrupt officials or bosses. However, there is reason to believe that both the FSPs' reluctance to take their debtors to court and the observed generosity of the local authorities are partly the result of the Cambodian NGOs' public relations work and the corresponding response. The involvement of KfW and the German ambassador in the debate can be attributed to this public relations work, among other things.

Child labour and labour migration are rather rare: Neither the INEF studies nor the data material of the EU-commissioned study on *COVID-19 Response in Urban Setting* (2021) indicates widespread child labour as a stopgap solution practised to deal with repayment difficulties. Labour migration as a result of pressure plays no role in the EU study and a rather minor role in our surveys. However, it cannot be ruled out that the cases documented by LICADHO in individual regions of Cambodia represent more than just exceptional cases. On the other hand, reduction of expenditure for food is a frequently used method to save in order to repay debts.

Borrowers also have a responsibility: Our interviews have shown that a significant part of the land sales for loan repayment is ultimately the responsibility of the debtors themselves, among other things because, contrary to the applications and contracts, the loans were not used for investment but for consumption. Some interviewees also admitted to taking out several loans at the same time and deceiving the CBC reporting system in this way. Several creditors have also fallen into guarantee traps or overstretched themselves in speculation. It is certainly also unspeakably difficult for a poor person who owns her own small house with a plot of land to wake up from one day to the next with US\$5,000 in debt because a "friend" has suddenly moved out of the village for whom, as she herself says today, she had helped to

guarantee a loan. But blaming the bank here, or even assuming intent, would clearly be going too far. In addition, business people in Cambodia repeatedly pointed out that many families in the country had a “loose relationship with credit”. For example, many people were said to take out a loan to buy a moped even though their income did not actually allow it.

A land sale is not always ruinous: Also, in a large number of land sales, no ruinous damage was caused to those affected. For example when, in view of the extreme land price explosion in Cambodia, the repayment of an overdue “micro” loan of a considerable US\$6,000 was already possible through the sale of a small piece of building land. After all, there were several cases in our interviews where a loan that could not / no longer be repaid from current income could nevertheless be repaid in the end by selling only a portion of residential land.

Loan restructuring is not a solution in many cases: Letters were sent by the central bank to the financial sector in March and April 2020 with the request to offer over-indebted borrowers the restructuring of their loans in case of repayment problems and to waive penalty interest rates, at least temporarily. These recommendations were followed by large numbers of FSPs. Restructuring is thought to have affected about 20% of all loans, including those which became problematic through COVID-19. Restructuring may bring relief in the short term, at least for some of the loans. However, it only makes sense in the medium term if the funds were not used to compensate for a budget deficit, but rather as an investment for income generation. In the former case, the restructuring is unlikely to be able to solve the over-indebtedness problem. It may even drive them deeper into over-indebtedness, in the case of restructuring through the “popular” method of increasing the volume of loans – and corresponding repayment instalments. Even with only extended-term loans, persistent loss-making budget management never allows repayment purely from income. This can only be done by selling valuables or land.

⇒ ***Loan restructuring by taking out a follow-up loan with a higher loan amount involves considerable risks in the medium term and is not a substitute for restructuring that primarily aims to reduce debt in a socially acceptable way.***

In some cases, only debt relief can help: The study did not consider the discussion on the usefulness of microfinance in general for poverty reduction, especially when it comes to ways out of poverty for (extremely) poor people and hh who have little to no labour capacity⁷⁷. Here, Cambodia introduced unconditional cash transfers during the COVID-19 pandemic as a response for ID Poor-graded hh. Since there are a considerable number of over-indebted borrowers in the country belonging to this category, only debt relief would help here instead of loan restructuring.

Regulation has made progress recently: Many technical papers, especially on the donor side, highlight the weak regulation of the MF sector by Cambodian state agencies, especially the Central Bank. In the last five years, however, there have been substantial improvements, among other things through the activities of the CBC, to which all formal FSPs must now provide their credit data (new contracts) within five days, and which makes the customer data with credit histories available to the FSPs within the framework of a database. Our interlocutors from the MFIs and banks also spoke of sanctions by the CBC in case of non-compliance with the deadlines.

⁷⁷ Cf. Hickel 2015, Balasubramanian 2021. Rieber / Bliss / Gaesing 2022 et al.

Regulations are still largely subject to the principle of voluntariness: The self-regulation of the sector through the Cambodian Microfinance Association (CMA) and its good practice guidelines (*Lending Guidelines*, *Code of Conduct*) can also be regarded as sufficient for the time being, as can the ethical guidelines, which at least the large MFIs and the banks consistently have in place. However, the guidelines on responsible finance issued by the CMA, including the new Code of Conduct of March 2022, are so far only binding on the members of the organisation and are initially only to be regarded as a voluntary commitment. Even after the talks on the presentation of the preliminary version of this report in Cambodia in June 2022, it is still unclear whether the CBC data are to be taken into account in a binding manner when loans are granted by third-party MFIs or banks. Thirdly, the obligation of all MFIs and banks to submit data to the CBC was repeatedly emphasized in discussions, but apparently a possibility for sanctions to be applied in the case of failure to submit data is still lacking.

What is also lacking so far is a monitoring and evaluation (M&E) system to monitor compliance with the *Guidelines* and the *Code of Conduct*, along with a sanctioning system that sanctions obvious violations of the rules in such a way that compliance with good practice is cheaper in any case than the advantage of having competitively gained one or two additional clients.

Gender effects are unclear: The research has found only minor differences in current and past loans and their positive and negative effects between genders. The idea of taking out a loan when a main loan was already running was developed by significantly more women than men. Overall, however, in two-thirds of all cases it was stated that the woman and man had developed the idea together. With respect to contract signatories, the situation is exactly the opposite. Here, there are twice as many men as women who have signed individual contracts. Nevertheless, again two-thirds of all contracts were signed jointly by a woman and man.

Through the household surveys it was only possible to gain inadequate information on the social effects of problematic credit circumstances. However, the interviews with local government representatives, village chiefs and FGDs indicate that there is a considerable problem of domestic violence in the context of credit difficulties.

Saving is neglected in Cambodia: An important contribution to the prevention of over-indebtedness is the stronger promotion of financial literacy in Cambodia, something which has already been repeatedly addressed by the NBC. Savings are already promoted in public, albeit to a lesser extent than borrowing. However, the importance of this instrument, especially in the run-up to borrowing, has so far been discussed too little in the context of financial services.

7.2 Findings on German Involvement in the Microfinance Sector

Decrease in direct cooperation with MFIs and banks: A look at the development of German involvement in the Cambodian MF sector in recent years shows a clear decline in direct cooperation between the German Financial Cooperation (FC) and MFIs in favour of indirect financing through investment funds. In general, financing of fund activities by German DC leads very far away from the target group of MF and makes it more difficult to reflect on the objectives associated with the financing as well as to directly access impact analyses of the development policy commitment. Due to the financing via funds, impact monitoring of the financial services on the ground by the German implementing organizations would only be feasible with considerable effort or, in some cases, would not even be possible under the terms of the contract. This is therefore left to the funds themselves.

Direct control options are decreasing: As a result of the decline in direct cooperation, the already relatively low direct influence of the German implementing organizations on loan processing has been reduced even further. While direct talks could at least be held at short notice in the case of direct cooperation, and conditions could ultimately be changed through new financing agreements, there is now an additional intermediary, in the form of the funds supported with FC funds. Today, an intervention, for example, in favour of ethically appropriate acquisition practices of MFIs can only take place through dialogue with the respective funds, in which, however, numerous other stakeholders with possibly quite different interests have an influence. This is compounded by the greater time lag in negotiating new financing agreements between implementing organization and funds, which can take years. And there is another problem to consider: The smaller the financial participation in the respective fund, the smaller the possibility for DC to influence it.

⇒ ***Development policy financing via funds is the easier solution in terms of implementation, but the more difficult in terms of monitoring and steering to control and influence outputs and outcomes.***

Trend towards larger loans has not been influenced: It is not clear from the available documents that German DC took a stand against the trend towards ever faster-growing loan volumes and thus against the ever-increasing burden on many (up to 50%) of borrowers, even to the point of massive over-indebtedness, even after the findings of its own study from 2017. In this way the fact was accepted without question that the MFIs or banks supported were continually turning away from the area of small (micro)enterprise financing and support for small (micro) agricultural enterprises, and turning towards higher loans without focussing on a particular target group. Explicitly, even for the Microfinance Enhancement Facility (MEF), an average loan amount of maximum EUR10,000 was set as an indicator.

No investigations by German DC: It seems important to us to observe that even after the critical results of the sector study presented in 2017 by German DC, among others, no market needs analyses or other impact studies were carried out. One such occasion for an empirical review of the MF sector – in addition to the massive criticisms from academia – would have been, for example, at the latest, one World Bank report of 2019. This found that – ostensibly because of the interest rate reduction requirement on the part of the NBC – smaller loans, i.e. loans below US\$500, had declined very significantly by 48% (WB 2019: 7).

Here, one obvious question would have been the reasons for this very clear change in the practice of the MF sector might have been. If it had emerged that it was unprofitable for the supported MFIs to take care of small (micro)loans, the search for alternative partners could have taken place if necessary (provided that a target review continued to confirm MF as a contribution to poverty reduction). Or negotiations with the subsidized FSPs would have been possible, relating to the conditions under which they would be willing to continue to offer the lower segment of loans.

Competition does not offer any benefits for borrowers: The idea that a wide range of MFIs and banks and their competition for clients would lead to cheaper loans and improved conditions has become obsolete, at the latest since the NBC lowered the interest rate ceiling to 18% in 2017. Information about the subtleties in which MFIs and banks continue to differ from each other in their lending practices and solutions to problems is unlikely to reach clients at all. What is decisive for the acquisition of new clients is the presence of FSPs in a village, the persuasiveness of the loan officers and also “generosity” in the assessment of the applicants’

ability to repay. Therefore, the question arises why German DC continued to be involved in the financing of up to eight different MFIs / banks after 2017.

Existing market coverage and its consequences: The fact that the MF sector has recently been able to massively increase loan levels from year to year does not indicate insufficient general refinancing of the FSPs involved. Irrespective of the discussion about any necessary improvements in the area of regulation and the implementation of responsible lending by all actors in the sector, German governmental DC needs to consider whether it wants to continue to be involved in Cambodia in view of the shifts in lending from “micro” to “small” to “meso” and, if so, with what goal.

At present, engagement in practice amounts to SME support. Should it turn out that (in the context of the great number of stakeholders involved, and contrary to our assessment) this area is in urgent need of additional funding, a new entry into the area could be made on the basis of a new concept with new targets (such as a focus on renewable energies or, as an award criterion, the creation of additional jobs). This would no longer include the primary goal of poverty reduction through small (micro)loans, but at most indirect poverty reduction through sustainable economic development in rural areas.

Remember neglected agricultural small-scale / micro-scale financing: If it is true that many (supported) MFIs and banks have a declining interest in granting small (micro)loans, and if a market analysis were to confirm our assumption, based on numerous discussions, especially in the cooperative sector, that there is still a need for financing in the segment of less than US\$1,000 or US\$1,500, which cannot yet be covered by the Agricultural and Rural Development Bank, this would offer a good alternative to SME support for German DC.

Since the latter can count on continued support due to the very large number of actors in this sector even if German priorities change, but since there is no alternative for agricultural financing that is tailored to small (micro) farms, a reorientation of German FC would not have any negative effects in turning away from the MF. Instead, a relatively unrivalled field of action would be offered, which would again have a direct impact on poverty through loans with the lowest possible interest rates, which would directly benefit the increase of agricultural production and thus, if successful, also of incomes.

⇒ *A reorientation of German development finance would not tear any gaps in existing MF, but would contribute towards helping to close gaps elsewhere, e.g. in agricultural finance for small (micro)enterprises.*

Strengthen small (micro)enterprises and at the same time the cooperative sector: One such field of action could be the cooperative sector, which has been legally secured in Cambodia since 2013 and is present in the country in the form of about 1,200 agricultural cooperatives. Even if perhaps a third of them are poorly organized so far, there are a few hundred well-positioned cooperatives that offer savings and loans, sometimes source inputs collectively, rent out equipment and also organize sales. These represent great potential for cooperation. So far, cooperatives, like any individual or small group, have the possibility to borrow money, at a minimum of 18% interest and with corresponding collateral. Due to these high borrowing costs, it is therefore unprofitable for them to take up this financing and pass it on to the members.

Of the 15 cooperatives included in our study, only one had so far taken up financing at 18% p.a. under these conditions. The Agricultural and Rural Development Bank does offer an alternative at around 10% interest, which could then be passed on at perhaps 16%, taking into

account an appropriate fee. However, the bank's procedures are extremely complicated, according to the interviews, and most cooperatives cannot offer formal collateral from their assets. These assets mostly consist of members' shares and other savings deposits, but rarely in land and buildings, as required. Instead, the cooperatives continue to operate with the capital (share certificates and often also savings deposits) of the members, which however leads to the fact that the available financing options are limited.

⇒ *Adapted regulation for the financing of cooperatives would give agricultural enterprises the possibility to have an adapted and more favourable credit offer.*

Figure 13: A key issue of the Cambodian MFI / banking system is the easy access to loans, i.e. "easy cash".



8. Recommendations

Among other things, this study is for the information of the German Federal Ministry for Economic Cooperation and Development (BMZ). Furthermore, for practical reasons – especially to achieve a quick response – the addressee or addressees who ultimately bear direct responsibility for the implementation of the changes suggested will also be indicated.

8.1 General Recommendations for the Microfinance Sector

Increasing awareness of the consequences of indebtedness: The study commissioned by AusAID “COVID-19 Response in Urban Settings” (2021) also looks at counter-designs to the existing model of MF, but rather with a view to minor adjustments under the impact of the pandemic. One important point is worth noting: in view of past practice, a fundamentally different view of MF should prevail among FSPs and potential clients, namely that the provision of a loan is something different from “selling mobile phone service credits or bottles of shampoo to vulnerable populations”. A loan is rather a fundamental decision that could have fatal social consequences and economic bankruptcy. The reality, especially the intrusive approach to customers shown to date, is diametrically opposed to this demand.

⇒ *Recommendation addressed to the FSPs.*

⇒ *Bringing about a change in the FSPs’ behaviour must therefore be one of the most urgent recommendations of this study: debt must not be advertised or understood as “easy money”.*

Implementing credit assessment results in accordance with existing guidelines: To the extent that it has not yet been implemented everywhere in the MF sector, the credit assessment should examine the financial impact of borrowing even more meticulously than before, focusing in particular on *cash flow*:

⇒ *Are the borrowers able to repay the loan from their own current income without getting into difficulties?*

The existence of land titles is not a primary criterion for lending: When making lending decisions, *loan managers* must not be misled by available unencumbered land titles as collateral. Such titles are often present even in the case of relatively poor or even very poor hh who have not taken out any loans so far, but they say nothing with regard to their ability to repay. Relying on the certainty that FSPs will get their money back in the end in any case and therefore approving the loan is unethical and a massive violation of responsible financing and must be stopped as a decision criterion immediately. ⇒ *Recommendation to all FSPs and funds.*

Reversal of illicitly granted loans: In the case of loans that are currently in progress and that have come about on the basis of a deliberate disregard for the debtors’ ability to repay, in other words illicitly, immediate restructuring should be initiated. Restructuring in this context is to be understood as debt relief under the current loan, and certainly not as the conclusion of a new contract retaining the loan amount plus interest. Priority could be given to people and families with ID Poor status, as the errors in lending should mostly be obvious here.

The procedure should depend on the extent to which a loan is monetarily above the debtors’ ability to repay. I.e. there is no increase in the loan in the sense of the previous understanding of restructuring, but (i) a change in loan term with e.g. interest rate reduction

or (ii) a complete waiver of interest. If (iii) the granting of the loan has not only overburdened the borrowers' ability to repay, but has even led to material or other damage (cf. "human rights violations"), no distinction should be made between repayable and non-repayable portions of the loan amount, and the loan should be cancelled completely. Further compensation should be considered. The financial responsibility for this is to be borne by the MFIs / banks which are involved and responsible.

In the case of all loans that were granted with gross negligence in the sense of our findings and that led to the sale of land under pressure to repay, those affected should receive compensation in the amount of the share of the sale price received that is required for loan repayment. Where it is clear that the loan approval was intentional, i.e. in the case of loans that cannot be repaid from current income, e.g. to ID Poor card holders, compensation would have to be paid in the amount of the purchase price for a piece of land equivalent to the plot sold. This must also be done within the framework of the (financial) responsibility of the MFIs / banks involved. ⇒ Recommendation to all FSPs including CMA, NBC and funds.

General cancellation of debt for the (extremely) poor: For (extremely) poor over-indebted hh, it is clearly ethically incorrect to grant a loan despite their essentially doubtful ability to make repayments. A general cancellation of debt could therefore be considered instead of a restructuring of current loans. This cancellation can be financed from the profits of the MFIs / banks, as they would never have approved a loan to the hh in question if they had been more careful and taken into account their own or CMA standards and without the availability of land titles as collateral. ⇒ Recommendation to NBC and FSPs.

In the medium term, establish a monitoring agency and a credit-related consumer protection agency: In order to support the resolution of loans that have come into a critical situation, it is recommended that a monitoring agency should be established under neutral sponsorship (e.g. under the umbrella of the NBC). On the one hand, this body should carry out the review of loans in a critical situation and have access to the available data of the FSPs and the CBC. On the other hand, it should perform the function of a consumer protection organisation in the field of financial services. Close coordination with the compliance offices of the NBC in Phnom Penh and in the provinces would be important. ⇒ Recommendation to NBC.

In the short term, introduce sanctions and annulment of contracts in response to violations: If an MFI / bank grants loans based purely on the availability of land titles to applicants who are recognizably unable to make repayments, it should be possible for it to be sanctioned, e.g. by the CMA. This could be done, for example, by threatening its exclusion from the organisation and, in the case of repeated offences, by actual exclusion with notices to the public. In cooperation with suitable partners, an annual sample of loan agreements of all CMA members could be drawn as a basis for a review to monitor compliance with this principle.

Debtors should additionally be given the right to turn to the monitoring body to review their contracts. In this context, the monitoring body should be given the right to declare void any contracts that clearly violate the principles of the debtors' ability to repay, and to order a reversal without disadvantages for the debtors. ⇒ Recommendation directed towards CMA and NBC.

Worthwhile land title formalization must no longer be abused: The entry of land titles in the cadastre means considerable security for the owner. This formalization is useful in Cambodia in the area of lending for the purpose of investment. In order not to further discredit the value of this formalization, a solution should be found that could involve two components.

Firstly, land titles should only be allowed to be taken as collateral for loans above a **minimum loan amount**. This minimum amount should be above the average amount that is very common in agricultural credit, such as pre-financing of the upcoming cropping season and investments in small equipment, i.e. in the range above about US\$2,500.

Secondly, it should be examined whether innovative models could also be introduced in Cambodia, at least for this category of land. One example is the model currently being tested in Ethiopia of not having to lose titles for arable land definitively in the context of loans, but only for three years. In this model, FSPs are compensated by leasing the land for three years to someone who pays the FSPs the outstanding debt amount and can then farm the land at their own profit for three years in return. ➡ Recommendation to NBC.

Education and refraining from aggressive solicitation for loans: Our findings indicate that a change in the FSPs’ behaviour with regard to the treatment of first-time, extended or new additional loans would be important especially in view of the aggressive solicitation which has taken place to date. In addition, social and economic consequences need to be explained to the clients in detail for each contract act, as is already at least theoretically stipulated by some FSPs.

“Aggressive solicitation” primarily means unsolicited door-to-door visits, approaching third persons (neighbours, relatives, *mephuns* etc.) in order to persuade someone, but also the unsolicited proposal to extend a current loan by additional amounts. Although it was not empirically confirmed in our study, some interview partners complained about the distribution of gifts to public officials in order to gain customers by taking advantage of their position. This should be understood as bribery and sanctioned accordingly. ➡ Recommendation addressed to the NBC, the CBC, the CMA, all MF funds with involvement in Cambodia, but also generally worldwide for German co-financing.

➡ *Two of the most important recommendations from this study are abandoning aggressive solicitation for loans and strengthening risk warnings in loan information materials.*

Link lending more closely to financial literacy: The recommended much stronger counselling of clients in the area of MF offers the opportunity to educate borrowers more broadly in financial matters, beyond the need for individual cases. Together with the most important FSPs, the CMA could commission information material that is well suited to the situation and experience of the rural and urban population, which can be distributed and explained in the branches and during contract talks. ➡ Recommendation to CMA and FSPs.

Promote savings much more strongly: Even though many Cambodians already have a savings account, the possibility of active savings in the run-up to investments has so far been underused by many households, despite attractive interest rate offers of 7 to 8%. Therefore, it is recommended for the NBC as well as the FSPs to emphasize the savings component more strongly than before in the promotion measures already initiated for financial inclusion and especially for financial literacy. The vast majority of MFIs that do not offer savings should also consider whether they could expand their offer by accepting savings deposits. If necessary, cooperation could also be entered into between FSPs that accept savings deposits and those that do not offer them. ➡ Recommendation to the NBC and the FSPs.

8.2 Practical Steps

The following practical steps can be derived from the general recommendations, most of which should and could be initiated rapidly and simultaneously:

- An immediate stop to door-to-door solicitation.
⇒ Recommendation directed to the FSPs and the CMA;
- In a second step, round table discussion of all actors in the MF sector on ethically acceptable non-aggressive advertising methods and their implementation.
⇒ Recommendation addressed to the CMA;
- Facilitate complaints-opportunities for clients by placing links more prominently on FSP homepages. A specific complaints office should already be named on the start or home page.
⇒ Recommendation to all FSPs.
- Reduce loan interest rates by using digital options for application and monthly loan servicing via digital money transfer (possibly also bank transfer, which is possible almost everywhere today unlike the early 2000s), which could replace the monthly home visits by loan officers for the most part. On the other hand, there is no substitute for personal explanation about the obligations associated with taking out a loan, as well as the complaints mechanisms.
⇒ Recommendation addressed to the CMA and the Ministry of Post and Telecommunication;
- Simplify access to agricultural loans from the Agricultural and Rural Development Bank (application formalities) and reduce the lower limit for farm loans to US\$1,000.
⇒ Recommendation to the Ministry of Finance;
- Enable cooperatives to access low-interest financing.
⇒ Recommendation addressed to the Ministry of Agriculture;
- Strengthen the possibility of using savings offers wherever possible, e.g. in advertising and also in the dialogue between FSPs and borrowers.
⇒ Recommendation to all FSPs with savings offers;
- Set a binding lower limit for land as collateral for loans (at least with regard to dwellings and land of any kind), preferably not falling below the lower limit of US\$2,000 to US\$3,000, depending on the purpose of the loan.
⇒ Recommendation addressed to the NBC;
- In the entire formal FSP area, put an immediate stop to the extension of loans that are not based on a strict cash flow verification and respect their outcome in terms of the repayment capacity of loan applicants.
⇒ Recommendation addressed to all FSPs and funds.
- Establish an independent monitoring body with the function of a Customer Care Centre to verify compliance with good practices for responsible lending and act as a focal point for debtor verification of loans.
⇒ Recommendation directed to NBC;
- In a second step, oblige all FSPs to provide the contact details of the monitoring body on their homepages in a such a way that it is easily accessible to clients.
⇒ Recommendation to NBC.

- In a third step, review the credit agreements of debtors in payment difficulties to check whether the CBC data were not considered, and initiate the measures proposed under 8.1. Start this step with ID Poor card holders.
⇒ Recommendation to the FSPs, CMA and NBC;
- It is also generally recommended that the restructuring of loans, and in particular loans restructured under COVID-19 conditions, should be reviewed to see whether they enable a socially acceptable reduction of debt or whether they might further drive the hh concerned into over-indebtedness. In cases where there is a clear increase in the risk of over-indebtedness, an adjustment should be made by extending loan terms and, in particular, reducing or cancelling interest rates.
- Accompany the above measures with dialogue between the donor side and the Cambodian FSPs on (i) compliance with good practices for responsible lending and (ii) the reversal of unethical loan agreements.
⇒ Recommendation to all implementing organizations, funds, partner MFIs and banks.
- This study supports the suggestion of the EU-initiated study (2012) to further investigate the links between nutritional problems and debt, clarifying the role which debt plays in the poor nutrition of indebted hh.
⇒ Recommendation to CMA and donors / funds, BMZ if applicable.

8.3 Recommendations for German State Development Cooperation

A number of recommendations already emerge from the previous two sections that should be taken into account.

Responsibly reverse irresponsible loans: The results of our study confirm a nexus between MF loans, indebtedness and over-indebtedness of borrowers and, relatively frequently in consequence, distress sales of land to repay the loan in accordance with the contract. It cannot be denied that the MFIs and banks involved are partially responsible for this situation. This is especially true in cases where the applicants cannot repay the loans from their own current income at the time the loans are granted.

For these cases in particular, the German government agencies involved are called upon to increase the awareness of the management of the funds through which German DC funds are channelled to the Cambodian FSPs, so that the management is aware of the problem and its significance for the image of the sector. The aim should be to persuade FSPs to unbureaucratically terminate the loan agreements and to completely waive repayment, or at least to waive the incriminated part of the claim and all interest charges associated with it to date. This is the portion of a loan that would not have been granted to the applicant if the loan had been granted responsibly.

For this task, the funds should be persuaded to support a neutral case-by-case examination of the critical over-indebtedness cases through an examination structure (cf. 8.1), which must be given access to both the CBC data and all FSP award documents.

If this step is not accepted by the funds and / or if, as a consequence of the refusal of the FSPs to reverse critical loans, the contracts with the FSPs concerned are not terminated by the funds, it is recommended that the refinancing contracts of German official DC with the funds are not extended either. If the funds themselves do not respond to the request, this step of terminating the cooperation will also be taken as a final consequence. This step would be

regrettable insofar as the funds supported by German state DC are not only active in Cambodia, but also in countries that continue to be in urgent need of MF support.
⇒ Recommendation to implementing organizations and BMZ.

In the short term, limit loan amounts in relation to the realistic cash flow: The granting of DC-supported loans by MFIs and banks should immediately be based only on the audit results and cash flow calculations, based on the CBC data. Only this would be responsible lending. Formally, this message would have to be conveyed to the Cambodian FSPs through the management of the supported funds. However, as direct communication channels with the MFIs and banks in Cambodia still exist for KfW / DEG, these should also be used to get the message to its addressees quickly.

⇒ Recommendation to implementing organizations.

Stop aggressive customer solicitation immediately: It should also be the task of German DC or the implementing organizations to work through the funds (and also immediately directly) to stop the aggressive marketing strategies of the FSPs.

⇒ Recommendation to implementing organization.

End MF support in its current form in the medium term: In view of the very large number of banks and MFIs and considerable refinancing possibilities, further support of the MF sector from tax revenues by German state DC no longer makes sense in terms of a poverty-reducing effect. MFIs and banks in the country are numerous and virtually omnipresent in the country, and have ample capital. Due to the resulting considerable competitive situation, they solicit clients in a very aggressive manner which, at least in a number of cases, can be ethically rather dubious. In view of these considerations, MF should be discontinued or realigned when the current contracts expire.

⇒ Recommendation to BMZ.

Medium-term alternatives: In order to continue pro-poor financing in Cambodia, we can think of two alternatives, although they are not mutually exclusive: (i) the continuation of engagement in the area of SME support, abandoning “micro” financing in its previous non-focused form, and (ii) the explicit support of agricultural financing at the lower end of the scale (e.g. US\$1,000 to 3,000), e.g. via the cooperative sector.

I. Continue SME support in a focused manner

In the *de facto* support of MFIs and banks, which can already no longer be classified as microfinance, a change could be implemented by converting the *de facto* SME support into *de jure* support. However, given the large competition of financing offers in Cambodia, this would only make sense in a very focused way, if at all. Two thematic areas present themselves, one of which would already tie in with the orientation of certain programmes of the *Microfinance Initiative for Asia* (MIFA) Debt Fund.

Thus (i) everything that has to do with the expansion of renewable energies in the SME sector could be bundled into one programme. A partial orientation towards entrepreneurs would be conceivable.

The second field could be (ii) regional employment support in general, i.e. through the offer to support with special conditions such enterprises that are willing to invest in a decentralized manner, e.g. in the district centres or even the centres of the rural communities, giving priority to job creation.

However, we believe that this option is not realistic. Firstly, both fields are clearly covered by existing financing offers. Secondly, this kind of focussing would have to be carried out

through bilateral agreements which are hardly conceivable in the context of indirect financing via funds.

⇒ Recommendation to BMZ.

II. Alternative support – agricultural loans for and through the cooperative sector

In the context of the “Good Practice Study” in Cambodia on the involvement of agricultural cooperatives in the savings and credit sector, which was carried out in parallel to this study, there are indications that, despite the broad range of general MF services, there is still considerable demand, especially in the lower segment of agricultural loans from US\$250 to US\$1,000 (for purchases up to approx. US\$3,000), which cannot be adequately met by the cooperatives themselves and forces their members as well as other hh in the villages to make use of alternative offers (which are more expensive and more complicated to manage). Accordingly, in this context, the possibility should be examined whether support within the framework of German DC could be useful, especially in view of the need for lower-interest loans in the area of less profitable staple food production as well as to finance the acquisition of required small equipment (such as the hand tractor *kuyūn*).

Here, cooperation with the Ministry of Agriculture and Co-operative Association of Cambodia, which currently has about 1,200 members, would offer considerable potential. The new decree “*On the Establishment, Organization and Functioning of the Agriculture Cooperative Development Fund*” within the framework of the already existing Cooperative Act of 2013 (cf. KoC 2013) offers a good starting point for this. The DGRV, which is already actively and successfully promoting cooperatives in the country and which supported both the drafting of the law and the decree, could play an advisory and steering role here in the placement of a German contribution.

According to the discussions with numerous cooperative boards and sector experts, a financing contribution could amount to between six and eight million euros, with conditions being sought where interest rates for farms do not exceed eight to 10%. If, we assume, 10% of 1,200 cooperatives could receive even US\$10,000 in the first year, this would require 1.2 million in capital, plus TC support. In the second year, 20% participation could be expected, with a simultaneous increase in first-round participants to an average of US\$15,000, etc. An expected ceiling of 40% participation in a credit programme would be realistic, with the overall number of cooperatives tending to increase and most likely increasing even faster if the *Agriculture Cooperative Development Fund* were operational.

⇒ Recommendation to BMZ.

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Appendix:

Important Research Results (Tables)

Notes:

The most important tables from the results of the household survey have been compiled in this appendix.

The numbers of responses with a basic feature (e.g. households with current loans) do not always match those with secondary features (e.g. source of the loan). This results from the fact that it was not always possible to interview the borrowers themselves, but often only the spouse, who had varying degrees of knowledge of the details. If the interviewee hesitated, they were never pressed for an answer. Therefore, there are often significantly fewer respondents to questions that are more specific to a particular topic or which are more sensitive than to the respective introductory question.

The tables also summarize the results of several questions, if applicable.

“No answer” also means in many cases that the question does not apply to the household (because it has no credit, for example).

Where applicable, the following are given: *absolute numbers* (= mentions), *percentages*, *average values* of all persons who answered a question, *median* (= the middle value, where half of all mentions are above and half are below this value) and *mode* (= the value that occurs most frequently in the sample).

1. Total list of rural communes included in the surveys

Province	Commune	Village	Frequency
Battambang	Ou Ta Ki	Village 1	59
Battambang	Chheu Teal	Village 2	52
Battambang	Preaek Longveaek	Village 3	62
Battambang	Bansay Traeng	Village 4	66
Banteay Meanchey	Banteay Neang	Village 1	60
Banteay Meanchey	Bat Trang	Village 2	73
Banteay Meanchey	Ta Phou	Village 3	64
Banteay Meanchey	Srah Chik	Village 4	60
Kampong Thom	Kakaoh	Village 1	59
Kampong Thom	Sambour	Village 2	63
Kampong Thom	Kampong Svay / Tnoat Chong Srang	Village 3	58
Kampong Thom	Triel	Village 4	56

Kampong Chhnang	Srae Thmei	Village 1	62
Kampong Chhnang	Tang Krasang	Village 2	61
Kampong Chhnang	Prasneb	Village 3	57
Kampong Chhnang	Longveaek	Village 4	27
Kampong Speu	Roleang Chak	Village 1	56
Kampong Speu	Skuh	Village 2	56
Kampong Speu	Reaksmei Sameakki	Village 3	58
Kampong Speu	Prey Nheat	Village 4	56
Kampot	Thmei	Village 1	54
Kampot	Kandal	Village 2	57
Kampot	Key Chong Srang	Village 3	55
Kampot	Tramaeng	Village 4	56
Total			1387

2. Gender of the household member interviewed

	Frequency	Percentage value
Man	833	60.0
Woman	462	33.3
Man and woman together	93	6.7
Total	1388	100

3. Gender of the head of household

	Frequency	Percentage value
Man	1065	76.7
Woman	322	23.2
Man and woman	1	0.1
Total	1388	100

4. Number of household members

Mean value	Median
4.8	5.0

5. ID Poor status of the household:

Status	Frequency	Percentage value (discounting "no answer")
IDPoor 1	135	9.7
IDPoor 2	103	7.4
<i>Sum IDPoor 1 or 2</i>	<i>238</i>	<i>17.1</i>
Certainly not IDPoor	1137	82.1
Unsure if perhaps IDPoor	10	0.7
Total (discounting "no answer")	1385	100

6. Type of household in terms of socio-economic situation (interviewers' assessment based on the house and its furnishings):

Classification	Frequency	Percentage value
Extremely poor	96	6.9
Poor	675	48.7
Medium income	560	40.4
Well-off	56	4.0
Total	1387	100

7. **Most important source of income for the household** (in some cases multiple answers for equal importance)*:

	"Head of household" man	Percentage value	"Head of household" woman	Percentage value	Total	Percentage value
Agriculture	415	40.4	91	31.1	506	38.4
Wage labour	318	31.0	94	32.1	412	31.2
Permanent position: private	77	7.5	28	9.6	105	8
Permanent position: government	78	7.6	17	5.8	95	7.2
Trade and commerce: shop	30	2.9	17	5.9	47	3.6
Self-employment: craft	24	2.3	14	4.8	38	2.9
Remittances from labour migration	32	3.1	4	1.4	36	2.7
Animal husbandry	15	1.5	3	1.0	18	1.4
Support from others (e.g. begging, donations)	4	0.4	5	1.7	9	0.7
Poultry	5	0.5	0	0	5	0.4
Fishing	3	0.3	0	0	3	0.2
Other	25	2.4	20	6.9	45	3.4
Total	1026	100	293	100	1319	100

* The 4th and 5th source of income were also asked about (with few mentions that hardly change the picture).

8. Second most important source of income

	"Head of household" man	Percentage value	"Head of household" woman	Percentage value	Total	Percentage value
Agriculture	197	28.7	60	36.6	257	30.2
Wage labour	153	22.3	30	18.3	183	21.5
Animal husbandry	112	16.3	21	12.8	133	15.6
Poultry	48	7	15	9.1	63	7.4
Permanent position: private	49	7.1	6	3.7	55	6.5
Permanent position: government	36	5.2	3	1.8	39	4.6
Trade and commerce: shop	26	3.8	9	5.5	35	4.1
Self-employment: craft	14	2.0	3	1.8	17	2
Remittances from labour migration	10	1.5	1	0.6	11	1.3
Support from others (e.g. begging, donations)	5	0.7	0	0	5	0.6
Fishing	4	0.6	1	0.6	5	0.5
Other	32	4.7	15	9.1	47	5.5
Total	686	100	164	100	850	100

9. Third most important source of income

	"Head of household" man	Percentage value	"Head of household" woman	Percentage value	Total	Percentage value
Poultry	74	30.1	10	22.2	84	28.9
Agriculture	38	15.4	9	20.0	47	16.2
Wage labour	21	8.5	3	6.7	24	8.2
Animal husbandry	27	11.0	3	6.7	30	10.3
Trade and commerce: shop	7	2.8	1	2.2	8	2.7
Permanent position: government	2	0.8	1	2.2	3	1.0
Self-employment: craft	9	3.7	3	6.7	12	4.1
Permanent position: private	11	4.5	1	2.2	12	4.1
Support from others (e.g. begging, donations)	0	0	0	0	0	0
Remittances from labour migration	2	0.8	1	2.2	3	1.0
Fishing	3	1.2	0	0	3	1.0
Other	52	21.1	13	28.9	65	22.3
Total	246	100	45	100	291	100

10. Ownership situation of the residential building

Situation	Frequency	Percentage value
Owned by the respondent family	1322	95.2
Rented	8	0.6
Provided free of charge by others	58	4.2
Total	1388	100

11. Access to services – water, sanitation, electricity (multiple answers possible)

Service	Frequency (n= 1387)	Percent of all cases
Water tap in the house	513	37.0%
Water tap outside the house	831	59.9%
Toilet flush	1161	83.7%
Latrine	103	7.4%
Electricity: grid-based	1249	90.1%
Power: generator	72	5.2%
Power: solar panel	65	4.7%
Power: battery	26	1.9%
Internet access via mobile phone (smartphone, tablet or laptop)	1129	81.4%

12. Challenges faced by the household in the last 24 months that resulted in loss of income, food shortages, selling assets and borrowing extra money (multiple answers possible):

Challenge	Frequency	Percentage value
Serious illness / death of a household member	111	7.6
A household member loses his/her job	465	31.7
Reduced income-generating work with loss of income for various reasons	281	19.1
Serious illness / death of one / more animals	91	6.2
Seriously reduced agricultural production	281	19.1
Denial of required credit	27	1.8
Other	249	17.0

Total challenges	1469	
Number of households with one or more challenges	989	100
Not sure	190	
No answer	17	
Total	1406	

13. Were you able to live significantly from your own agricultural production in the past season? (only households with arable land)

Situation	Frequency	Percentage value
Yes	828	84.8
No	141	14.4
Not sure	7	0.7
Total (discounting "no answer")	976	100

13A. How long were you able to live off your own agricultural production in the past season? (only households with arable land that use at least part of their yield for subsistence)

Duration	Frequency	Percentage value
Up to 3 months	75	8.7
Up to 6 months	126	14.7
Up to 9 months	169	19.7
12 months	461	53.6
Not sure	29	3.4
Total (discounting "no answer")	860	100

14. Own farmland of the household (in hectares)

Area	Frequency	Percentage value (discounting "no answer")
0.1-1.0	510	55.0
1.1-2.0	204	22.0
2.1-4.0	127	13.7
4.1-6.0	56	6.0
6.1-8.0	15	1.6
8.1-10.0	10	1.1
10.1-15	3	0.3
More than 15	3	0.3
Total (discounting "no answer")	928	100
Arable land in % of hh		66.9%

15. Rented farmland (in hectares) (by contract or verbal agreement)

Area	Frequency	Percentage value (discounting "no answer")
0.1-1.0	15	28.8
1.1-2.0	13	25.0
2.1-4.0	7	13.5
4.1-6.0	8	15.4
>6	9	17.3
Total (discounting "no answer")	52	100

16. The main breadwinner (the person who earns the most income) in the household is:

Person	Frequency	Percentage value (discounting "no answer")
Man	453	32.9
Woman	137	9.9
Man and woman together	705	51.2
Son	48	3.5
Daughter	24	1.7
Other	11	0.8
Total (discounting "no answer")	1378	100
No answer	9	
Total	1387	

17. Control question: main source of household income in the last 12 months (up to three answers possible if it is difficult to decide):

Source of income	Frequency	Percentage value (discounting "no answer")
Agriculture	878	63.5
Wage labour	638	46.2
Trade and commerce: shop	328	23.7
Poultry	200	14.5
Animal husbandry	178	12.9
Permanent position: private	134	9.7
Self-employment: craft	68	4.9
Remittances from labour migration	62	4.5
Permanent position: government	60	4.3
Support from others (e.g. begging, donations)	21	1.5
Fishing, fish ponds	15	1.1
Other	32	2.3
No answer	1	0.1
Total	2632	190.4 (out of 1388, due to multiple answers)

18. The most profitable agricultural product is:

Product	Frequency	Percentage value
Rice	774	91.0
Cassava	12	1.4
Vegetables	11	1.3
Fruits	14	1.6
Maize	2	0.4
Soy beans	1	0.1
Peanuts	1	0.1
Cashew nuts	20	2.4
Sugar cane	3	0.4
Other	3	0.4
Not sure	3	0.4
No answer	3	0.4
Total	851	100

19. Possession of a savings account with money deposited in the household?

Ownership of the account	Frequency	Percentage value
Yes	155	11.4
No	1191	87.3
Not sure	19	1.4
Total (discounting "no answer")	1365	100
No answer	22	
Total	1387	

20. Number of loans currently still running in households through regular repayments:

Number of loans	Frequency	Percentage value (of all who have loans)	Percentage (of all households)
1 loan	672	87.3	48.4
2 loans	78	10.1	5.6
3 loans	17	2.2	1.2
4 loans	1	0.1	0.1
5 loans	2	0.1	0.3
Total (all who have loans)	770	100	55.5
No loans	617		44.5
Total	1387		100

21. Have you ever thought of taking out a loan and then not done it?

Borrowing	Frequency	Percentage value (discounting "no answer")
Yes	300	48.8
No	298	48.5
Not sure	17	2.8
Total (discounting "no answer")	615	100
No answer	772	
Total	1387	

22. The reason for deciding not to take out a loan was (multiple answers possible):

Our reason was	Frequency	Percentage value (discounting "no answer")
Credit was not necessary after all	99	24.3
Fear of not being able to pay it back	265	65.0
Have already had bad experiences with credit	27	6.6
Knew about bad experiences of third parties with loans	11	2.7
Other reasons	5	1.2
Not sure	1	0.2
Total (discounting "no answer")	408	100

23. Total amount (US\$) of main current loan (current loan no. 1) (n=705)

Mean value	Median
5183.24	3500.00

23A.Amounts (US\$) of main current loan by group (current loan No. 1) (n=705)

Amount	Frequency	Percentage value
1-1000	167	23.7
1001-2500	133	18.9
2501-5000	175	24.8
5001-10,000	156	22.1
10,001-25,000	74	10.5
Total	705	100

24. Total amount (US\$) of the second-largest current loan (current loan no. 2) (n=94)

Mean value	Median
2907.79	1000.00

25. Total amount (US\$) of the third-largest current loan (current loan #3) (n=18):

Mean value	Median
1017.50	750.00

26. Duration of the main loan in months (n=630)

Mean value	Median
45.36	48

27. The source of the main loan is:

Credit source	Frequency "Head of household" man	Percentage value (discounting "no answer")	Frequency "Head of household" woman	Percentage value (discounting "no answer")	Frequency	Percentage value (discounting "no answer")
MFI	344	56.2	85	53.8	429	55.7
Bank	160	26.1	35	22.2	195	25.3
Relatives, neighbours, friends	48	7.8	15	9.5	63	8.2
Private money lender, pawn shop	44	7.2	16	10.1	60	7.8
Other	6	1.0	6	3.8	12	1.6
Not sure	10	1.6	1	0.6	11	1.4
Total (discounting "no answer")	612	100	158	100	770	100

28. What was the purpose of taking out the main loan (multiple answers possible)
(n=770)

Main stated purpose	Frequency	Percentage value*
Investment: business	211	19.2
Investment: agriculture Inputs	131	11.9
Investment: agricultural machinery	16	1.5
Investment: animals	33	3.0
Investment: new land titles (agricultural)	56	5.1
Investment: new land titles (non-agricultural)	27	2.5
Investment: new house	185	16.8
Investment: house extension, renovation	90	8.2
Investment: education	40	3.6

Repayment of another loan	29	2.6
Covering healthcare costs	46	4.2
Covering funeral costs	5	0.5
Covering wedding costs	17	1.5
Buying food	42	3.8
Buying clothes	18	1.6
Buying household equipment	9	0.8
Buying gold / jewellery	1	0.1
Buying motorbike / moped	66	6.0
Buying a car	22	2.0
Buying a truck	11	1.0
Other	45	4.1
Total*	1100	100
* Percentage of all named loan purposes		

29. Who in the household signed the contract for the main loan?

Signatory	Frequency	Percentage value (discounting "no answer")
Man (of the household)	108	14.0
Woman (of the household)	200	25.9
Man and woman together	458	59.4
Other	5	0.6
Total (discounting "no answer")	771	100

30. Was the loan taken out when the investment could have been made without it?

Borrowing	Frequency	Percentage value (discounting "no answer")
No	254	49.3
Yes, I had money in the bank	14	2.7
Yes, the item purchased can also be paid for by instalments in the shop	7	1.4
Yes, I could have sold some of my assets	32	6.2
Yes, I could have got the money from relatives (as a gift)	1	0.2
Yes, I could have got the money from relatives with a low interest rate	6	1.2
Yes, I could have got the money without collateral from relatives	3	0.6
Yes, I would have made a smaller investment	13	2.5
Other	18	3.5
Not sure	148	28.7
Total (discounting "no answer")	515	100

31. Do you use a banking app (on your smartphone) to manage your main current loan?

Banking app	Frequency	Percentage value (discounting "no answer")
Yes	37	4.9
No	681	90.4
Not sure	35	4.6
Total (discounting "no answer")	753	100

32. Did you receive clear information about the loan conditions and the payment terms for the main loan when you took out the loan (e.g. on the amount of money, repayment schedule, time remaining until the loan is repaid)? (Multiple answers possible)

Clear information	Frequency	Percentage value (discounting "no answer")
Yes, about which amounts are due on which date	451	63.7
Yes, the remaining total repayment period	189	26.7
I am regularly visited and informed	197	27.8
Someone will be sent to remind me of the repayments due	47	6.6
I am contacted on social media (App, Facebook, Telegram ...)	26	3.7
Other	23	3.2
Not sure	55	7.8
Total households surveyed (discounting "no answer")	708	139.9 (due to multiple answers)

33. Repayment schedule / modalities of repayment for the main loan are:

Repayment made:	Frequency	Percentage value (discounting "no answer")
Daily payment	5	0.6
Weekly payment	4	0.5
Monthly payment	688	89.9
Quarterly payment	2	0.3
Periodically: e.g. in connection with the harvest season	40	5.3
"Balloon" loan: first only interest and at the end principal is repaid	14	3.7
Principal repaid all at once at the end (with accumulated interest)	4	0.5
Not sure	8	1.0
Total (discounting "no answer")	765	100

34. What is the fixed repayment amount for the main loan in the scheduled time frame?

Repayment amount	Frequency	Percentage value (discounting "no answer")
Repayment amount different each time (decreasing)	392	52.6
Always the same repayment amount	246	33.0
Always the same repayment amount, but with late surcharges	80	10.7
Not sure	27	3.6
Total (discounting "no answer")	745	100

35. Repayment amount (US\$) under the planned mode in the month (with constant amounts) (n=243):

Mean value	Median	Mode
242,6	125	100

36. Repayment terms for the main loan:

Conditions	Frequency	Percentage value (discounting "no answer")
No grace period, payment must be made from the first month onwards	572	75.4
Grace period of a few months (interest payment only), then redemption payment	31	4.1
"Balloon" loan: first only interest and at the end principal is repaid	68	9.0
Balloon loan: no interest and principal is only repaid at the end	50	6.6
Not sure	22	2.9
Other	16	2.1
Total (discounting "no answer")	759	100

37. What kind of collateral is required for the main loan? (Multiple answers possible)

Security	Frequency	Percentage value (discounting "no answer")
House with land title	486	52.7
Title of agricultural land	241	26.1
No need for collateral	130	14.1
Witness in group loan	12	1.3
(Only) house	8	0.9
ID card to be deposited	7	0.8
Means of transport: motorbike / moped	4	0.4
Agricultural machinery: hand tractor, tractor, rice husking machine	2	0.2
Household appliances: smartphone, laptop, camera, gold / jewellery	2	0.2
Other	18	2.0
Not sure	12	1.3
Total (discounting "no answer")	922	100

38. How many land titles had to be used as collateral for the main loan?

Number of land titles	Frequency	Percentage of all who have a current loan and land title as collateral	Percentage of all who have a current loan
1 land titles	106	43.1	13.1
2 land titles	105	42.7	13.0
3 land titles	25	10.2	3.1
4 land titles	3	1.2	0.4
5 land titles	2	0.8	0.2
6 land titles	1	0.4	0.1
7 land titles	1	0.4	0.1
9 land titles	2	0.8	0.2
No answer	1	0.4	0.1
Total credit	246*	100	30.4

* Obviously, 5 hh of the 12 who were still unsure about the type of collateral were now able to answer positively to the question about land titles after all.

39. What is the total arable land area (in hectares) used as collateral for the loan?

Area in ha	Frequency	Percentage value
Up to 0.5	38	18.1
0.51-1.0	51	24.3
1.1-2.0	62	29.5
2.1-3.0	28	13.3
3.1-4.0	9	4.3
4.1-5.0	12	5.7
More than 5	10	4.8
Total (discounting "no answer")	210	100

40. What percentage of your land is used as collateral for the main loan?

Percent of the country	Frequency	Percentage value
1-24% (less than one quarter of land titles owned)	5	2.0
25-50% (between one quarter and half of the land titles owned)	17	6.9
51-75% (between half and three quarters of the land titles owned)	39	15.9
76-99% (almost all land titles owned)	42	17.1
100% (all land titles owned)	141	57.6
Not sure	1	0.4
Total	245	100

41. How do you assess the impact of the main loan on your life situation?

Evaluation	Frequency "Head of household" man	Percentage value (discounting "no answer")	Frequency "Head of household" woman	Percentage value (discounting "no answer")	Overall frequency	Overall percentage value (discounting "no answer")
Very positive	80	13.2	13	8.4	93	12.2
Positive	147	24.3	26	16.8	173	22.7
Slightly positive	283	46.7	78	50.3	361	47.4
Slightly negative	57	9.4	19	12.3	76	10.0
Negative	17	2.8	7	4.5	24	3.2
Very negative	13	2.1	10	6.5	23	3.0
Not sure	9	1.5	2	1.3	11	1.4
Total (discounting "no answer")	606	100	155	100	761	100

42. What positive effects, if any, has the main loan had so far?

Effects	Frequency	Total (discounting "no answer")
Financial gains, higher yields in agriculture, more trade	212	32.4
Gaining movable assets: livestock, machinery, motorbike, car, tractor, gold / jewellery	111	17
Gaining fixed assets: house and land ownership, house improvements	200	30.5
Social benefits: more education, better food situation, marriage, health	66	10.1
Temporary relief through repayment of another loan to save its collateral	20	3.1
Other	12	1.8
Not sure	25	3.8
Total (discounting "no answer")	655	100

43. What negative effects, if any, has the current main loan had so far?

Negative effect	Frequency "Head of household" man	Percentage value (discounting "no answer")	Frequency "Head of household" woman	Percentage value (discounting "no answer")	Mean value	Percentage value (discounting "no answer")
Financial challenges (problems with repaying my loan)	192	68.1	51	78.5	243	69.4
Sale of movable assets (livestock, machinery, motorbikes, cars, tractors, jewellery)	5	1.8	1	1.5	6	1.7
Fixed assets sold: house with land title	2	0.7	0	0	2	0.6
Fixed assets sold: non-agricultural land	1	0.4	0	0	1	0.3
Social challenges (less education, food security, funeral, wedding, health)	7	2.5	1	1.5	8	2.3
Other	8	2.8	0	0	8	2.3
Not sure	70	24.8	12	18.5	82	23.4
Total	282	100	65	100	350	100

44. Were there any lender-initiated changes to the repayment terms of the main loan due to the economic crisis caused by COVID-19?

Changes	Mean value	Percentage value (discounting "no answer")
Yes, there is an improvement	117	18.5
Yes, but it has become worse	21	3.3
No	464	73.4
Not sure	30	4.7
Total (discounting "no answer")	632	100

45. Duration (in months) of the second-largest loan (n=52):

Mean value	Median	Mode
36.0	24.0	24.0

46. Source of the second-largest current loan:

Source	Frequency	Percent
MFI (Microfinance Institution)	47	49.5
Bank	18	18.9
Relatives, friends, neighbours	18	18.9
Private money lender, pawn shop, loan in shop	11	11.6
Other	1	1.1
Total	95	100

47. What is the purpose of taking out the second current loan? (Multiple answers possible.)

Purpose	Frequency	Percent
Repayment of another loan	23	15.7
Investment: agricultural inputs	17	9.7
Investment: business	17	9.7
Investment: modernization of the house infrastructure (bathroom, new roof ...)	12	8.3
Coverage of health care costs	12	8.3
Investment: education, school fees, additional accommodation, etc.	10	6.9
Purchase: food	8	5.5
Investment: new house	7	4.8
Purchase: motorcycle / moped	7	4.8
Purchase: clothing	6	4.1
Investment: new land titles (agricultural)	5	3.4
Investment: livestock	4	2.8
Purchase: household appliances	4	2.8

Investment: new land titles (non-agricultural)	3	2.1
Investment: agricultural machinery	1	0.7
Purchase: truck	1	0.7
Purchase: car	1	0.7
Other	7	4.8
Total	145	100

48. Who in the household signed the contract for the second loan?

Signatory	Frequency	Percentage value (discounting "no answer")
Man (of the household)	13	13.7
Woman (of the household)	34	35.8
Man and woman together	47	49.5
Other	1	1.1
Total (discounting "no answer")	95	100

49. What kind of collateral is required for this loan (second current loan)?

Collateral	Frequency	Percentage value (discounting "no answer")
Collateral not necessary	30	38.0
House with land title	22	27.8
Title of agricultural land	16	20.3
Witness in group loan	7	8.7
Means of transport: motorbike	3	3.8
House	3	3.8
Other	3	3.8
Total (discounting "no answer")	79	100

50. How would you assess the impact of this second current loan on your life situation?

Impact	Frequency	Percentage value
Very positive	4	4.2
Positive	28	29.5
Slightly positive	33	34.7
Slightly negative	19	20.0
Negative	7	7.4
Very negative	2	2.1
Total	95	100

51. What positive effects, if any, has this loan had so far? (Second loan)

Impact	Frequency	Percentage value (discounting "no answer")
Financial gains, higher yields in agriculture, more trade	16	23.2
Gaining movable assets: livestock, machinery, motorbike, car, tractor, gold / jewellery	12	17.4
Gaining fixed assets: house and land ownership, house improvements	18	26.1
Social benefits: more education, better nutrition, marriage, health	7	10.1
Temporary relief through repayment of another loan to save its collateral	6	8.7
Other	8	11.6
Not sure	2	2.9
Total (discounting "no answer")	69	100

52. What negative effects, if any, has this loan had so far? (Second current loan)

Impact	Frequency	Total (discounting "no answer")
Financial losses: lower yield in agriculture, less trade	22	51.2
Loss of movable assets: livestock, machinery, motorbike, car, tractor, jewellery	2	4.7
Social disadvantages: education stopped, worse nutritional situation, lack of financial means to meet social obligations, funeral, wedding, health expenses, support of parents.	2	4.7
Lower consumer spending during loan repayment	8	18.6
Other	1	2.3
Not sure	8	18.6
Total (discounting "no answer")	43	100

53. Number of loans of the household fully repaid / settled in the last 5 years?

Number of loans	Frequency	Percentage value (of all who had loans)
1 loan	341	52.6
2 loans	167	25.8
3 loans	75	11.6
4 loans	24	3.7
5 loans	23	3.5
6 loans	10	1.5
More than 6 loans	8	1.2
Total (all who have loans)	648	100

54. What kind of collateral was required to secure these fully settled loans? (Loans in the last 5 years: fully paid)

Collateral	Frequency	Percentage value
House with land title	351	43.4
No need for collateral	219	27.1
Agricultural land titles	139	17.2
Witness in group loan	40	5.0
(Only) house	8	1.0
Means of transport: motorbike / moped / car	2	0.2
Household items (smartphone, laptop, camera, gold / jewellery)	1	0.1
Other	26	3.2
Not sure	22	2.7
Total	808	100

55. How would you assess the impact of these finished loans on your life situation? (Loans in the last 5 years: paid in full.)

Impact	Frequency	Percentage value (discounting "no answer")
Very positive	92	11.6
Positive	205	25.9
Slightly positive	356	45.0
Slightly negative	92	11.6
Negative	18	2.3
Very negative	17	2.1
Not sure	19	2.4
Total (discounting "no answer")	791	100

56. What positive effects, if any, did these total loans have? (Loans in the last 5 years: paid in full.)

Impact	Frequency	Percentage value (discounting "no answer")
Improved living conditions (better food, better health care, housing, etc.)	262	34.8
Investment in business / trade that leads to more turnover and profit	180	23.9
Higher agricultural output	153	20.3
Increase in livestock	50	6.6
Household members receive better education	45	6.0
Other	47	6.2
Not sure	16	2.1
Total (discounting "no answer")	753	100

57. What have been the negative effects of these loans, if any? (Loans in the last 5 years: paid in full)

Impact	Frequency	Total (discounting "no answer")
Financial losses: lower yield in agriculture, less trade	65	33.5
Loss of movable assets: livestock, machinery, motorbike, car, tractor, jewellery	21	10.8
Social disadvantages: education stopped, worse nutritional situation, lack of financial means to meet social obligations, funeral, wedding, health expenses, support of parents.	4	2.1
Lower consumer spending during loan repayment	71	36.6
Loss of fixed assets: ownership of agricultural land	17	8.8
Other	9	4.6
Not sure	9	4.6
Total (discounting "no answer")	194	100

58. Who made the proposal to apply for your first loan ever? (Loan running / fully settled)

Proposal comes from	Frequency	Percentage value (discounting "no answer")
Approached by credit institution	146	13.7
Household: man	60	5.6
Household: woman	189	17.8
Household: man and woman	555	52.2
Household: son	25	2.4
Household: daughter	20	2.9
Household: grandfather	6	0.6
Household: grandmother	9	0,8
Not in the household: other relatives, neighbours, friends	34	3,4
Not sure	19	1,8
Total (discounting "no answer")	1063	100

59. How did you choose the credit provider for the loan? (Loan is running / has been fully settled, multiple answers possible.)

Selection due to:	Frequency	Percentage value (discounting "no answer")
Experience through previous loans	226	19,0
Approached by bank	182	15,3
Approached by MFI agent	345	28,9
Approached by private money lender	61	5,1
Recommendation from relatives / friends / neighbours	299	25,1
From TV / radio / newspaper	13	1,1
Social media (Facebook, Tik Tok, ...)	16	1,3
Other	20	1,7
Not sure	30	2,5
Total (discounting "no answer")	1192	100

60. What was the overall behaviour of the staff when applying for your loans? (Loan is running / has been fully settled.)

Behaviour	Frequency	Percentage value (discounting "no answer")
Friendly, respectful, helpful	875	96,6
Not friendly, not helpful, but not disrespectful either	1	0,1
Not sure	30	3,3
Total	906	100

61. How was the behaviour of the staff during the servicing of the loans? (Loan is running / has been paid in full.)

Behaviour	Frequency	Percentage value (discounting "no answer")
Friendly, respectful, helpful	860	95,1
Not friendly, not helpful, but not disrespectful either	14	1,5
Disrespectful, unfriendly	1	0.1
Not sure	29	3.2
Total	904	100

62. How large was the total area (hectares) for securing the loan in each case? (Loan is running/ has been paid in full)

Area	Frequency *	Percent
0,01-0,1	60	19,5
0,11-0,5	92	29,9
0,51-1,00	70	22,7
1,01-2,00	55	17,9
2,01-4,00	21	6,8
>4,00	10	3,2
Total	308	100
*All loans on which it was still possible to make a statement		

63. Were the loan providers certain that you, as the borrower, would be able to repay the loan and not lose your collateral for the loan? (Loan is running / has been paid in full)

Certain	Frequency	Percentage value (discounting "no answer")
Yes	705	82.3
No	76	8.9
Not sure	76	8.9
Total (discounting "no answer")	857	100

64. Were you adequately informed about the importance of collateral and the risks for your collateral in the event of late repayment or no repayment at all of the loans? (Loan is running / has been paid in full, several answers possible.)

Information	Frequency	Percentage value (discounting "no answer")
Collateral: yes	471	72.2
Collateral: no	154	23.6
Collateral: not sure	27	4.1
Total	652	100
Default and non-repayment risk: yes	177	60.6
Default and non-repayment risk: no	88	30.1
Default and non-repayment risk: not sure	27	9.2
Total	292	100

65. In the case of a loan, were you informed of the total duration (in months)? (Loan is running / has been paid in full.)

Communication	Frequency	Percentage value (discounting "no answer")
Yes	777	89.1
No	55	6.3
Not sure	40	4.6
Total (discounting "no answer")	872	100

66. Were you informed about the due dates for the repayments of a loan? (Loan is running / has been paid in full.)

Information	Frequency	Percentage value (discounting "no answer")
Yes	694	80.2
No	106	12.3
Not sure	65	7.5
Total (discounting "no answer")	865	100

67. Were you informed about the complaints mechanism for a loan in case of unclear information and other challenges (repayment situation, etc.)? (Loan is running / has been paid in full.)

Information	Frequency	Percentage value (discounting "no answer")
Yes	564	65.4
No	237	27.5
Not sure	61	7.1
Total (discounting "no answer")	862	100

68. Did you have or do you have difficulties with one of your loans in obtaining the sum of money on the scheduled date? (Loan is running / has been paid in full.)

Difficulty	Frequency	Percentage value (discounting "no answer")
Yes	448	49.9
No	416	46.4
Not sure	33	3.7
Total (discounting "no answer")	897	100

69. Did you approach the lender(s) to facilitate the repayment of a loan in case of difficulties? (Loan is running / has been paid in full)

Approached lenders	Frequency	Percentage value (discounting "no answer")
Yes	296	64.8
No	145	31.7
Not sure	16	3.5
Total (discounting "no answer")	457*	100
* Numerous refusals to answer		

70. What was the outcome of a renegotiation with the lender regarding the repayment of the loan? (Loan is running / has been paid in full.)

Solution	Frequency	Percentage value (discounting "no answer")
The problem was successfully solved by amending the loan agreement	266	77.1
It was not possible to find a solution regarding an amendment to the loan agreement	79	22.9
Total (discounting "no answer")	345*	100
* As in several cases, also here answers from hh who had not answered before.		

71. Have you sold properties in the past due to loan repayment problems?

Sale of land	Frequency	Percentage value
Yes	58*	12.5
No	397	85.6
Still for sale	3	0.6
Not sure	6	1.3
Total	464	100
* Of the hh with current loans, 3 others were in the process of selling land during the survey period. Together, in this category there are therefore 61 hh out of a total of 964 (6.3%) with previous or current loans in the household survey, or 1.27% p.a. based on the average of the 5 reference years.		

72. How large was the land area you had to sell (in ha)?

Area	Frequency
Up to 1 ha	27
Up to 2 ha	1
Up to 3 ha	2
More than 3 ha	0
Total	30

73. What was recommended to you to make the repayment of your loan possible? (Loan is running / has been paid in full)

Suggestion	Frequency	Percentage value
Nothing	687	79.1
Take out an additional loan	69	7.9
Sale of assets (e.g. motorbike, hand tractor)	12	1.4
Borrow money from relatives	16	1.8
Sell gold or jewellery	19	2.2
Sell cattle	19	2.2
Other suggestions	5	0.6
Not sure	41	4.7
Total (discounting "no answer")	868	100

74. Under "other suggestions" in Question 73, the following were mentioned: "work harder", "work longer", and three times "sell land".

75. Has anyone put pressure on you to sell land for the repayment of a loan? (Loan is running / has been paid in full)

Pressure exerted:	Frequency	Percentage value
Yes: by relatives, neighbours, friends	15	3.1
Yes: by community authorities	1	0.2
Yes: by business people	6	1.2
Yes: other	3	0.6
No	465	94.9
Total	490	100

76. Under “Yes: other” in Question 75, the following were mentioned: twice MFI representatives and thirdly “a person commissioned by an MFI representative”.

77. To whom did you sell the property?

Sale of land to:	Frequency	Percentage value
Neighbours, community members	30	65.2
“Land agents” (purchase and sale)	11	23.9
Related	2	4.3
Private company	2	4.3
Public institution	1	2.2
Total	46	100

78. How would you describe the socio-economic situation of your household?

Category	Frequency "Head of household" man	Percentage value	Frequency "Head of household" woman	Percentage value	Frequency	Percentage value
Extremely poor	50	4.7	44	13.3	94	6.8
Poor	264	24.8	109	33.9	374	27.0
Medium income	656	61.7	151	46.9	807	58.2
Rather good	88	8.3	16	5.0	104	7.5
Among the richest	6	0.6	2	0.6	8	0.6
Total	1064	100	322	100	1387	100

79. Number of loans currently running among debtors classified as ID Poor

Number of loans	Frequency	Percentage
0	128	53.6
1	90	37.7
2	16	6.7
3	4	1.7
4	1	0.4
Total	239	100

80. Size of the main loans of debtors classified as ID Poor (in US\$)

Mean	Maximum	Minimum	Median
2,172	10,000	100	1,000

81. Sources of the main loans currently running of ID Poor households

Source	Frequency	Percentage
MFI	67	60.4
Bank	8	7.2
Private money lender	15	13.5
Relatives/friends/neighbours	15	13.5
Village community	1	0.9
Other	2	1.8
Unsure	1	0.9
Unknown	2	1.8
Total	111	100

82. Collateral (for largest current loan) for ID Poor and non-ID Poor groups

Non-ID Poor			ID Poor		
	Number	Percentage		Number	Percentage
No collateral	95	14.6%	No collateral	38	34.5%
House	7	1.1%	House	1	0.9%
House with land title	432	66.4%	House with land title	53	48.2%
Agricultural land title	225	34.6%	Agricultural land title	16	14.5%
Means of transport	4	0.6%	Means of transport	0	0%
Household objects	2	0.3%	Household objects	0	0%
Agricultural tools	2	0.3%	Agricultural tools	0	0%
Group credit	10	1.5%	Group credit	4	3.6%
Other	9	1.4%	Other	8	7.3%
Unsure	10	1.5%	Unsure	2	1.8%
No answer	1	0.2%	No answer	0	0%
Total	797	122.4%*	Total	122	110.9%*
* Over 100%, as multiple mentions were possible					

83. Size of the main loan of ID Poor households according to the gender of the head of the household (N=110)

Female head of household			Male head of household		
	Number	Percentage		Number	Percentage
< 250	9	21.4%	< 250	11	16.2%
250 – 500	8	19.0%	250 – 500	11	16.2%
501 – 1,000	5	11.9%	501 – 1,000	15	22.1%
1,001 – 1,500	3	7.1%	1,001 – 1,500	3	4.4%
1,501 – 2,000	4	9.5%	1,501 – 2,000	7	10.3%
2,001 – 2,500	2	4.8%	2,001 – 2,500	2	2.9%
2,501 – 3,000	2	4.8%	2,501 – 3,000	4	5.9%
3,001 – 4,000	1	2.4%	3,001 – 4,000	3	4.4%
4,001 – 5,000	4	9.5%	4,001 – 5,000	5	7.4%
5,001 – 7,500	1	2.4%	5,001 – 7,500	1	1.5%
7,501 – 10,000	3	7.1%	7,501 – 10,000	4	5.9%
> 10,000	0	0%	> 10,000	2	2.9%
Total	42	100%	Total	68	100%

84. Households which had to sell their land in the context of over-indebtedness, divided into ID Poor and non-ID Poor status (out of all hh with repayment problems, N=464)

Non-ID Poor			ID Poor		
	Number	Percentage		Number	Percentage
Yes	44	11.8%	Yes	14	15.4%
Is currently being sold	3	0.8%	Still to be sold	0	0%
No	322	86.3%	No	75	82.4%
Unsure	4	1.1%	Unsure	2	2.2%
Total	373	100%	Total	91	100%

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