



MIMOSA

Microfinance Index of Market Outreach and Saturation

Cambodia

SAMPLE November 2015

This is a sample MIMOSA Country Report, produced as a result of a 7-country pilot. The MIMOSA project aims to provide ongoing coverage of 20-30 microfinance markets that receive the bulk of cross-border investment. The project is market-funded, and except for specially-marked samples, MIMOSA Country Reports are available only by subscription. Please contact us at info@mimosaindex.org to learn how to subscribe to additional reports.

Thanks to all of the individuals and institutions that assisted with our work in Cambodia: Oikocredit, the Credit Bureau of Cambodia, and the Cambodian Microfinance Association.

The MIMOSA Score for Cambodia is 5. This places it among the most saturated credit markets in the world. The vast majority of this lending comes from an extremely competitive microfinance sector, with 40 full members of the Cambodia Microfinance Association (CMA), and 7 of the largest active in all 24 of the country's regions.

This saturation has followed a period of extremely rapid portfolio growth for the MFIs, at 46% CAGR during 2011-14. And growth expectations of the MFIs remain high, with MFIs expecting portfolio growth of 33% and growth in borrowers at 12.6% during the next 12 months. Competition has continued to increase, exemplified by new entrants, such as Ly Hour, which became the 10th largest MFI after just two years in operation. There is also evidence of competition from non-microfinance banks, such as Canada Bank, ABA, and ANZ Royal, which were mentioned as active lenders in 30-50% of the trading centers surveyed, and one (ABA) was cited as one of the main competitors in the MFI survey.

Heated competition is reflected through active promotion in the field. Market vendors commonly cited being approached 2-3 times with loan offers during the past month, with some saying they've had 5-6 such offers. At the same time, multiple borrowing seems mild (see special discussion below).

The market features relatively uneven regulation, with strong supervision capacity of the Central Bank and a strong (though young) credit bureau, but weak overindebtedness regulations and low capital requirements creating conditions that continue to crowd the market. At the same time, the major MFIs are highly transparent, with a strong microfinance association. The current project to bring the country's leading MFIs under Smart Campaign certification is significant as a step towards avoiding overindebtedness.

Category	Rating	Indicator	Value
Saturation	5	Loan penetration over capacity	+ 8.8%
	Neutral	Credit card penetration	2.3%
Regulation	●	Overall quality of regulation	56/100
	●	Prevention of overindebtedness	0/3
	●	Appropriate collections	0/2
Competition / overheating	●	Quality of credit bureau & credit reporting	100/100
	●	Level of competition (HHI)	1102
	●	% Borrowers with 3+ loans	4.5%
	●	Loan portfolio CAGR in value past 3 years	46%
Maturity of microfinance institutions	●	Loan portfolio growth in value expected next 12 months	33%
	●	% clients at MFIs <10y or >20y old	60% >20y old
	●	Experienced crisis in past 15 years	No
Transparency	●	Composite transparency score	3.4/4
	●	% MFIs with ratings in past 2 years	88%
Other risks	?	FX exposure	n.a.
	●	Interest rate level (APR, excl. tax)	28.7%

Penetration is in some ways one of the most complex factors in Cambodia. While the 2014 Findex survey found 27.7% of adults being active borrowers (placing it as the 2nd highest among developing countries), data from the CMA and the Credit Bureau of Cambodia (CBC) place it far lower, at 17.6%. This isn't just a one-time discrepancy, but a systemic difference, since a similarly large gap was present in 2011 as well.

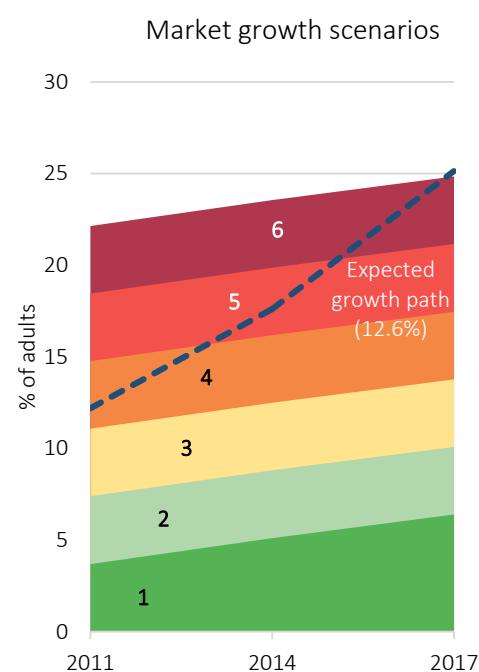
In evaluating these two figures, it seems most probable that the supply-side data from CBC and CMA (both of which align very closely) best reflect reality. First, the depth of reporting encompasses all major institutions, including both MFIs and banks. And whereas our field surveys found that 9% of cited lenders were unregistered/unlicensed, no borrower actually mentioned having actually borrowed from them. Thus, while these "shadow" lenders may hold some market share in Cambodia, it is likely to be small and cannot account for the large gap in penetration between Findex and the CMA or CBC. Our hypothesis is that the gap is most likely the result of the wording of the Findex questionnaire, which in Cambodia included "pawnbrokers and payday lenders" among financial institutions – something that is not the case in most countries.

While Cambodia may be less saturated than implied by Findex, it nevertheless faces very high risk of saturation. First, its penetration level is already double its capacity. But more concerning is that the rapid growth still being pursued by many lenders is creating a situation that can deteriorate quite rapidly. At its current pace, it can be expected to become extremely saturated (score of 6) within a year, and by 2017, it would be among the most saturated markets in the world.

This is not sustainable and potentially destabilizing. There is still time to address this risk. The regulator has the capacity to slow and even reverse market growth, for example, through higher capital requirements and encouraging consolidation. This would give time for Cambodia's fast-growing economy to catch up and over time reduce the pressure of the debt bubble. However, if no action is taken and the market remains on its currently path, the risk of an overindebtedness crisis will become unacceptably high.

	2011	2014	2017*
HDI	0.575	0.584	0.601
Population density per km ²	78.5	82.2	91.1
Credit Bureau Score	0.0	48.9	85.4
Loan capacity	7.4	8.8	10.1
Borrowers per adult	12.2	17.6	25.1
Microfinance loans per adult	15.4	21.5	30.7
MIMOSA Score	4	5	6
Credit card users per adult	0.1	2.3	
MIMOSA CC penetration score	●	●	
GDP per capita (current \$)	878	1,081	1,317
GDP, 3yr CAGR (constant LCU)	4.3%	7.2%	7.2%

* forecasts: IMF for GDP, UNDP for population; MIMOSA for others



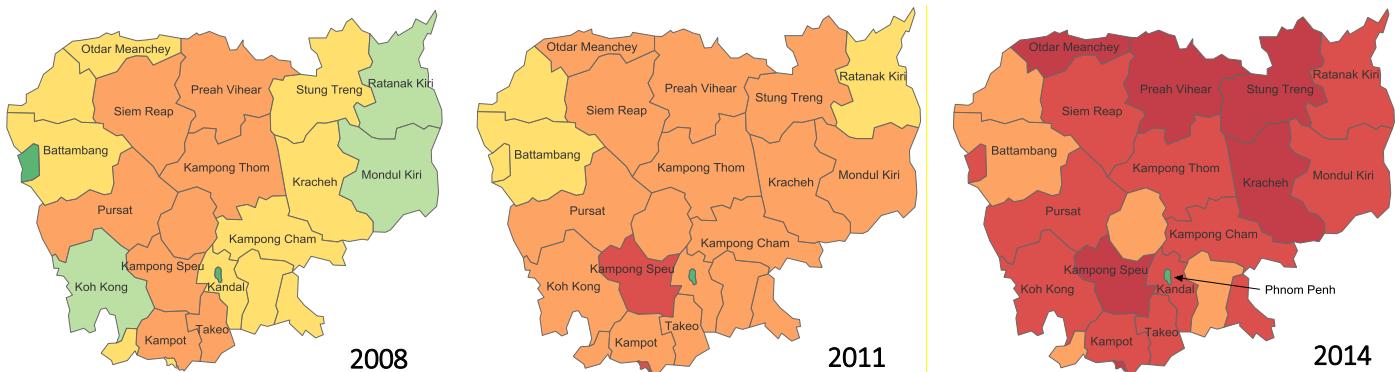
MIMOSA Scores by Region

At the regional level, Cambodia continues to show a mixed pattern of saturation. Phnom Penh, representing 11.5% of the country's population, remains underserved. This reflects both its notably higher capacity due to greater population density, and also one of the lowest rates of penetration in the country. Note that this includes lending by both MFIs and banks.

Outside the capital, all other parts of the country are at some stage of saturation, scoring 4 or above. Some are still moderately saturated, including large regions like Prey Veng and Battambang. Meanwhile, Kampong Speu's penetration rate is approaching three times its capacity, a point reflected also in the MFI survey, where it was cited as one of three most saturated regions in the country (along with Takeo and Kandal).

This pattern is interesting in that Kampong Speu was also the only region that was highly saturated (score of 5) in 2011. It may well be the harbinger of where other areas of the country may be heading, and is worthy of study for that reason alone. But it may also reflect special circumstances that are not captured by the MIMOSA model.

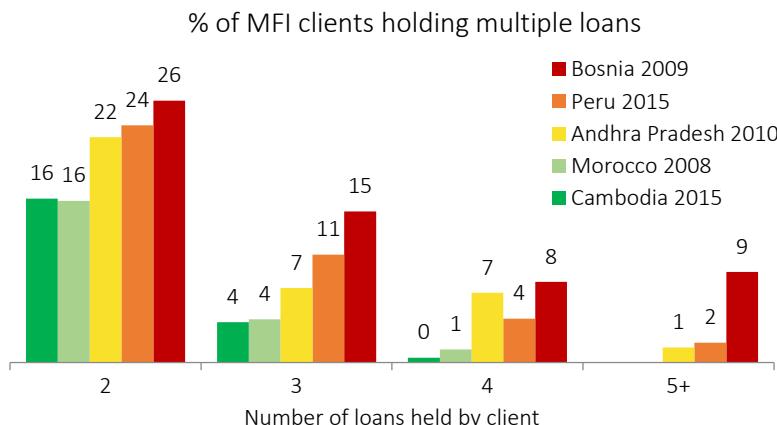
Column no:	1	2	3	4	5	6	7
Region	Population (000s)	HDI	Population density (per km2)	MIMOSA Score	Borrowing capacity (%)	Borrowers per adult (%)	Penetration over capacity
National	14,677	0.584	82	5	8.8	17.6	8.8
Kampong Cham	1,757	0.571	179	5	9.2	17.4	8.3
Phnom Penh	1,688	0.701	1,200	1	18.1	14.2	-4.0
Prey Veng	1,157	0.579	237	4	9.7	16.6	6.9
Battambang	1,121	0.584	96	4	8.9	15.4	6.5
Kandal	1,116	0.641	343	5	11.5	21.5	10.0
Takeo	923	0.581	259	5	9.9	20.4	10.5
Siem Reap	923	0.572	90	5	8.6	18.3	9.7
Kampong Speu	755	0.607	108	6	9.4	25.6	16.2
Banteay Meanchey	730	0.585	109	4	9.0	13.4	4.5
Kampong Thom	690	0.552	50	5	8.0	18.2	10.2
Kampot	612	0.589	125	5	9.2	18.3	9.2
Svay Rieng	578	0.576	195	5	9.4	18.7	9.3
Kampong Chhnang	523	0.574	95	4	8.7	14.6	5.9
Pursat	436	0.557	34	5	8.0	17.5	9.6
Kracheh	344	0.538	31	6	7.6	18.9	11.3
Preah Sihanouk	250	0.599	129	4	9.4	15.8	6.5
Preah Vihear	235	0.413	17	6	5.1	16.4	11.3
Otdar Meanchey	231	0.53	38	6	7.5	20.0	12.5
Ratanak Kiri	184	0.362	17	5	4.2	14.6	10.4
Stung Treng	123	0.343	11	6	3.8	15.5	11.7
Koh Kong	122	0.54	12	5	7.5	16.7	9.2
Mondul Kiri	73	0.453	5	5	5.8	13.4	7.6
Pailin	66	0.557	82	5	8.3	19.3	11.0
Kep	39	0.494	115	6	7.3	19.2	11.9



Special discussion: Saturation and multiple borrowing

Cambodia is marked by a highly unusual, perhaps unique, market structure that makes it especially difficult to evaluate the degree of saturation. While the raw saturation figures are very high, the figures for multiple borrowing are quite mild. With the exception of Morocco (see report on Morocco for details), multiple borrowing in Cambodia is well below the levels of pre-crisis markets (Bosnia, Andhra Pradesh), and current Latin American markets, such as Peru. Moreover, Morocco had reached these levels of multiple borrowing with a penetration level that was some three times lower.

To a large degree, this appears to be the result of industry efforts to avoid multiple lending, especially above three loans. Indeed, the share of clients with 4+ loans has declined to just 0.5% from 1.7% found by a 2013 study¹, while the figures for two- and three-loan borrowers have stayed virtually unchanged. Thus, while the share of population that are active borrowers is high, few of them are holding multiple loans, let alone in the levels seen in pre-crisis markets elsewhere.

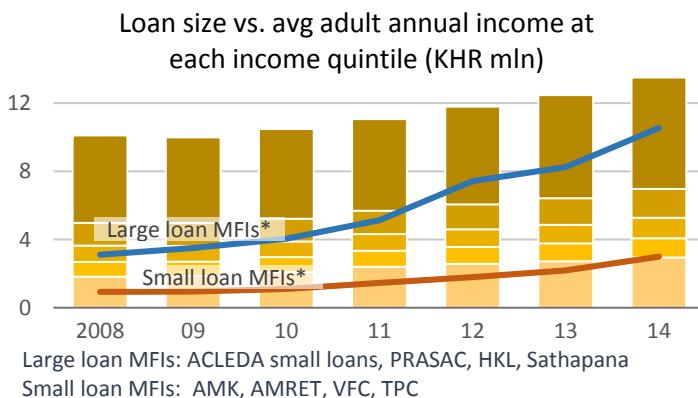


¹ Dannet Liv, Study on the Drivers of Over-Indebtedness of Microfinance Borrowers in Cambodia: An In-depth Investigation of Saturated Areas. March 2013

This situation holds two plausible risks. First, given the degree of penetration, it is possible that the level of multiple-borrowing at the household level is higher than what is observed at the individual level. Indeed, when lenders actively seek to limit the number of loans per client, one would expect households to rely on other family members for additional borrowing – and credit bureau checks rarely include debt of others in the household.

The second risk is that, with multiple borrowing options limited, MFIs are turning to larger loan amounts to maintain growth targets. The upward trend in loan amounts has far exceeded the pace of income growth in the country. Thus, at MFIs that have moved to serve the upper range of the market, loan sizes now average 78% of the annual income of the richest 20% of the population. Meanwhile, those at the bottom end of the market are offering loans averaging 57% of the country's median per capita income, up from 45% just a year ago.

Considering that the “small loan” MFIs serve half of the country’s borrowers, and “large loan” MFIs serve another 36%, these figures suggest that MFIs may find that growing number of borrowers are taking on debt that makes them particularly vulnerable to financial shocks. And as the number of such households grows, so does the system-wide vulnerability of the microfinance sector itself.



User Guide

This is an abbreviated guide. For explanation of the methodology behind the penetration and capacity values, please consult the MIMOSA whitepaper.

The MIMOSA index consists of several measures. The primary score evaluates the degree to which the level of penetration exceeds estimated market capacity. The score levels and their interpretation is shown in the below table.

MIMOSA Score	Penetration over/ under capacity		
	Percentage points	Standard Deviations	Market status
6	>11.1%	3+	
5	7.4-11.1%	2 to 3	Saturated
4	3.7-7.4%	1 to 2	
3	0-3.7%	0 to 1	
2	-3.7 - 0%	-1 to 0	Normal
1	< -3.7%	< -1	Underserved

In addition to the score, we include the component metrics underlying the capacity and penetration calculations:

Human Development Index (HDI): developed by UNDP to assess the level of development, comprising GNI per capita, life expectancy, and education metrics. The scale ranges from 0-1.

Population density per km²: standard measure retrieved from country statistical bureaus.

Credit Bureau Score: derived from the Getting Credit measures in the World Bank Doing Business report. We include the level of coverage, and amount of information (both repayment history and debt outstanding) provided. The scale ranges from 0-400.

Borrowing Capacity: % of adults expected to be active borrowers, based on the MIMOSA model.

Borrowers per adult: derived from multiple sources, including the World Bank Findex survey, central bank reports, credit bureaus, and MIMOSA field surveys.

Microfinance borrowers (% of loans): number of active loans of microfinance institutions. Usually defined either by institutional registration with the regulator or membership in the microfinance association. Multiple loans held with the same institution are counted once.

Credit card borrowers (% of adults): number of adults with an outstanding credit card balance. Figure from Global Findex.

Credit card score: level of penetration vs. capacity. Graded on a three-point scale, indicating a market whose credit card demand is under-served, appropriately served, or over-saturated.

GDP 3-year CAGR (current \$): three year cumulative growth rate of GDP. Figure from IMF WEO.

GDP per capita (constant LCU): figure from IMF WEO.

In addition, we include a list of indicators that serve as additional risks or mitigants that in aggregate may increase or reduce the country's ability to manage increased levels of penetration:

Category	Indicator	Indicator	Mitigant	Neutral	Risk
Regulation	Overall quality of regulation	Overall microscope score (0-100)	>=75	50-75	< 50
	Consumer protection (OID)	Microscope score 4.2.1	3	2	0 or 1
	Consumer protection (Collections)	Microscope score 11.3.2	2	1	0
	Credit bureau, credit reporting	Microscope score 10	>=75	50-75	< 50
Competition / overheating	Level of competition	Herfindahl-Hirschman Index	HHI > 3,000	1,500 < HHI < 3,000	HHI < 1,500
	Multiple borrowing	% borrowers with 3+ loans	<5%	5-15%	>15%
	Prior growth	Loan portfolio 3-year CAGR	<2x GDP growth	2-3x GDP growth	>= 3x GDP growth
	Future growth	Loan portfolio 12-mth growth expectations	<2x GDP growth forecast	2-3x GDP growth forecast	>= 3x GDP growth forecast
Maturity of microfinance institutions	Age of FIs	% clients of MFIs >20y or <10y old	> 65% of the borrowers are clients of MFIs >20 years old	Other	>65% of the borrowers clients of MFIs < 10 years old
	Prior crisis experience	Date of previous crisis	Market experienced crisis in past 15 years	no crisis experience	
Transparency	Composite score	See Transparency worksheet	>=3	<1.5	
	Ratings	% leading MFIs rated in past 2 years	>=75	50-75	<50
Other risks	FX exposure	% of loans in foreign currency	<10	10-25	>=25
	Interest rate level	Average Full APR, weighed by number of borrowers	<30%	30-60%	>60%