



Microfinance Index of Market Outreach and Saturation



Cambodia

March 2020

Special thanks to the **Cambodian Microfinance Association** and the **Credit Bureau of Cambodia** for sharing data and expertise, and to the **International Finance Corporation** for commissioning this report.

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At the moment that this report is being published, Cambodia – along with much of the world – stands on the edge of the biggest economic challenge in modern history. Even if the direct local impact from the coronavirus pandemic remains manageable – a question that we have neither the qualifications nor information to assess – the economic impact is all but certain. Three of its largest sectors – tourism, garments and construction – are all facing massive downturns and at least the first two will likely take time to ramp back up once the economy starts getting back into gear. To make matters worse, these impacts are being felt alongside massive shifts in global financial markets that will further complicate attempts to tackle the situation locally.

We don't have the up-to-the-minute information or on-the-ground presence to provide useful guidance or insight for how Cambodia's microfinance sector should tackle these challenges. Other analyses and publications have begun and will continue to address this. Instead, this report should be seen as the best possible review of the sector's situation at the end of 2019 – namely, it sets the context for the looming crisis. After all, effective crisis responses must consider not only the health and economic impact from the coronavirus pandemic, but also the market context in which it arrived. Only then can Cambodia's MFIs and sector stakeholders hope to succeed in tackling the current challenge.

Unfortunately, that context is not very positive. As of September 2019, Cambodia's credit penetration rate stood **between 21.8 and 34.9 borrowers per 100 adults**, yielding the **high saturation score of 6 – the highest level in the MIMOSA framework** and also the highest score recorded of the 11 countries covered by the project to-date (see Special Discussion 1, below). This high saturation is further aggravated by the large and continuing growth in loan sizes, which further increases the debt burdens of Cambodian households (see Special Discussion 2, below). All this takes place in the context of high (and still growing) competition, continuing portfolio growth driven by loan

Category	Rating	Indicator	Nov '15	May '16	Sep '19
Saturation	6	Loan penetration over capacity	+ 8.8%	+ 11.3%	+11.0% - +24.9%
Regulation	●	Overall quality of regulation	*	*	37/100
	●	Consumer protection (overindebtedness)	*	*	25/100**
	●	Consumer protection (transparency, sales, collections, consumer rights framework)	*	*	56/100
Competition / overheating	●	Level of competition among MFIs (HHI)	1102	1030	931
	●	% Borrowers with 3+ loans	4.5%	n/a	4.0%
	●	Loan portfolio CAGR in value past 3 years	46%	39%	29%
	n/a	Loan portfolio growth in value expected next 12 months	33%	n/a	***
Maturity of microfinance institutions	●	% clients at MFIs <10y or >20y old	60% > 20y old	70% > 20y old	63% > 20y old
	●	Experienced crisis in past 15 years	No	No	No
Transparency	●	Composite transparency score	3.4/4	3.4/4	3.4/4
	●	% MFIs with ratings in past 2 years	88%	n/a	>80%
Other risks	?	FX exposure	n/a	n/a	n/a

* MIMOSA relies on select indicators from EIU Microscope to assess regulation. Due to methodology changes introduced in the 2019 report, prior year scores are not comparable and have been removed.

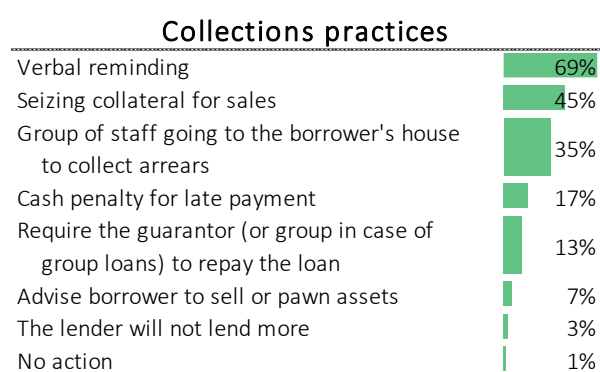
** Microscope rating for prevention of overindebtedness (3.2.2.a) is based on erroneous interpretation of the cited regulation; confirmed with EIU Microscope team that correcting this indicator would yield a score of 0/1 instead of 1/1, leading to the adjusted score of 25 instead of 75.

*** no growth forecast is provided for next 12 months, given the high uncertainty created by the pandemic.

size and increasing household debt burdens, and at best modest regulation of client protection. However, those factors are mitigated by a high degree of market transparency, experienced leadership among most leading MFIs, and tangible efforts by a broad group of actors inside and outside the country to ensure long-term sustainability of the sector (including the CMA Lending Guidelines).

Based on the latest EIU Microscope report, regulation in Cambodia, especially with respect to client protection, is uneven. On the one hand, there are regulations governing transparency and loan disclosure standards (including the 2017 Prakas on Resolution of Consumer Complaints), but on the other hand, the 2019 EIU Microscope records “no clear [government policies] regarding aggressive sales and debt collections practices.” The interest rate cap policy of 2017 that was put in place to ostensibly reduce debt burdens is actually more likely to increase overindebtedness.¹ And while MFIs and MDIs have seen an increase in minimum capital requirements, these have not prevented new entrants from further increasing competition in the market.

However, besides official regulatory policies, Microscope incorporates in its ratings the industry’s own efforts to self-regulate, via the CMA Lender Guidelines initiative. These are further strengthened by client protection (Smart) Certification of most of the leading MFIs. However, as much as such self-regulation can be an important



Source: MIMOSA Field survey, Feb-Mar 2020

mitigating element, without the force of law and consistent application of the rules on all lenders – MFIs and non-MFIs – self-regulation is insufficient.

One of the areas where the gaps in client protection regulation are particularly evident is in collections – in our survey of randomly-selected microfinance borrowers, 45% mentioned asset collateral as the 2nd most common means of collections, after verbal reminders, which is to say that borrowers see it as the go-to collections method for seriously delinquent loans, once reminders are exhausted. Considering that the most common collateral used for MFI loans in

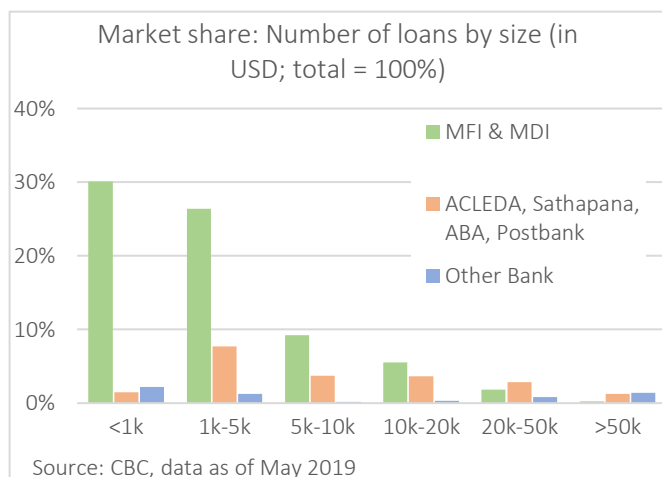
Cambodia is land, this is a worrying finding. Overall, in light of the other pressures in the market – high penetration, high growth, and high competition – **client protection regulation needs substantial strengthening** to ensure long-term market sustainability.

And there is no doubt that competition is high and continuing to increase. According to the Herfindahl-Hirschman Index (HHI), competition among MFIs (including small loans from ACLEDA and Sathapana) has increased considerably since 2016, from 1030 to 931 (the scale is inverted, with lower number representing higher competition). This shift has been driven by **high growth from relatively recent market entrants**, such as Aeon, Mohanokor, Active People and others. Moreover, this figure does not include **growing competition from downscaling banks** – an increasing source of competition for mid-sized loans (\$5,000 - \$20,000). This trend is also reflected in the marketplace – in our MFI survey, three of the top six competitors were either recent entrants or a downscaling bank. This competition is also evident from our field survey of likely microfinance clients in the field, where 79 individuals who were current borrowers (out of total 166 interviewed) named 15 different lenders from whom they had recently borrowed, including 13% from recent microfinance entrants or downscaling banks.

¹ Interest rates are deeply affected by loan sizes, with larger loans having lower rates – mainly because [as loan amount increases, the cost of lending goes down per amount lent](#). Rate caps thus encourage lenders to increase loan amounts, a process that was accelerated in Cambodia during 2017.

This growth by recent entrants has also altered the maturity profile of the sector. The share of borrowers served by established institutions – those with 20+ years of operating experience – has declined, from 70% in 2016 to 63% now. **The new entrants' growth is also a reflection of their aggressive growth**, at least relative to established incumbents.² Indeed, in our MFI survey, five of these younger/smaller organizations indicated growth or even a specific market goal (top 3, top 5, etc.) as a near- or medium-term objective (this was just before the current pandemic). This shift in the competitive landscape is further complicated by the recent changes in the ownership of several leading MFIs. The expectations of the new owners vary, and on an individual basis some may be able to play a stabilizing role (for example, access to larger, more diversified balance sheets and sources of funding).

However, on a purely competitive basis, their arrival alongside those of new entrants is a net risk. One unusual feature of Cambodia's competitive microfinance landscape is the **relatively low level of multiple borrowing, though this risk is largely replaced by large loan sizes** (see Special Discussions 1 & 2, below). However, not at all unusual is the high portfolio growth that inevitably accompanies increasing competition. And despite a meaningful slowdown in recent years (3-year CAGR of 29% in 2019, down from 39% in 2016), even this lower growth rate has been far outpacing the country's healthy growth in GDP, further increasing risk. Of course that's the past. Looking ahead, growth in the next 12 months is likely to be flat or negative, due to the impact of the pandemic.



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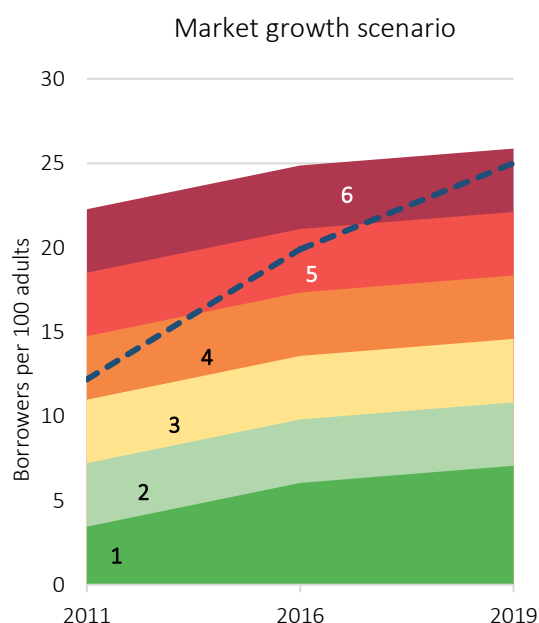
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	2011	2015	2019
HDI	0.539	0.571	0.581
Population density per km ²	78.5	84.6	85.9
Credit Bureau Score	0.0	61.7	87.0
Loan capacity	7.2*	9.8*	10.8
Borrowers per adult	12.2	19.9	25**
Microfinance loans per adult	15.4	22.2	24.3
MIMOSA Score	4	5	6
GDP per capita (current \$)	878	1,271	1,621
GDP, 3yr CAGR (constant LCU)	4.3%	7.0%	7.2%

source: IMF for GDP, UNDP for population; MIMOSA for others

* Capacity has been revised with the MIMOSA 2.1 model

** Estimate; see Special Discussion #1



² The top 5 MFIs (by number of borrowers) and Acleda & Sathapana small loans saw an average of 4.2% CAGR between Dec 2016 – Sep 2019. Meanwhile, the largest (within top 15) MFIs founded since 2010 recorded an average of 80.2% and median of 33.2% CAGR during the period (difference due to one very high-growth outlier).

To round out our market risk dashboard, we note the **continued high level of transparency of information** in Cambodia. Data from the CMA and the CBC continues to provide a full and multi-layered picture of the sector, and most large MFIs continue to conduct ratings and certifications that look deeply into their operations and give outside stakeholders an opportunity to identify problems or weaknesses. This is an important risk mitigant for the sector.

Finally, while lending in foreign exchange is widespread in Cambodia, the risk is greatly reduced due to the high degree of dollarization in the broader economy. For the most part, MFIs tend to lend in the currency that is most suited to their clients' incomes. **We thus don't perceive foreign currency lending to pose significant risks** to clients in Cambodia.

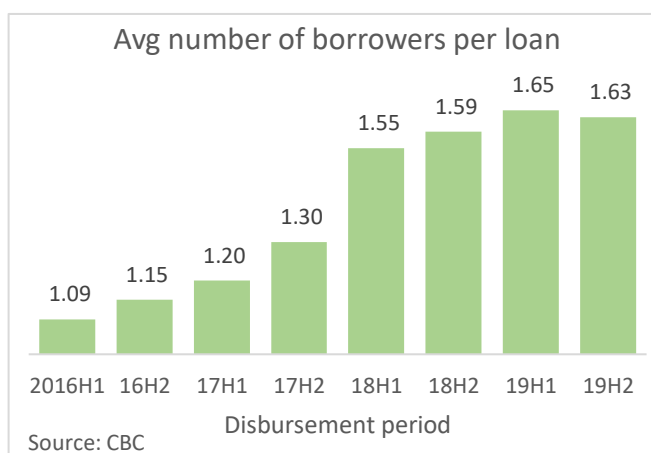
Special Discussion 1: (Co-)Borrowers, credit penetration, and the MIMOSA score

How many borrowers are there in Cambodia? At MIMOSA, we're used to triangulating between different data sources and arriving at meaningful estimates. Yet in Cambodia, we've not been able to do that. The problem turns out to be not technical, but philosophical: what makes a person a borrower?

The Cambodian microfinance sector has developed a very unusual feature – widespread use of co-signers on microfinance loans. Most commonly, that means having a husband or wife co-sign onto a loan taken out by their spouse, though it may also include adult children as co-signers as well.

According to CBC data, during the second half of 2019, the average loan disbursed in Cambodia (including both bank and MFI loans) had 1.63 borrowers, which roughly translates to having a co-borrower on 2 out of every 3 loans. What does that mean?

Legally and financially, that means that the co-signers have largely the same obligation as the primary borrower. However, that may not be all that meaningful – after all, most MFI loans are collateralized by one or more land owned by the household. And in the tight-knit Cambodian family structure, one is pretty much assured that with the family's land on the line, other family members will step up to repay the loan if needed. The more important reason for including co-signers is the loan assessment process, and an accompanying move towards greater transparency. For some years now, MFIs have often included incomes of other household members in their loan assessments, and over time, these individuals have been formally added as co-signers. Between 2016 H1 and 2017 H2, the average number of borrowers per loan grew from 1.09 to 1.30. Then in early 2018, the CBC began to require MFIs to formally report these co-signers (and also check their credit history), which led to a sudden jump of borrowers per loan to 1.55 – a figure that then continued to steadily grow until now.



So the story is a bit complicated – partly due to increased transparency (CBC reporting requirements), and partly due to changing lending practices (see discussion below, regarding loan sizes). But that is the technical part. We

still have the philosophical question: is a co-borrower really a borrower? And if so, how do we include them in the MIMOSA penetration metrics, and ultimately, the MIMOSA Score?

To understand this, consider an alternative scenario – what would the Cambodian microfinance sector look like if credit growth took place without this unusual feature of widespread co-borrowing? We believe it would mean two things: 1) more multiple borrowing, with some of the current “primary” borrowers getting additional loans from other MFIs and 2) more borrowers, with some of the current co-borrowers taking out loans in their own name. That would certainly make Cambodia more similar to other microfinance markets – as we’d argued in our 2015 and 2016 MIMOSA reports, the level of multiple borrowing in Cambodia is far below the trend seen in other countries. Additional data collected from other countries since then has only strengthened that observation.

But while multiple borrowing is included as a risk in our overall country assessment, it’s not part of the MIMOSA score. Only penetration is. Which brings us to the second point – in our alternative scenario, if they couldn’t co-sign their spouses’ or parents’ loans and thus bring more credit into the household, at least some of these co-borrowers would likely become primary borrowers themselves. At the maximum level, if one were to assume every co-borrower who isn’t already a primary borrower were to become one, that number would be 3.8 million individuals, or 34.9% of Cambodia’s adult population. But that’s of course a theoretical maximum.

	Borrowers
CMA	2,188,565
Banks (est)*	799,237
Total CMA & Banks	2,987,802
Avg loans/borrower (CBC)	1.28
Estimated total borrowers	2,334,220
* ACLEDA and Sathapana are included under banks. Bank clients estimated using CBC and CMA data	

On the other hand, we can also calculate the theoretical minimum – assume that none of the co-borrowers would get loans themselves in our alternative scenario, meaning only current primary borrowers should be counted in that instance. Unfortunately, there is no source that can give this figure in Cambodia.³ But we can reasonably estimate it, using data from the CMA (which reports primary borrowers only) and CBC (which reports combines both primary and co-borrowers). After correcting for the average number of loans per borrower, this gives us a figure of 2.3 million individuals, or 21.8% of the adult population.

Let’s consider this range between a theoretical minimum and maximum level of penetration: between 2.3 and 3.8 million borrowers, or 21.8% and 34.9% of the adult population, respectively. What would be the MIMOSA scores for these figures? On the low end, the score is five (saturated) though just barely – if 3% of the 1.5 million co-borrowers in Cambodia were to be counted as primary borrowers, it would yield a MIMOSA score of six. On the other hand, the maximum scenario not only yields a score of six (because that is the highest score employed in the MIMOSA scale), but would in fact qualify as a MIMOSA score of 9, were we to extend the scale to allow for it.⁴

Given this hypothetical scenario, the most reasonable assumption is that some significant number of co-borrowers – above 3%, below 100% – should be seen as equivalent to primary borrowers. **And that would indeed qualify the country for a MIMOSA score of six – the highest possible level of saturation in the MIMOSA framework, making Cambodia the only one of the 11 countries covered by the project to-date to qualify for that score.**⁵

³ The CBC database doesn’t currently capture this directly, treating primary borrowers and co-borrowers the same. And because a single borrower can have multiple loans and a single loan can have multiple borrowers, calculating the number of primary borrowers directly from CBC data has proved impossible.

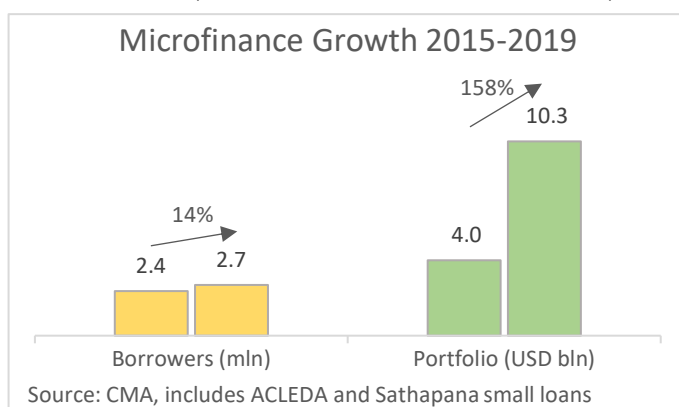
⁴ See the User Guide below for details.

⁵ Careful readers will note that the 2016 Peru report had a score of 6. In the 2019 report, that has now been reduced to 5, mainly due to slow credit growth and improvement in the quality of borrowing data.

However, due to regional variations between bank and MFI lending, applying this methodology at the provincial level introduces excessive variation and would be misleading. For that reason, we're not publishing MIMOSA scores at the provincial level in this report.

Special Discussion 2: Loan size and credit growth

Since our first report on Cambodia in 2015, we noted growing loan sizes as the biggest risk facing the sector. That has not changed. Indeed, the divergence of growth between outreach and portfolio has been perhaps the most remarkable part of the sector's evolution over the past four years. **In the four years since 2015, the number of borrowers has grown only modestly (14%), whereas the value of their loans has increased by an entirely different order of magnitude (158%).**



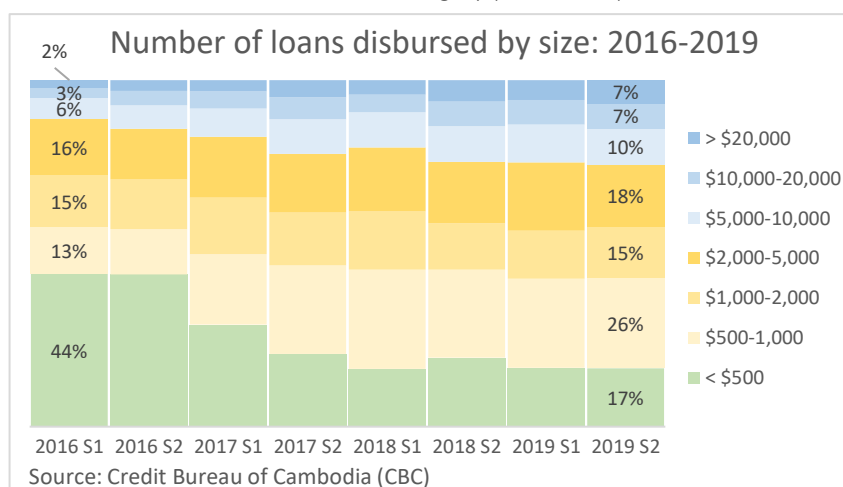
of borrowers has grown only modestly (14%), whereas the value of their loans has increased by an entirely different order of magnitude (158%).

This growth presents important concerns, since it far outpaces even Cambodia's healthy growth in overall GDP during the period (39%).⁶ Indeed, as of 2018, Cambodia's domestic credit to private sector stands at 100% of GDP, a level comparable to Spain and France – and the highest in the world among

countries with similar level of development to Cambodia.⁷

There are a few elements to this growth that are further deepen concern. First, this growth is happening across the board – it's not just MFIs moving upmarket and issuing large loans to a minority of large enterprises and wealthier households that raise the overall average. The smallest loans of \$500 or less, nearly all of them in rural areas, have gone from 44% of total outreach in 2016 to 17% in 2019. The changes in distribution between loans of different size suggest that a third of those loans shifted to the next category (\$500-1000), while another third moved higher still, to \$1000 and above. Meanwhile, the share of the mid- and large-size loans (\$5,000-20,000) has doubled, and for the largest loans (\$20,000 and above) has tripled.

While this widespread distribution has positive aspects, since the lending isn't concentrated among any one group, it also has the downside that the increase in debt



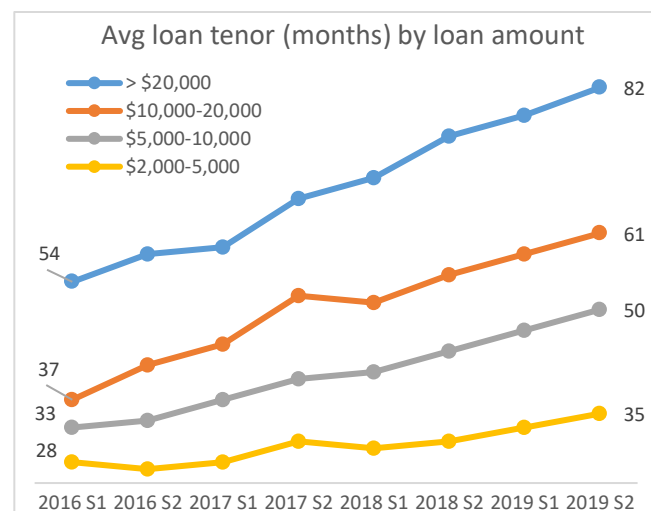
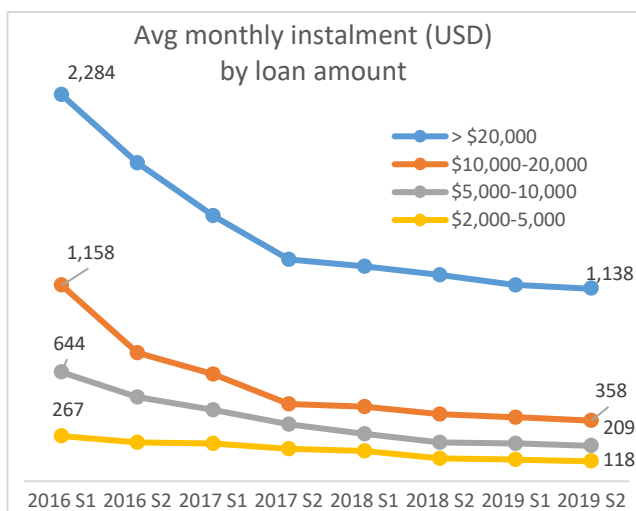
⁶ IMF World Economic Outlook, GDP per capita (current USD)

⁷ World Bank, Domestic credit to private sector (% GDP); countries above 100% are nearly all wealthy economies. The only comparable emerging markets in that range are Vietnam and Thailand, and both are substantially wealthier than Cambodia.

burdens affects a large number, if not the majority, of Cambodian households. A still further aggravating factor is the strong implication that this growth has been driven by lending practices that appear to be pushing the limits of household repayment capacity – without necessarily overindebting them in the short-term. This is evidenced by two striking indicators that closely parallel the growth in loan sizes: an increase in loan tenors and a decrease in monthly installments.

Naturally, if a decrease in installment amounts is driven by a declining interest rate, this would lighten the debt burden on the borrower, and that may have played some (albeit minor) role. The far greater factor has been the increase in tenor, which by lengthening the loan repayment period, allows a larger loan to be repaid with smaller installments. Note that trend is apparent across the full spectrum of loan amounts, with the middle-size loans (\$5,000 to \$20,000) recording a three-fold decrease in instalments since 2016.

When one combines these elements – growing loan sizes, increasing tenors, declining installments, and increasing use of co-signers – it creates a worrying picture. After all, what all these factors do is accumulate and extend risk. Households that rely on repaying long-term loans using a higher portion of their household incomes simply has less buffer to fall back on in the event of a shock. Reduce any of those factors – a loss of a single income or even a temporary interruption – and suddenly the loan ceases to be affordable. Worse yet, this picture may apply to a large number of households. The problem is that Cambodia now stands at the exact moment when that shock finally seems to be hitting, and in a way that will affect a large number of Cambodian households. How well the MFIs are positioned to for this challenge remains to be seen.



Source: CBC; data is for loan disbursements during the indicated period; loans below \$2000 are excluded, due to the high proportion of interest-only loans that have no monthly installment

Data Appendix

Like all MIMOSA reports, this report aggregates an array of data from multiple sources, often applying transformations and estimates to ensure consistency and comparability within this report and across the full set of MIMOSA products. This is a brief summary of the data included in this report. Unless otherwise stated, all data is as of September 2019.

Credit penetration

Cambodia Microfinance Association (NIX): number of active borrowers and portfolio amount, including by province and MFI; also used to calculate HHI (see White Paper for details); historical portfolio growth

Credit Bureau of Cambodia: number and amount of outstanding loans and borrowers; multiple borrowing; semestral disbursements 2016-2019. Market share (by number of borrowers) stratified between banks and MFIs (as of June 2019).

Capacity

Cambodia Provisional Census 2019: total population; adult population; population of Cambodian migrants abroad; population density

Human Development Report Cambodia 2019: HDI – re-indexed to the relevant figure provided by UNDP

World Bank Doing Business Report 2019: compute the Credit Bureau Index (see MIMOSA White Paper for methodology)

Other indicators

Economist Intelligence Unit Microscope 2019: for ratings of regulation quality (see User Guide for details)

IMF World Economic Outlook Oct 2019: GDP and economic growth forecasts

MFI age & ratings: retrieved from websites of 17 largest Cambodian MFIs (incl. Acleda and Sathapana); ratings & certifications retrieved from rating agencies and Smart Campaign

Project-generated indicators

MFI survey of 16 MFIs in Cambodia, conducted in partnership with CMA during Nov 2019-Mar 2020

Field survey conducted in Feb-Mar 2020 in Pursat, Kampong Thom, and Takeo, and comprised 169 randomly selected individuals, of whom 47% self-reported having loans outstanding from a financial institution. Survey is not intended to be statistically representative of entire Cambodia financial or microfinance sectors but is used for qualitative context. See MIMOSA White Paper for methodology. Sample details below.

Province		Pursat	Kampong Thom	Takeo	Total
Total (count)		54	59	56	169
Areas	Urban	35%	36%	32%	34%
	Sub-urban	30%	32%	32%	31%
	Rural	35%	32%	36%	34%
Market vendor	Yes	50%	42%	46%	46%
	No	50%	58%	54%	54%
Current borrower	Yes	44%	47%	48%	47%
	No	56%	53%	52%	53%

User Guide

This is an abbreviated guide. For explanation of the methodology behind the penetration and capacity values, please consult the MIMOSA 2.0 whitepaper and the MIMOSA 2.1 model update.

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	>11.3%	3+	Saturated
5	7.5-11.3%	2 to 3	
4	3.8-7.5%	1 to 2	
3	0-3.8%	0 to 1	Normal
2	-3.8 - 0%	-1 to 0	
1	< -3.8%	< -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)	≥ 65	50-65	< 50
	Consumer protection (overindebtedness)	Microscope score 3.2	≥ 90	60-90	< 60
	Consumer protection (transparency, sales, collections, consumer rights framework)	Avg of Microscope scores 4.1.1; 4.1.2; 4.1.3a	≥ 90	60-90	< 60
Competition / overheating	Level of competition	Herfindahl-Hirschman Index	$\text{HHI} > 3,000$	$1,500 < \text{HHI} < 3,000$	$\text{HHI} < 1,500$
	Multiple borrowing	% borrowers with 3+ loans	$< 5\%$	5-15%	$> 15\%$
	Prior growth	Loan portfolio 3-year CAGR	$< 2\times$ GDP growth	2-3x GDP growth	$\geq 3\times$ GDP growth
	Future growth	Loan portfolio 12-mth growth expectations	$< 2\times$ GDP growth forecast	2-3x GDP growth forecast	$\geq 3\times$ 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%	$> 60\%$