

Debt Threats

A Quantitative Study of Microloan Borrowers in Cambodia's Kampong Speu Province



Debt Threats

A Quantitative Study of Microloan Borrowers in Cambodia's Kampong Speu Province

A joint report issued in August 2023

Previous reports:



[Right to Relief: Indebted Land Communities Speak Out](#)

Released in June 2021



[Worked to Debt: Over-Indebtedness in Cambodia's Garment Sector](#)

Released in June 2020



[Driven Out: One Village's Experience with MFIs and Cross-Border Migration](#)

Released in May 2020



[Collateral Damage: Land Loss and Abuses in Cambodia's Microfinance Sector](#)

Released in August 2019



LICADHO is a national Cambodian human rights organisation. Since its establishment in 1992, LICADHO has been at the forefront of efforts to protect civil, political, economic and social rights in Cambodia and to promote respect for them by the Cambodian government and institutions. Building on its past achievements, LICADHO continues to be an advocate for the Cambodian people and a monitor of the government through wide-ranging human rights programs from its main office in Phnom Penh and 12 provincial offices.



Equitable Cambodia (EC) is a national leader in advocating for the protection and defense of housing, land, and natural resource rights in Cambodia. EC was established in 2012 to enhance and safeguard the rights of all Cambodians from a protracted land-grabbing crisis and human rights abuse. Through policy research, advocacy at the national and international level, coalition-building and community organizing, EC endeavors to transform the land and economic development practices of the country into a model that respects, protects, and fulfills the human rights of the Cambodian people. EC accomplishes its goals through three dynamic programs, each striving toward our vision of a Cambodia in which all people are able to enjoy their basic human rights and natural resources are managed sustainably for the common good.



Table of Contents

<u>Introduction</u>	P1
<u>Executive Summary</u>	P3
<u>Methodology</u>	P5
<u>Demographics</u>	P7
<u>Household Debts</u>	P9
	Loan Data p9
	Reasons for Borrowing p10
	Average Loan Sizes p12
	Income and Debt Expenses p13
	Collateral and Access to Loans p15
	Reading and Understanding Contracts p16
<u>Harms and Human Rights Abuses</u>	P18
	Debt-Driven Land and Property Sales p18
	Impacts on Children – Child Labour and Dropping Out of School p21
	Food Insecurity p24
	Frequency of Harms p25
<u>Conclusion</u>	P26
<u>Recommendations</u>	P27

Introduction

This research, published in August 2023, was commissioned by The Cambodian League for the Promotion and Defense of Human Rights (LICADHO) and Equitable Cambodia (EC), two Cambodian human rights non-governmental organisations (NGOs). It was commissioned in early 2022, several years into Cambodia's ongoing and increasingly harmful microfinance crisis.

This is the fifth report produced by LICADHO, EC and other Cambodian human rights NGOs, unions and communities detailing human rights abuses caused by Cambodia's highly profitable microfinance sector.¹ The first report was written in 2019, when Cambodians held \$8 billion in microloan debt, and when loan sizes already far outstripped incomes.

As of March 2023, the microloan portfolio has risen to more than \$16 billion, across 2.89 million loans – a staggering figure that represents nearly half of the country's GDP held as microloan debt. These loans come from both registered microfinance institutions (MFIs) and a group of banks that were formerly MFIs and maintain a microloan portfolio. This rapacious growth of lending has plunged more Cambodians into unsustainable levels of debt.

Previous NGO reports have used qualitative methodologies to detail the resulting harms caused by this ballooning microfinance debt. These harms include coerced land sales, child labour, unwanted migration, hunger, threats and intimidation, and coercion using local authorities, as well as other harms. The reports were produced by working closely with hundreds of borrowers and communities. They were designed to centre borrowers' experiences and amplify the voices of the people most harmed by this crisis.

The overwhelming response from Cambodia's MFIs, banks, regulators, and international investors was to reject those reports on methodological grounds – specifically, that the qualitative studies were not quantitative surveys, and thus not statistically representative. This criticism was often used to deflect and deny issues, and to justify the continuation of “business as usual”, in the incredibly profitable business of predatory lending.

These criticisms persisted over the years, despite claims made by international investors that even one abuse or violation of policy is one too many; despite the basic premise that human rights apply to all people, not just those within large sample sizes; and despite the self-evident value of community-based research in amplifying the voices of affected peoples.

At the same time, MFIs, banks and many of their international investors failed to conduct any independent, public quantitative studies of their own analysing these issues.

**As of March 2023,
Cambodia's microloan sector
has risen to more than
\$16 billion dollars of
debt, held across more than
2.89 million loans.**

**This rapacious growth
of lending has plunged
more Cambodians into
unsustainable levels of debt.**

**More than
167,000
Cambodians
have sold land due to
over-indebtedness in the
last half-decade.**

¹ “Collateral Damage: Land Loss and Abuses in Cambodia's Microfinance Sector”, LICADHO and STT, August 2019, available at: <https://www.mficambodia.com/reports/Report-CollateralDamage-2019-en.pdf>;

“Driven Out: One Village's Experience with MFIs and Cross-Border Migration”, LICADHO, May 2020, available at: <https://www.mficambodia.com/reports/Report-DrivenOut-2020-en.pdf>;

“Worked to Debt: Over-Indebtedness in Cambodia's Garment Sector”, LICADHO, CENTRAL and CATUs, June 2020, available at: <https://www.mficambodia.com/reports/Report-WorkedToDebt-2020-en.pdf>;

“Right to Relief: Indebted Land Communities Speak Out”, LICADHO and EC, June 2021, available at: <https://www.mficambodia.com/reports/Report-RightToRelief-2021-en.pdf>

In early 2022, LICADHO and EC commissioned an external consulting team to conduct such a study. Due to budget limitations, the study focused on a single province – Kampong Speu, a large, populous province adjacent to the capital Phnom Penh, near the median of the country in terms of income and poverty levels.² This research is a representative survey of the situation for indebted households in that province.

In between the commissioning of this report and its publication, a separate quantitative survey was conducted and published with funding from the German economic cooperation and development ministry, BMZ. The German government provided tens of millions of dollars in investment to Cambodian MFIs and banks in the preceding decade, through both BMZ and the state development bank KfW. In 2022, they hired INEF, a research institute based in Germany, to conduct a quantitative study on the sector.

Published in August 2022, the INEF report found an “alarmingly high” and “unacceptable” number of distressed debt-driven land sales; very high average loan sizes compared to other MFI markets; “a number of cases” of human rights violations; and the “frequently used” coping mechanism of eating less food to repay debts. The report’s author noted, “problems of the debtors interviewed described in the village studies of the two NGOs [LICADHO and EC] [...] cannot be denied and are confirmed by our additional interviews. All in all, they are likely to be numerous, even on a national scale.”³

The report estimated more than 167,000 Cambodians had sold land due to over-indebtedness in the last half-decade – a devastating finding of an ongoing and oft-overlooked human rights catastrophe. The INEF report’s findings are largely consistent with the findings of this study, which provides further quantitative evidence of numerous and severe harms and human rights abuses in Cambodia’s microfinance and microloan sector.

Yet today, land titles are still widely used as collateral for microloans in Cambodia; hundreds of millions of dollars from state development institutions and multilateral development banks continue to flow into Cambodian banks and MFIs, both directly and through investment funds such as the Microfinance Enhancement Facility (MEF); no remedy or relief has been provided to borrowers by any investor or financial institution; and no effective consumer protection has been implemented by the government. Covid-19 and the temporary restructuring of loans has led to deeper debts and larger repayment burdens for many borrowers.⁴

Any investor who remains skeptical of widespread and serious human rights abuses in Cambodia’s microfinance sector in 2023 is wilfully ignoring the evidence. Both current and recently exited investors must accept responsibility for the impacts of their actions and investments, take immediate action to remedy the harms they have contributed to, and bring their investments in line with internal and international standards.

This research is a representative survey of the situation for indebted households in Kampong Speu province.

Today, land titles are still widely used as collateral for microloans in Cambodia.

Both current and recently exited investors must accept responsibility for the impacts of their actions and investments.

² Based on calculations in “Global MPI Country Briefing 2018: Cambodia (East Asia and the Pacific)”, Oxford Poverty and Human Development Initiative, p.9, available at: https://ophi.org.uk/wp-content/uploads/CB_KHM-2.pdf

³ “Micro” Finance in Cambodia: Development, Challenges and Recommendations”, Institute for Development and Peace (INEF), available at: <https://geswiss-ude.de/wp-content/uploads/2023/01/AVE-30-b-micro-finance-in-cambodia.pdf>

⁴ See “COVID-19 Impacts on Microfinance and Vulnerable Households”, Phasy Res, The Center for Khmer Studies, available at: <https://khmerstudies.org/covid-19-impacts-on-microfinance-and-vulnerable-households/>

Executive Summary

27.3%

households spending more than 70% of their income on debt repayments

93.1%

households required to pledge at least one land title as collateral for a microloan

6.1%

households that sold land at least once to repay an MFI/bank loan

Below are key findings from the representative survey of 717 households that have held formal MFI/bank loans across all districts in Kampong Speu province. Survey questions centred around the impacts of the 1,745 loans these households reported taking over the last 10 years, including the 829 loans still being repaid at the time of the survey. While data was collected on 132 “informal” loans from non-registered lenders, survey questions focused on the harms and impacts resulting from the 1,613 formal loans, as this is where billions of dollars in international investments are funnelled.

Most borrowers are over-indebted. More than two-thirds of all borrowers “agreed” or “strongly agreed” that their households had too much debt. More than a quarter (27.3%) of respondents were paying more than 70% of their income on debt repayments each month, violating an industry standard for what constitutes ethical lending.⁵ Worryingly, about 10% of respondents were spending more than they earned each month on debt repayments. This level of over-indebtedness effectively guarantees that households are trapped into making increasingly harmful sacrifices, such as eating less, taking children out of school, or selling land in order to make repayments.

Land titles are almost always required for MFI loans. More than 92% of respondents had to provide at least one land title as collateral to access a microloan, meaning the borrower risks losing their land if they are unable to repay their loan. This aligns with the annual reports of several of Cambodia’s largest lenders, which reveal loan portfolios that are more than 95% collateralised.⁶

Debt-driven land sales are far too common. 6.1% of households sold land at least once to repay an MFI/bank loan – a rate similar to the finding from the September 2022 INEF report (6.2%).⁷ Most land sales were of agricultural land, but 8 of the 48 sales were of residential land, indicating microloans are leading people to lose both their homes and livelihoods. The practice is also widespread – there was at least one land sale made to repay all the major lenders in the survey.⁸

⁵ “Universal Standards for Social and Environmental Performance Management”, Cerise+SPTF, February 2022, p. 24, available at: https://sptf.info/images/USSEPM_EnglishManual2022_FINAL.pdf

⁶ See “ACLEDA Annual Report 2022”, p. 136–37 (96.42% collateralisation), available at: https://www.acledabank.com.kh/kh/assets/pdf_zip/ACLEDA-AR2022-SERC-Eng.pdf; “PRASAC MICRO-FINANCE INSTITUTION PLC. Financial Statements for the year ended 31 December 2021 and Report of the Independent Auditors”, p. 82-83 (99.8% collateralization), available at: https://www.prasac.com.kh/wp-content/uploads/2022/04/PRASAC_AuditedFinancial-Statements-31-Dec-2021_EN.pdf

⁷ “Micro” Finance in Cambodia: Development, Challenges and Recommendations”, Institute for Development and Peace (INEF), p. 73, available at: <https://geswiss-ude.de/wp-content/uploads/2023/01/AVE-30-b-micro-finance-in-cambodia.pdf>

⁸ “Major lenders” here is defined as institutions holding at least 1% of loans in the survey.

2.93%

households with at least one child who left school due to a MFI/bank loan

18.3%

households whose members ate less food after borrowing from an MFI/bank

34.8%

loans were used to repay existing loans in 2022

1.4%

respondents who thought their land would be seized through a legal court process if they could not repay their MFI/bank loan

Child labour is used to repay MFI debts. About 3% of households had at least one child drop out of school due to a bank or MFI loan, equaling a total of 41 children. Altogether, 51 children under the age of 18 were working to repay an MFI/bank loan; 49 of those have also dropped out of school; and 12 were children under the age of 15.

Borrowers eat less food than they did prior to taking a loan. Nearly one-fifth (18.3%) of households said they ate less food after borrowing from an MFI/bank, compared to just 4.5% who reported eating more food after taking a loan. Of the 8.5% of households that reported not having enough food to eat (61 households), more than half (37 households) also said their MFI/bank loan had caused them to eat less food.

People are increasingly taking out loans to repay existing debts. Survey respondents reported that in 2012, just 3.45% of loans went to repaying other loans. But in 2022, “borrowing to repay” was the most common reason for taking a loan, making up 34.8% of total loans – meaning more than 1/3 of debts taken in 2022 went toward servicing existing debts. This is a clear sign of unsustainable levels of over-indebtedness and a failure of existing approaches toward addressing debt distress.

Almost no one believes the proper legal process for foreclosure will occur in the event of a default. Despite more than 92% of households providing land titles as collateral, just 44.2% believed that their lender would seize their land if they failed to repay. Of those who did think their land would be seized, just 3.2% thought that such a foreclosure process would involve the courts (1.4% of total respondents), which is the only legal way for a lender to collect collateral under Cambodian law. Most borrowers either believed their land would be seized by local authorities (40.7%) or credit officers (32.5%), or did not know who would be responsible for the foreclosure (34.1%). This indicates that crucial information about borrowers’ rights and responsibilities in the event of default is not clearly communicated to or understood by the vast majority of borrowers.

Methodology

The study employed an external data collection team to ask survey questions on how MFI/bank debts impacted borrowers' human rights and development, with a questionnaire developed by external consultants and reviewed by LICADHO and EC. The team used a quantitative approach to ensure the survey was representative across Kampong Speu province.

Interview respondents were targeted using a random sampling technique. Kampong Speu was chosen as it is the third-largest province in terms of outstanding loan amount (behind Phnom Penh and Siem Reap), and it contains roughly the same number of MFI/bank loans as it does households (as of mid-2021). Village-level household listings were used to randomise respondents and select households.

Two field supervisors were dispatched to the field for more than 10 days in June and July 2022 to complete the household listing in order to select the 800 target households. With the list on hand, the sampling expert chose samples, with names of each household from each village.

The consultant team then deployed enumerators using KoboToolbox applications compatible with Android phones or tablets for data collection. Data was managed through SPSS software. The raw data was then made accessible to LICADHO and EC for further verification as well as additional analysis.

The drafting of this report was primarily done by LICADHO and EC, based on the raw data from the surveys and the findings produced by the external consultant team.

Sample size calculation

The sample size for this study was calculated using the formula: $n_0 = p(1-p)(Z^2(\alpha/2))/e^2$, where: n_0 denotes the preliminary sample size; p denotes the estimated population proportion of the studied characteristics; Z denotes the standard Z score value of the required confidence level, and e denotes the required margin of error of the estimate. With 95% level of confidence, $Z = 1.96$, and with the margin of error of 5%, $e = 0.05$. Therefore, the preliminary sample size was computed as:

$$n_0 = 0.5(1-0.5)1.96^2/0.05^2 \approx 385$$

The sampling design was done with complex rather than direct sampling, and the design effect should be taken into account in the sample size calculation. The value of the design effect varies from population to population, but generally, its default value is 2. Therefore, the final sample size for this study was computed as:

$$n = n_0 \times 2 = 385 \times 2 \approx 770 \text{ households}$$

This was increased to a target of 800 for completeness. Given the survey interviewed 717 actual households, the margin of error is adjusted to 5.17%.

Population and sample size of each district

District Name	Number of Villages	Number of Households	Number of Loans	Number of Sample Villages	Number of Sample Households (target)	Number of Sample Households (actual)
Basedth	218	32,938	32,873	8	128	111
Krong Chbar Mon	56	10,737	10,435	3	48	40
Kong Pisei	250	32,720	34,485	9	144	132
Aoral	72	8,729	5,396	2	32	26
Odongk*	251	31,834	35,268	9	144	134
Phnum Sruoch	154	24,088	22,797	6	96	89
Samraong Tong	294	40,538	36,781	9	144	121
Thpong	84	14,298	14,470	4	64	64
Total	1,379	195,882	192,505	50	800	717

**Odongk was split into two districts (Odongk Maechay and Samkkei Munichay) after the survey.*



Demographics

Respondents (HH)

717

HH members

3,457

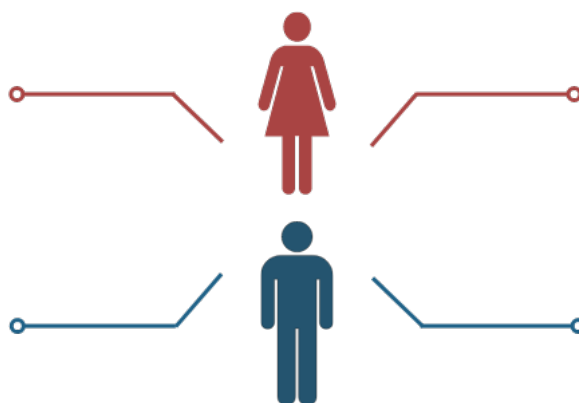
This survey covers 717 households (HH) across all districts in Kampong Speu province, which had an average of 4.8 members, made up of 2,301 adults (1,092 men and 1,209 women) and 1,156 children under the age of 18 (558 boys and 598 girls). One person in each household participated in the survey; survey respondents included 341 men (47.6%) and 376 women (52.4%). Only 134 of the households identified as women-headed households, while 568 were male-headed (15 did not list a head of household).

Jobs held by the head of household varied across the sample. Most commonly, primary occupations were farmer (21%), construction worker (18%), vendor (13%), and factory worker (11%).

Respondents by gender

52%
Women

48%
Men

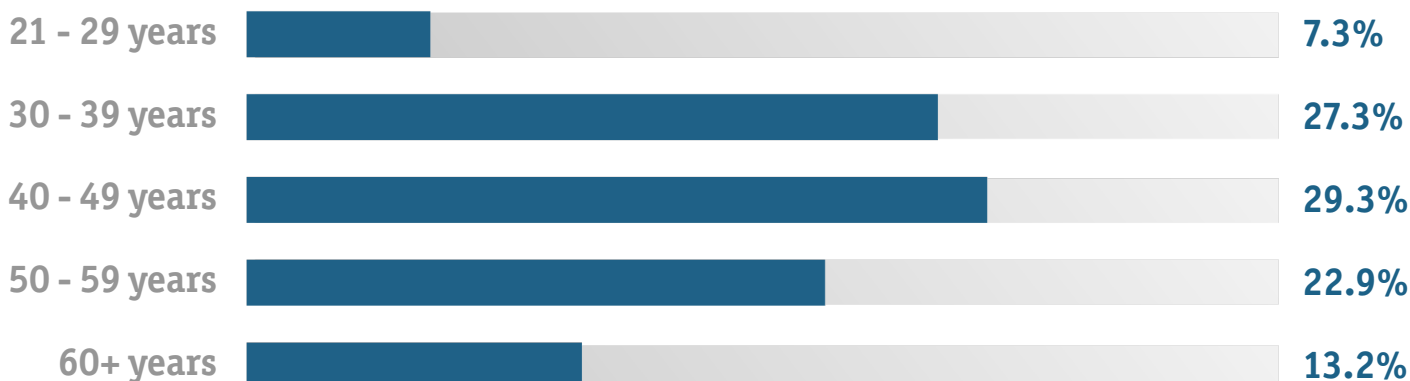


Head of HH by gender

134
Women

568
Men

Age of respondents



Most common occupations of head of HH

21%
Farmer

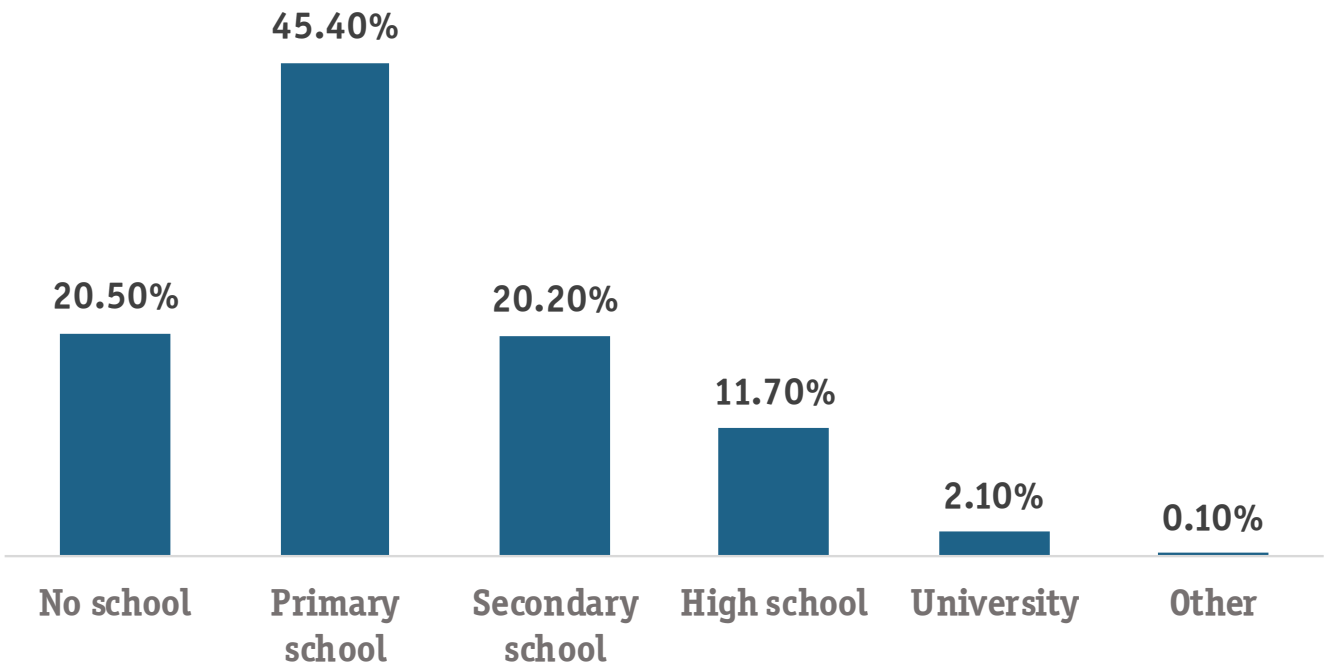
18%
Construction
worker

13%
Vendor

11%
Factory
worker

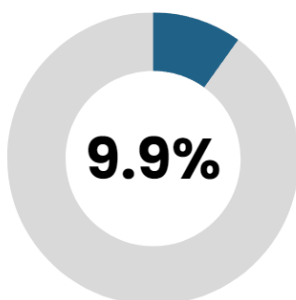
4%
Day labourer

Highest education level of head of HH

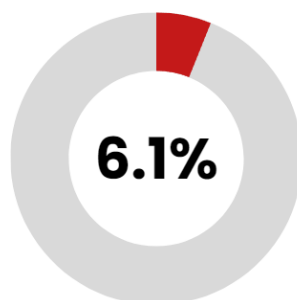


IDPoor status of HH

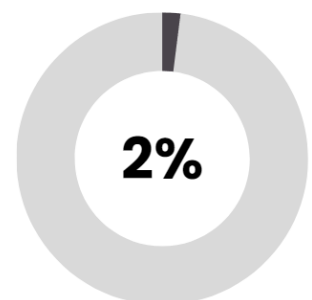
18% of HHs were currently or formerly identified by the government as poor



Previously IDPoor



Currently IDPoor 1



Currently IDPoor 2



1,745

total loans in past 10 years

132

"informal" loans from non-registered lenders

829

currently outstanding loans

1,613

formal loans from MFI/banks

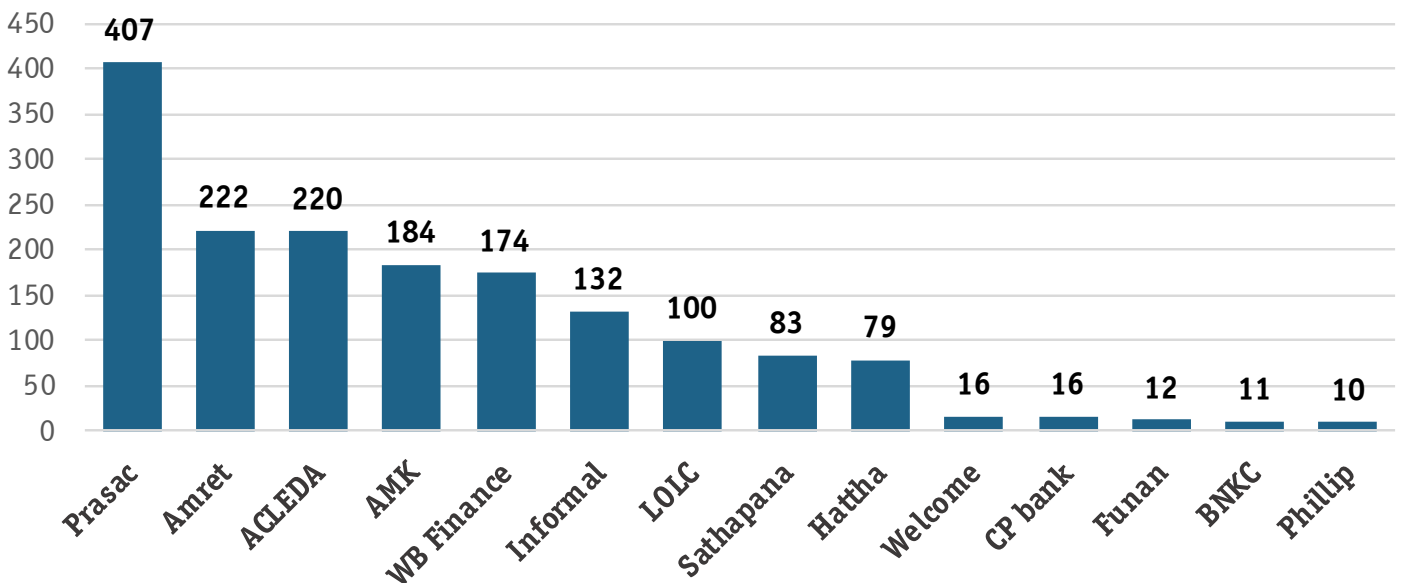
Household Debts

Loan Data

This survey covers 717 households with MFI/bank loans across all districts in Kampong Speu province and asked questions relating to the 1,745 loans held by those households in the past 10 years.⁹ The majority of households (88%) had taken loans only from MFIs or banks, while 12% of households had taken from both MFI/banks and informal sources.¹⁰ Of all the loans, about half had not yet been paid off (829 outstanding loans).

In 70% of cases, households identified the borrower of the loan as both spouses, while 14.6% identified only the "wife" and 6% only the "husband" as the borrower. The remaining 10% of respondents said their household loan belonged to a different family member, such as a parent, parent-in-law, grandparent, or adult child.

Loans held by MFI/bank



79 additional loans were spread across a variety of financial institutions.

⁹ Microloans in Cambodia are provided by microfinance institutions (MFIs), microfinance deposit-taking institutions (MDIs), and commercial banks that were previously registered MFIs, which maintain microloan portfolios.

¹⁰ "Informal loans" in this survey refers to a loan given by any source that is not an MFI or bank registered with the National Bank of Cambodia. For more information on the use of informal loans in Cambodia's microfinance sector, see box on pg. 16

14.2%

loans going to healthcare or education

34.8%

loans taken to repay existing loans in 2022

Reasons for Borrowing

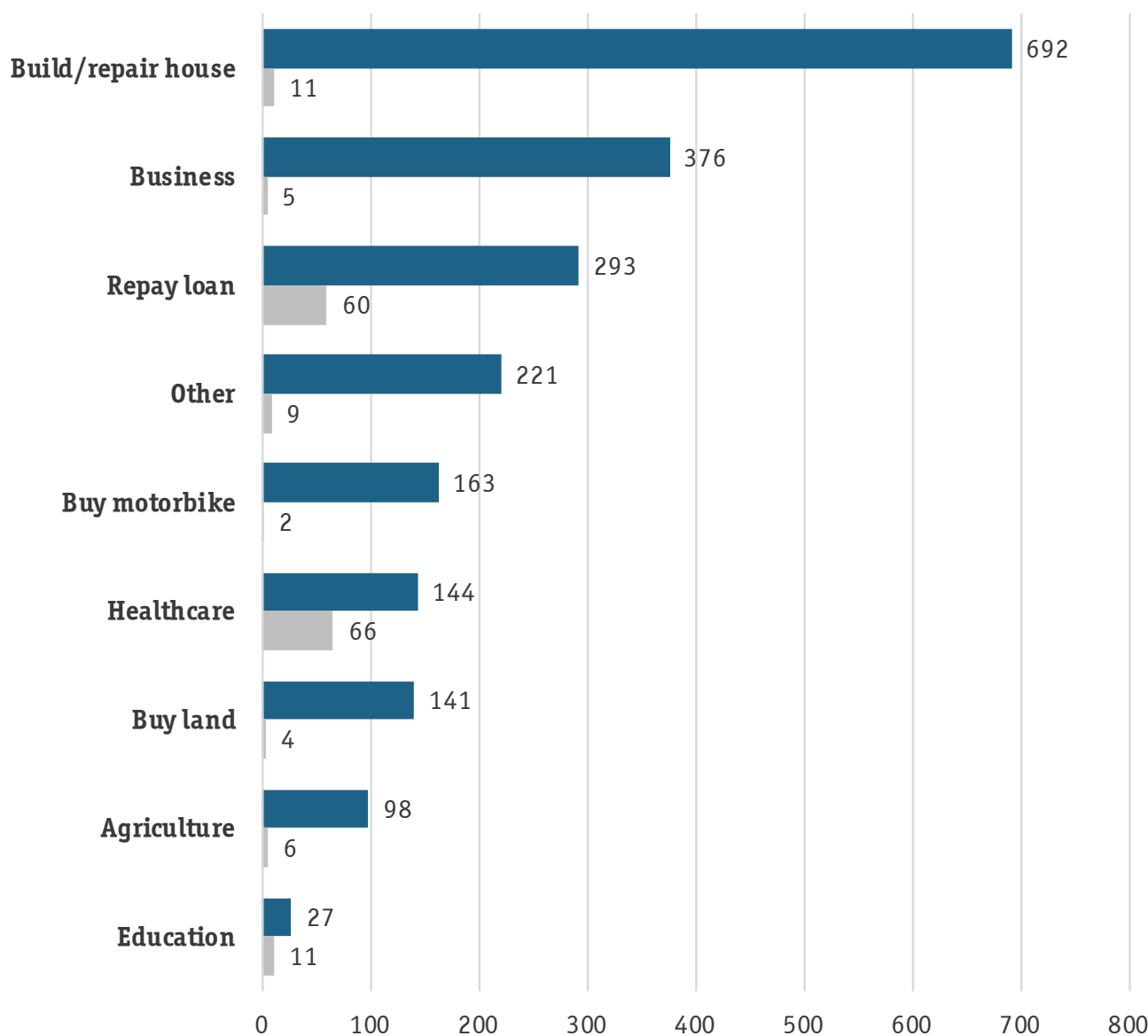
Reported reasons for borrowing suggest that most loans are not going toward income-generating activities. The prevalence of healthcare (12%) and education (2.2%) as reasons for borrowing reveal that accessing basic social services in Cambodia often requires going into debt.

The most common reason for borrowing over the past decade was building or repairing a home (40.3%). Starting a business (21.8%) or doing agriculture (6%) were less common.

Over the past decade, more than 1/5 of loans recorded in the survey went to repaying other loans (20.2%), again revealing an unsustainable debt situation. "Borrowing to repay other loans" has increased consistently over the last decade, according to survey respondents. It was the reason for borrowing for only 3.45% of loans in 2012, but increased to 22.7% of loans by 2020, and was up to 34.8% by 2022 – reflecting larger loan sizes and increasingly unsustainable debt burdens.

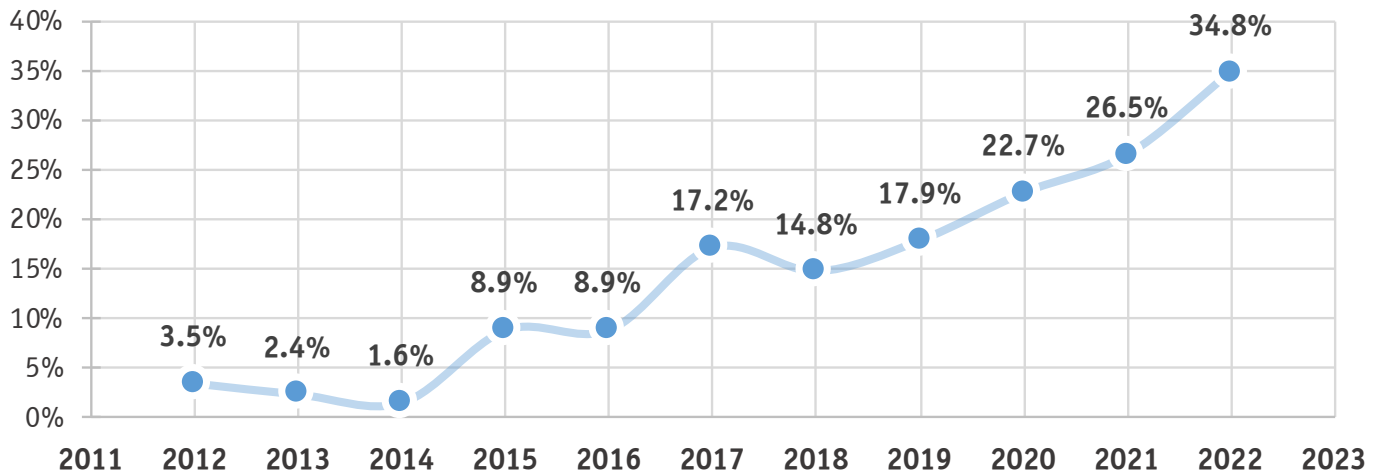
Reasons for borrowing

■ MFI/Bank ■ Informal



More than one answer accepted. "Other" includes "wedding ceremony" (34) and "buy car" (38).

Prevalence of borrowing “to repay other loan(s)”



Percentage out of all loans taken that year.

“Cycling Debts” – The role of informal loans as a bridge in the MFI/bank sector

Survey respondents report taking informal loans (loans from non-registered financial institutions) primarily for healthcare (50%) and “repaying other loans”(45.5%). This aligns with LICADHO and EC’s previous documentation of the interdependence of the formal and informal loan sectors in Cambodia.

Healthcare

In a health emergency, households often need cash quickly, leading them to informal lenders which require fewer documents and often disburse money quicker than MFIs/banks. These informal lenders almost always have higher interest rates than MFIs/banks – ranging from 2% to 30% per month in many cases, compared to 1.5% per month for a formal loan. Due to this higher interest rate, borrowers often seek to cycle their debts by getting an MFI/bank loan to repay their private loans as soon as possible.

The general lack of income verification and lending based solely on the value of collateral by MFI/banks makes this process simple. In many cases documented by LICADHO and EC, borrowers tell the MFI/bank that they’re borrowing to repay an informal loan. This cycling of debts allows the borrower to use the informal lender as a bridge to an MFI/bank loan – accessing money quicker, but still ultimately ending up with an MFI/bank loan to pay for medical costs.

Repaying other loans

Through combined efforts from the National Bank of Cambodia and the Credit Bureau of Cambodia (CBC), “cross borrowing” – borrowing from multiple financial institutions – is limited in Cambodia compared to other MFI sectors. In particular, it is rare for a formal institution to give a loan to directly repay another formal loan.

However, MFIs/banks regularly skirt this regulation by having borrowers cycle debts with an informal lender. By having a borrower take an informal loan – not registered with the CBC – in order to repay a formal loan, the borrower can successfully repay an MFI/bank loan in full without raising any red flags in monitoring systems.

Then (again, because the informal loan has a higher interest rate) the borrower will most often seek an MFI/bank loan to repay their informal loan – thus effectively borrowing from a formal lender to repay a formal lender, but using an informal lender as a bridge in order to avoid regulatory hurdles. LICADHO and EC have documented numerous cases of MFI/bank credit officers encouraging or coercing borrowers to engage in this practice, in some cases going so far as to drive the borrower to the informal lender and wait for them to take out the loan.

\$9,073

average loan size in 2022

\$4,381

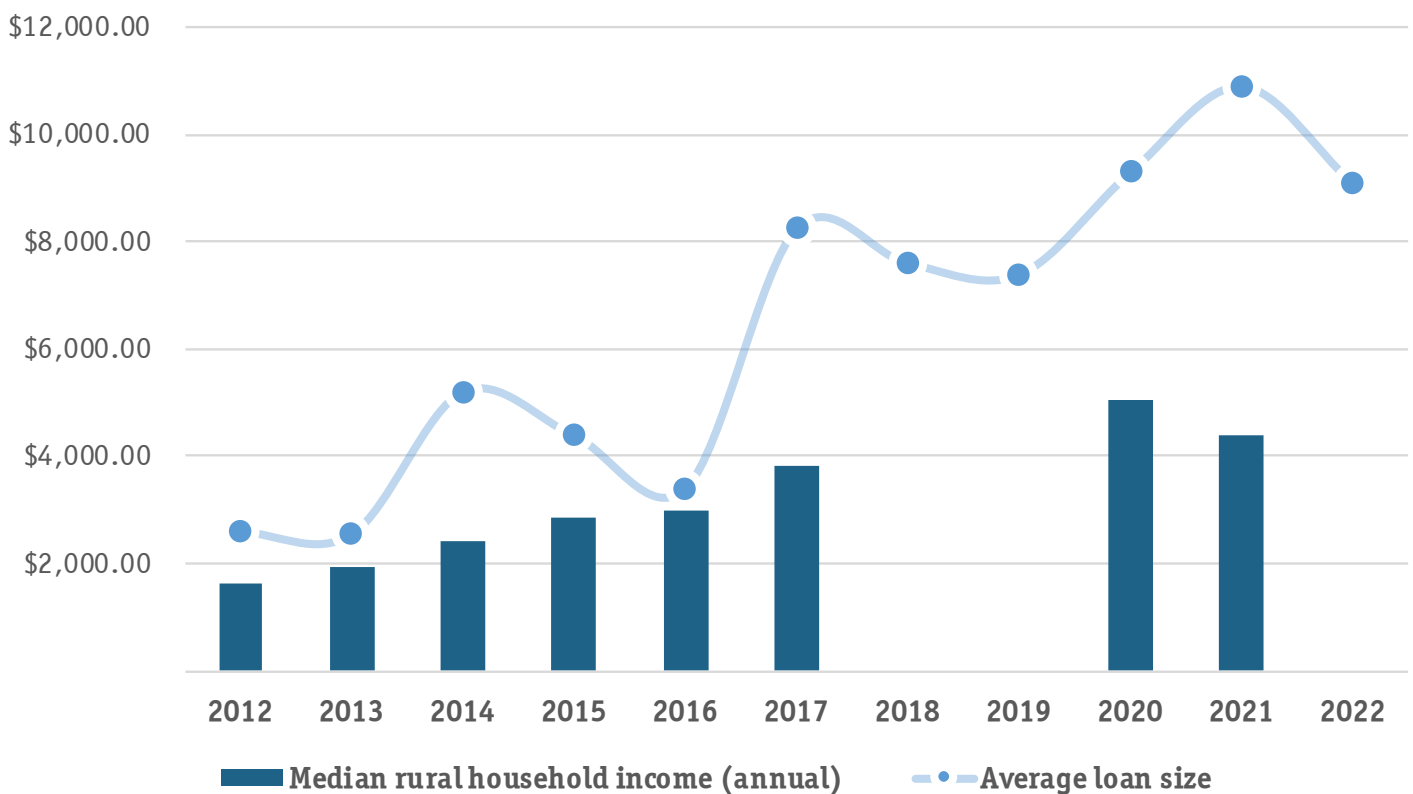
annual median income in rural areas in 2021

Average Loan Sizes

Survey respondents reported that average loan sizes grew rapidly over the last decade, a fact corroborated by macroeconomic and industry data from a variety of sources.

According to a 2016 report from MIMOSA, loan sizes in Cambodia grew four times faster than incomes from 2004 to 2014.¹¹ Our survey shows that in the nine years since, loan size growth has continued to outpace income growth: the average loan size in 2012 was reported at \$2,568, rising 253% over the next 10 years to \$9,073 in 2022. Meanwhile over the same time period, government statistics show median annual incomes in rural areas grew from \$1,641 to \$4,381 – a 167% increase, far less than loan growth.¹² This has resulted in more people with debts that far exceed their annual incomes.

Average Loan Size and Household Income



*Loan size data from respondents; income data from Cambodia Socio-Economic Surveys (CSES).
No income data available for 2018/2019.*

¹¹ "Cambodia: Multiple Borrowing and Loan Sizes", Microfinance Index of Market Outreach and Saturation (MIMOSA), June 2016, p. 3

¹² "Cambodia Socio-Economic Survey", National Institute of Statistics, available at: <https://www.nis.gov.kh/index.php/km/14-cses/12-cambodia-socio-economic-survey-reports>

67%

average percentage of monthly expenditure going to repay debt

27.3%

households spending more than 70% of their average income on debt repayment

9.8%

households spending more than 100% of their average income on debt repayment

Income and Debt Expenses

On average, debt repayments accounted for 67% of a household's total monthly expenses. Of particular concern are the 27.3% of households that are spending more than 70% of their reported income on debt expenses each month. Within that, the 9.8% of total households spending more than 100% of their income on debt repayments each month make up a particularly vulnerable population.

This is an unsustainable situation that puts tens of thousands of households at risk of being coerced to sell land, take further debts, and engage in other intolerable sacrifices, such as taking children out of school or eating less food, in order to make repayments. It also clearly represents a failure on the part of formal lenders to properly assess income and repayment ability prior to giving loans.

If debt repayment amounts are compared to total expenditure (rather than income, as above), the number of people spending more than 70% of their total expenditure on debt repayments rises to 44% of households. This issue also affects the poorest borrowers: for the 129 respondents who reported being currently or formerly IDPoor, 45.7% were paying more than 70% of their total monthly expenditure on debt repayments.

The importance of the 70% threshold

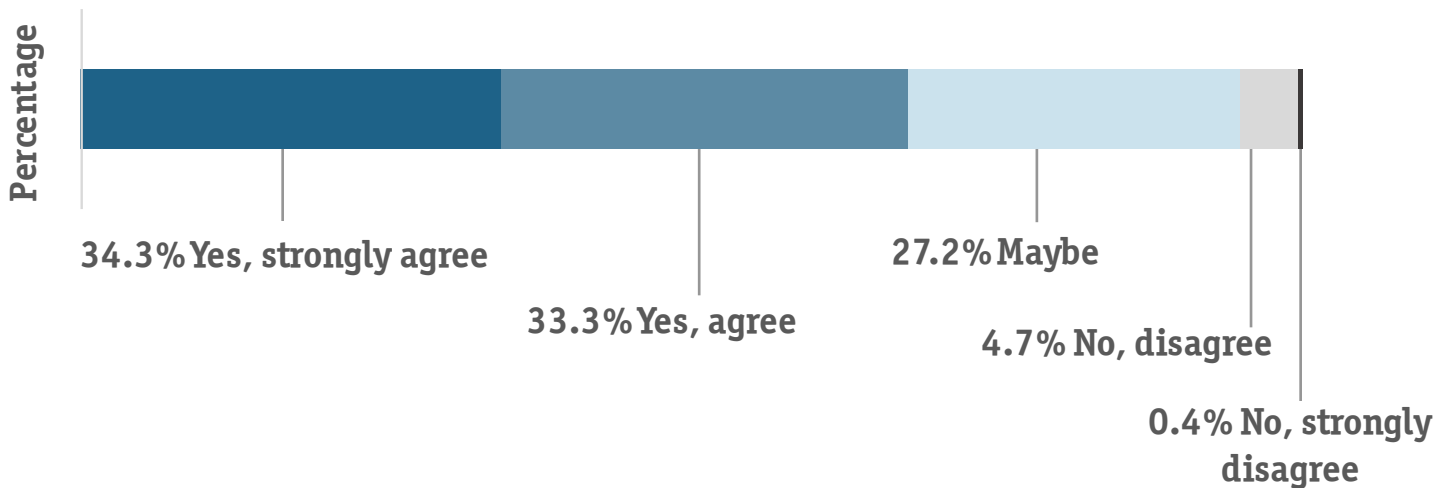
The fact that more than a quarter of borrowers spend more than 70% of their income on debt repayments each month means these borrowers' lenders are in breach of the Cerise+SPTF Universal Standards. This threshold – which would already be aggressively burdensome for many borrowers – is being exceeded by lenders in a significant number of cases in Cambodia.

Cerise+SPTF is a membership organisation focused on setting standards for financial service providers. Cerise+SPTF was given "stewardship of the client protection standards" following the closure of the Smart Campaign in 2020, and their website features phrases such as, "First, do no harm. But don't stop there."

In February 2022, Cerise+SPTF published an updated "Universal Standards for Social and Environmental Performance Management". Within the Client Protection Dimension of these standards, Standard 4.A.1.1.1 notes that a borrower should not spend more than 70% of their disposable income on their total debt repayments each month. As of June 2023, the Cerise+SPTF website listed eight Cambodian microloan providers as having an "active client protection certification."

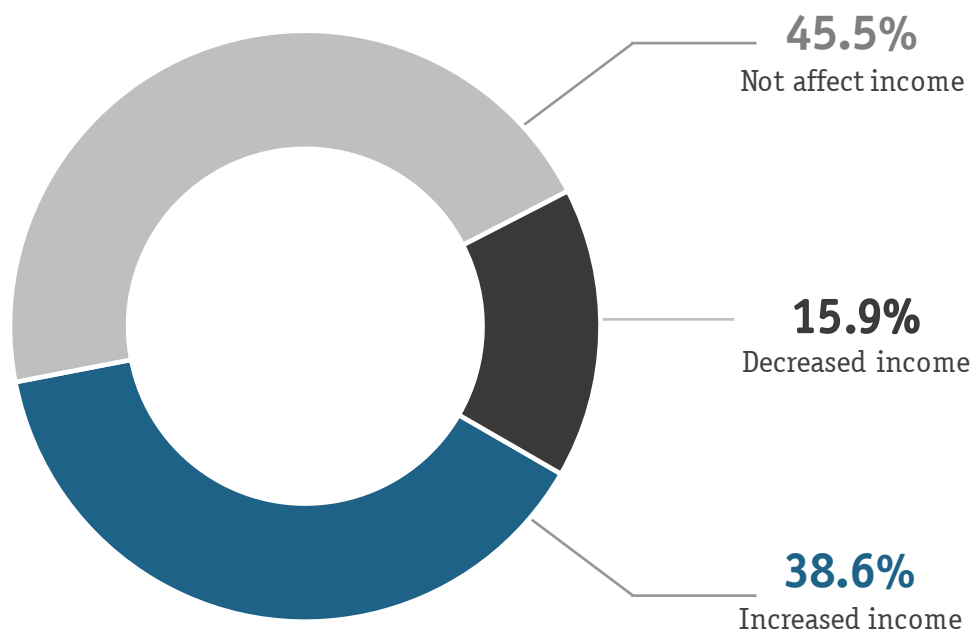
Of those eight institutions, six were also reported as loan providers by respondents in this survey. Five of the six had active clients who reported paying more than 70% of their income toward debt repayment each month.

Do you feel that your family has too much debt?



More than two-thirds of respondents either strongly agreed (34.3%) or agreed (33.3%) that their family had too much debt. Just 5.1% of respondents thought they did not have too much debt.

How did your MFI loan affect your family's income?



Most borrowers felt their MFI/bank loan had either not affected their income (45.5%) or improved their income (38.6%), while a significant minority felt their MFI/bank loan had decreased their family's income (15.9%).

92.2%

households required to pledge at least one land title as collateral

0.3%

households required to provide a business plan to access a loan

Collateral and Access to Loans

Land titles were by far the most common requirement for accessing loans in Cambodia. More than 92% of households (661 households) were required to pledge a land title as collateral to access a MFI/bank loan.

Only 50% were required to provide documents indicating their income, while 20% reported they also had to provide documents indicating income from children or other family members.

309 households needed to deposit at least one soft land title (43.3%) and 359 households put up at least one hard land title (50.3%) as collateral for an MFI/bank loan.¹³ Seven households were required to put up both a hard and soft title, meaning a total of 661 households were required to pledge at least one piece of land as collateral for a microloan (92.2% of total respondents).

In addition to collateralisation, financial institutions also frequently required guarantors (47.5%) or signatures from local authorities (55.2%) to process loans. Just 2 of 714 respondents reported needing a business plan to access loans.

Documents needed to take an MFI/bank loan

Document needed to access loan	Number	Percentage
Authority signature	394	55.2%
Land title (hard)	359	50.3%
Proof of income from husband/wife	357	50.0%
Guarantor	339	47.5%
Land title (soft)	309	43.3%
Proof of income from children/other family	147	20.6%
Witness	79	11.1%
Other property registration	4	0.6%
Business plan	2	0.3%
Other	9	1.3%

More than one answer accepted. Seven households put both a hard and soft land title as collateral.

¹³ "Hard" land titles are recognised at the national level, while "soft" land titles are recognised at the local level. Both are commonly accepted as proof of land ownership in Cambodia, and as collateral for microloans, as noted in the August 2019 report "Collateral Damage: Land Loss and Abuses in Cambodia's Microfinance Sector", available at: <https://mfcambodia.com/reports/Report-CollateralDamage-2019-en.pdf>



9.7%

respondents who neither read their contract, nor did their credit officer explain it to them

Reading and Understanding Contracts

Only 36% of 713 respondents reported having read their loan contract themselves. This is likely a reflection of both low literacy rates and the complexity and length of an average microfinance loan contract.

However, credit officers (COs) frequently offered summaries of contracts (89%), although this survey did not ask how detailed or comprehensive these summaries were.¹⁴ 69 respondents, or 9.7%, reported that they neither read the contract nor did their credit officer explain it to them, meaning they would have no awareness of what was in the loan document.

Borrowers reading loan contracts

54%

Did not read their contract but CO read them their contract

9.7%

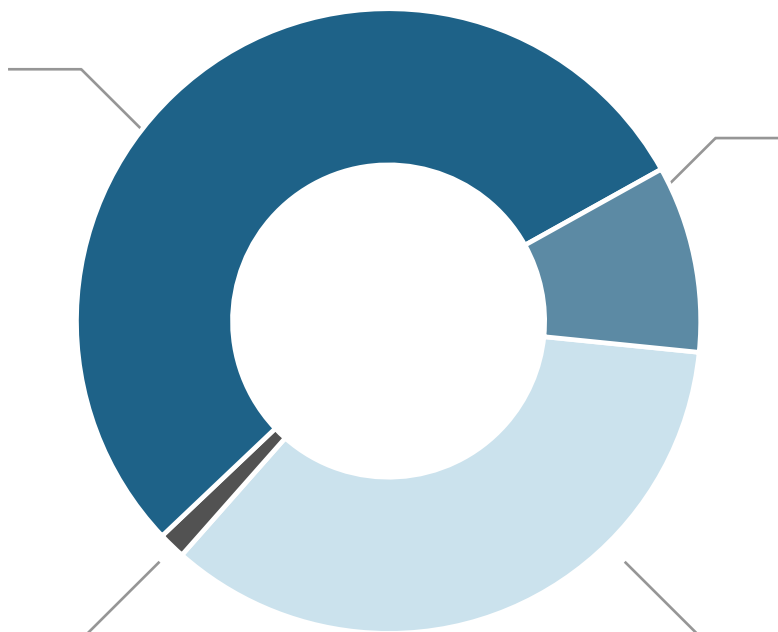
Did not read their contract and CO did not read them their contract

1.4%

Read their contract but CO did not read them their contract

34.9%

Read their contract and CO read them their contract



¹⁴ Based on hundreds of previous interviews with borrowers conducted by LICADHO and EC, these summaries most often include basic financial information (such as loan amount, tenor, interest rate, and repayment schedules), but lack information regarding collateral, late repayments or foreclosure.

44.2%

borrowers who believed their land would be seized in case of default

1.4%

of all respondents who thought their land would be seized through the legal court process in case of default

Responses to other questions indicate that even if a credit officer or borrower reads or summarises the contract, key information – such as the legal foreclosure process – is not seen as a real possibility in Cambodia.

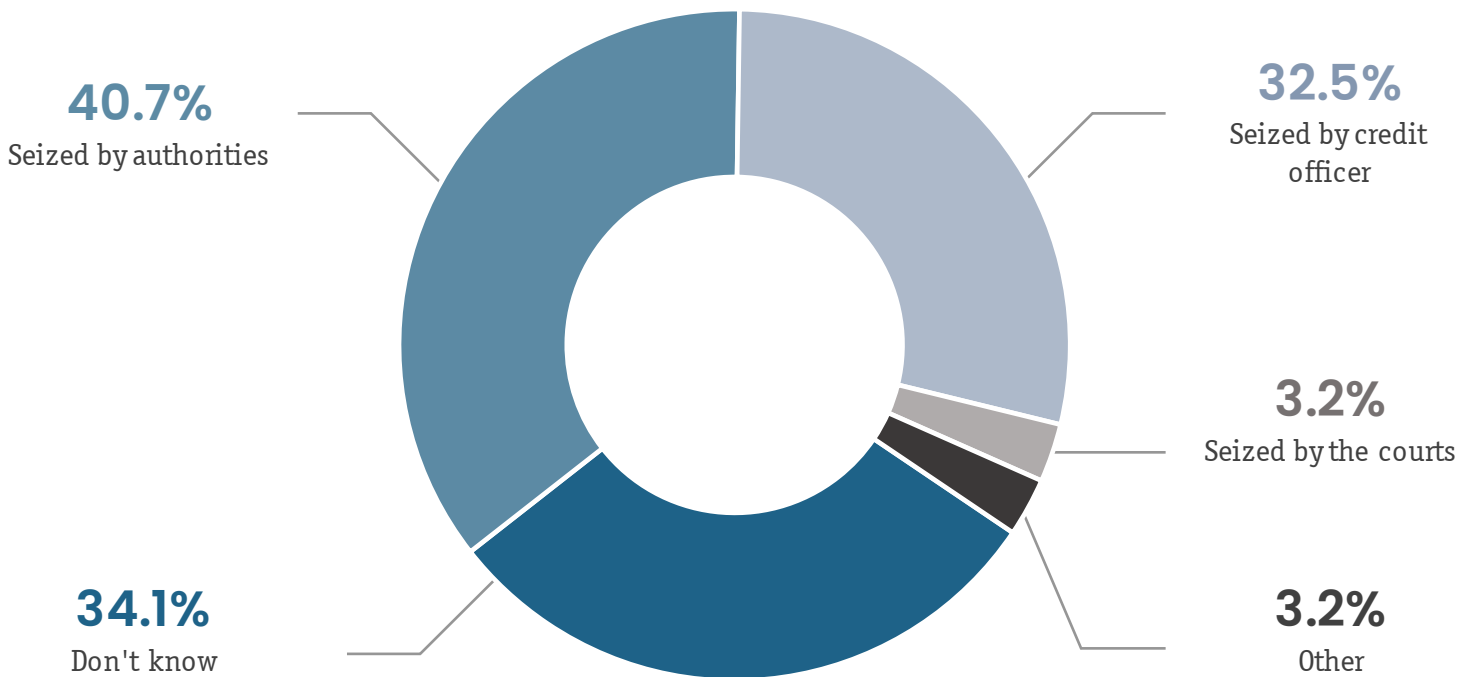
For example, despite high collateralisation rates, over half of borrowers did not think that the MFI or bank would seize their collateral if they could not repay.

In addition, the vast majority of the 44.2% of borrowers who did think their lender would seize their land in case of default, did not think that process would occur as it should under Cambodian law.

Just 3.2% of them thought the default process would involve the courts, as is required under Cambodia’s 2001 Land Law and 2007 Civil Code (1.4% of all respondents). Meanwhile, 40% thought it would involve local authorities, 32.5% thought credit officers would seize it themselves, and 34.1% did not know what would happen.

This reflects the widespread practice in Cambodia of MFIs/banks circumventing the legal foreclosure process and applying pressure on borrowers to put their property up for sale to repay debts without a court order. Again, this finding aligns with the numerous qualitative reports from NGOs, unions and communities in Cambodia dating back to at least 2019, which detail coercive tactics occurring outside the legal system.

How would your land be seized in case of default?



N=317 HHs who thought their land would be seized in the case of default. More than one answer accepted.



Harms and Human Rights Abuses

6.1%

households reported selling land to repay MFI/bank debt.

Debt-Driven Land and Property Sales

Of the 717 households interviewed, 48 (6.7%) reported selling land in order to repay a debt, of which 44 sold land to repay a MFI/bank loan (6.1% of all respondents), while four went to repaying informal lenders.

This is similar to the findings of the INEF report, which found that 6.2% of their sample had sold land to repay microloan debts.¹⁵ The INEF report found that across the country, as many as 167,000 households had similarly gone through a debt-driven land sale.

The immense debt burden impacting Cambodian families indicates this disastrous number will continue to rise, unless debt relief is enacted and land titles are returned to borrowers.

¹⁵ "Micro" Finance in Cambodia: Development, Challenges and Recommendations", Institute for Development and Peace (INEF), p. 73, available at: <https://geswiss-ude.de/wp-content/uploads/2023/01/AVE-30-b-micro-finance-in-cambodia.pdf>

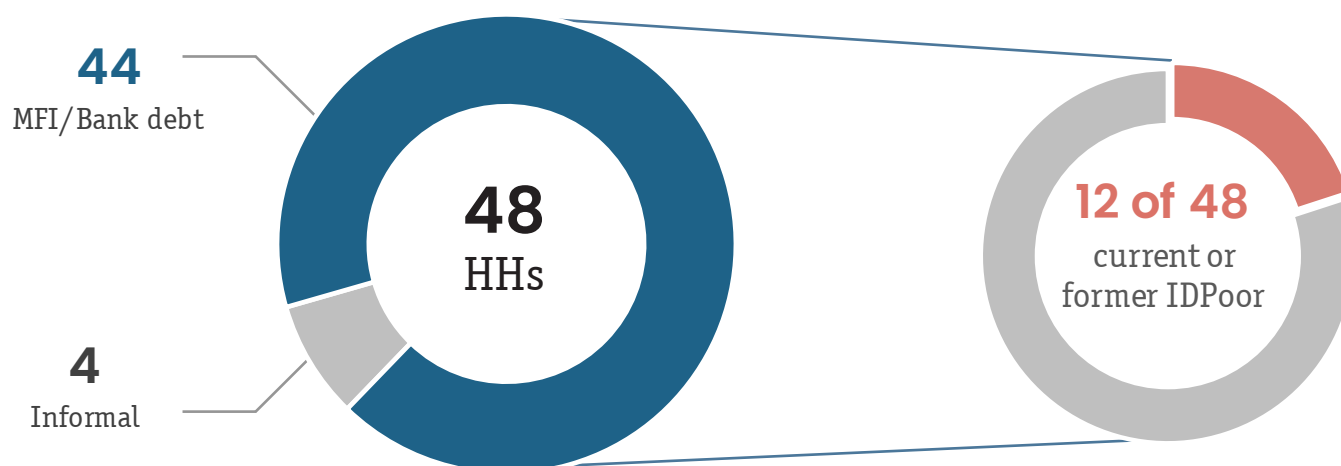
25%

of households that sold land were IDPoor or had previously been labelled IDPoor

Four of the 48 land sales were made to repay an informal debt. In two of these cases, the informal loans were taken in order to repay a formal MFI/bank loan – strongly implying the root cause of these land sales was a formal loan. In the remaining two cases, the borrower also had a history of MFI/bank loans alongside their informal loans, but survey limitations (such as respondents not remembering the dates of the loans) makes it difficult to assess why those sales may have occurred.

25% of households that sold land were IDPoor or had previously been labelled IDPoor, despite those households making up just 17.5% of the total sample.

Debt-driven land sales by IDPoor status



Among significant lenders (banks and MFIs that made up more than 1% of all loans in the survey), all had clients who reported selling land to repay those institutions. This confirms the systematic and widespread nature

of debt-driven land sales, which are not attributable to “individual bad actors” or “black sheep”, but rather are an inherent characteristic of Cambodia’s microfinance sector.

Debt-driven land sales by lender

Lender	Farmland	Residential	Total
Prasac	9	5	14
ACLEDA	8	1	9
Amret	7		7
WB Finance	4	1	5
Informal	4		4
AMK	3	1	4
Sathapana	3		3
LOLC	3		3
Other	2	1	3
Hattha	1	1	2
Total	44	10	54

Some HHs sold land to repay loans to multiple lenders.



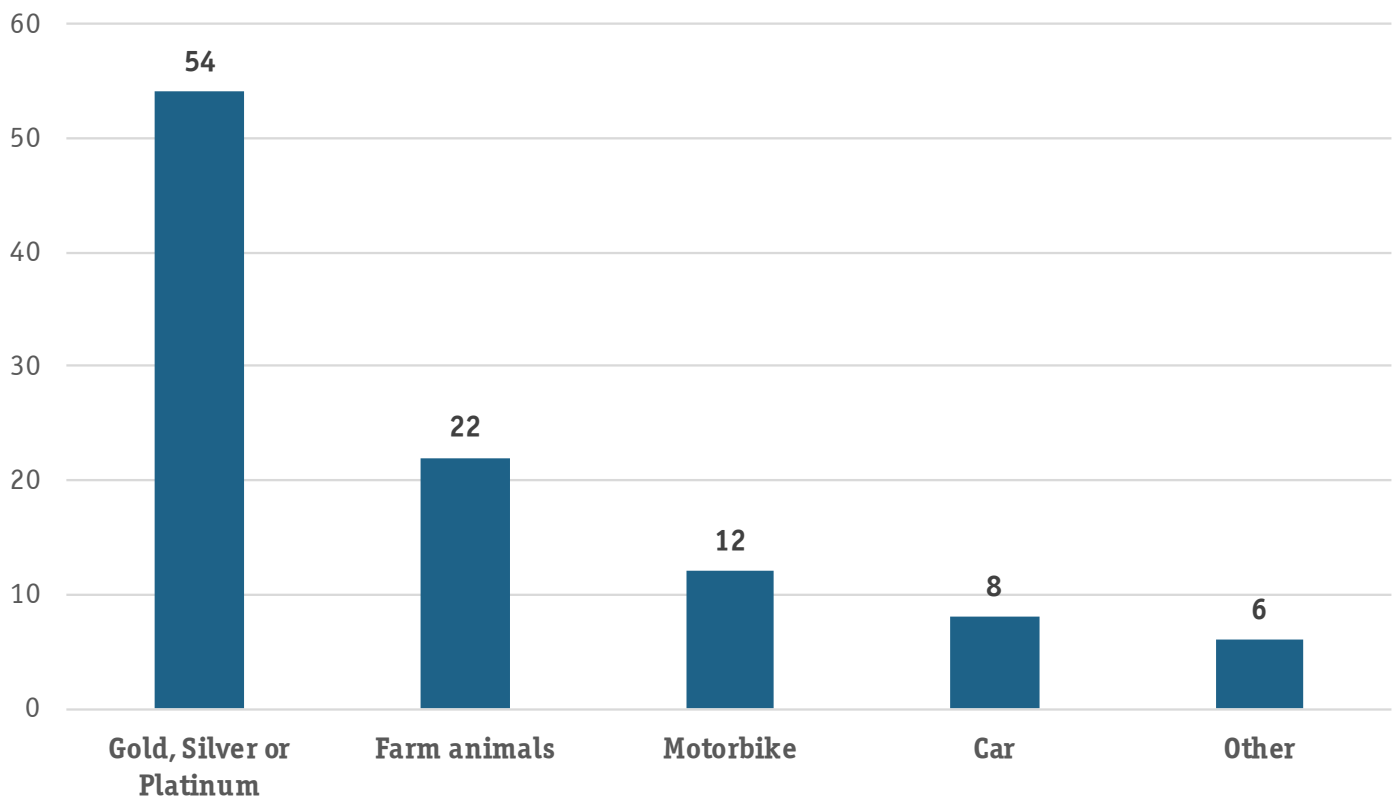
11.9%

households that sold possessions to make MFI/bank loan repayments

In addition to land sales, many borrowers have to sell productive assets or savings, such as precious metals, in order to repay debts. These sales often deplete households of possessions used to generate income, such as motorbikes and farm animals, or reduces households' savings (often held as jewellery or precious metals). This decreases the household's long-term economic stability and ability to respond to future financial crises.

Of 717 households, 85 had sold possessions to make debt repayments (11.9%).

What possessions did you sell to repay an MFI/bank loan?



85 households sold possessions. Some households sold more than one type of possession.

In this survey:

1,156

household members were children under the age of 18

90

children earned money that contributed to HH income

51

children earned money *specifically* to repay an MFI/bank loan

87

children dropped out of school (for any reason)

41

children dropped out *specifically* due to an MFI/bank loan

Impacts on Children – Child Labour and Dropping Out of School

Families facing difficulties repaying debt sometimes resort to taking children out of school in order to avoid costly school fees.¹⁶ Children under the age of 18 also work to help their parents make debt repayments. These two adverse impacts often overlap.

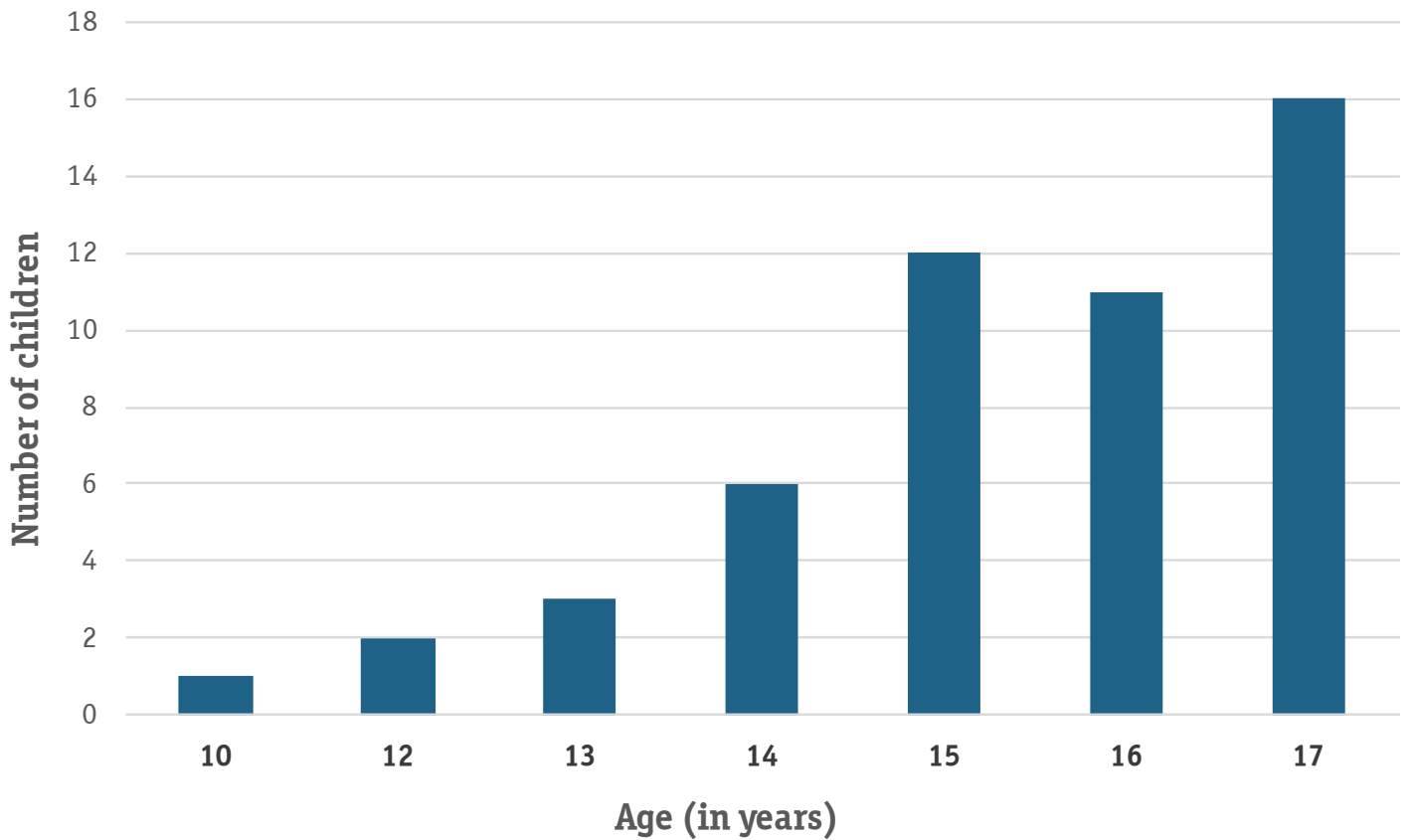
Child labour – defined broadly as labour which interferes with a child’s education, is exploitative, hazardous, or negatively impacts their physical, social or emotional development – is not solely attributable to debt, although it is often exacerbated by the financial pressures of MFI/bank loans that are far larger than a family’s income.

The 41 children who dropped out due to an MFI/bank loan spanned 21 households (2.9% of all households). A total of 87 children accounted for in the survey dropped out of school, so the 41 children that dropped out due to MFI/bank debts suggests that MFI/bank loans are nearly doubling the rate of children dropping out of school among households with formal microloans.

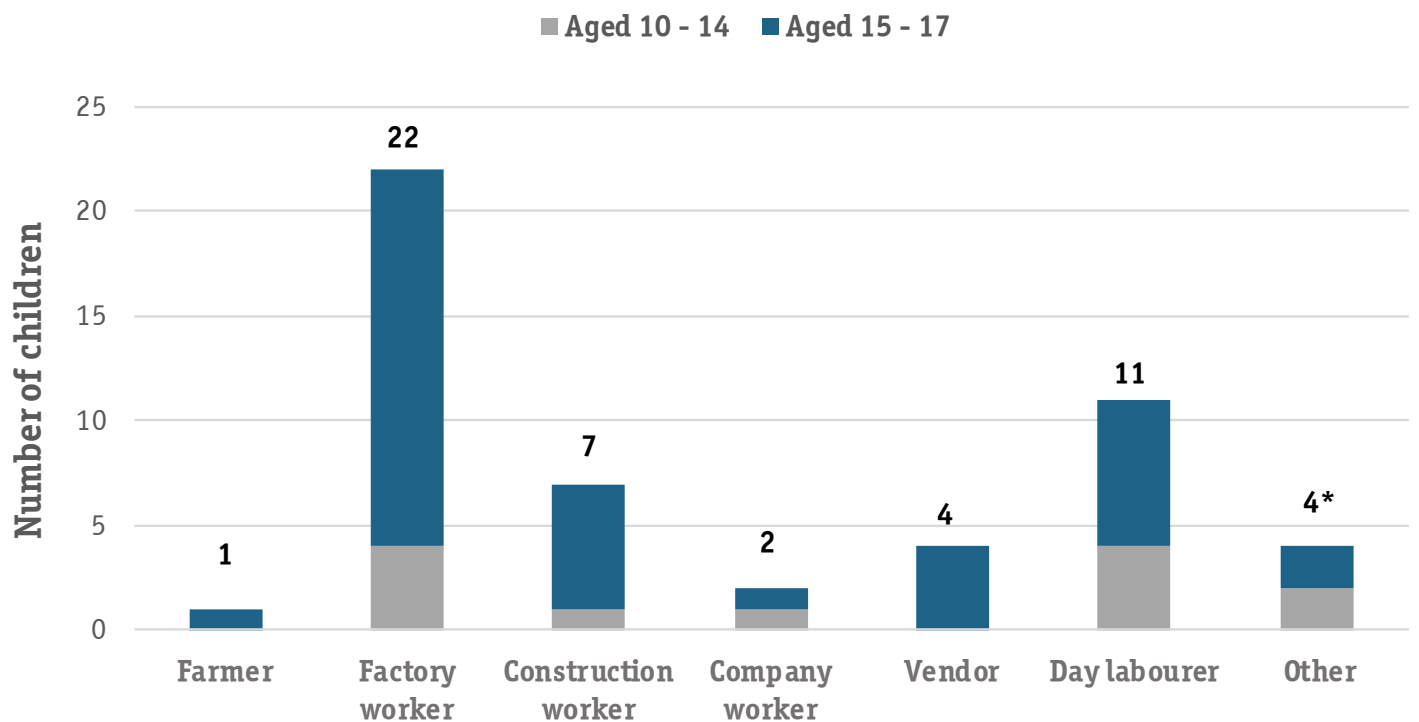
In addition, nearly all of the children earning income to help repay debts (51) also dropped out of school (49), either directly due to debts (41) or for other reasons (8). The ages of the 51 children currently working to help repay a MFI/bank loan ranged from 10 to 17.

¹⁶ So-called “informal fees” in Cambodia’s nominally free public school system have been pervasive for decades, and costs can exceed \$100 per month for students in secondary school. For more information, see: “Curbing Private Tutoring and Informal Fees in Cambodia’s Basic Education”, United Nations Development Program, 2014, available at: https://ticambodia.org/library/wp-content/files_mf/1437033856CurbingPrivateTutoringInformalFeesinCambodiaBasicEducation.pdf

Ages of children working to repay MFI/bank loans



Occupations of children working to repay MFI/bank loans



**Two of the "other" category are the two children who did not drop out of school, whose primary job was recorded as "student".*



The types of labour done by these children indicates that in addition to interfering with the child’s education, the majority of that economic activity is, hazardous, not age-appropriate, or threatens their health or physical, mental, or social development.

Like coerced land sales, the use of child labour to repay debts is utilised by borrowers of a variety of the financial institutions in the survey – once again reflecting this is not an issue with a specific lender, but rather a systemic issue across the sector.

Which MFI/bank did children work to help repay?

MFI/Bank	Boys		Girls		Total
	In school	Dropped out	In school	Dropped out	
ACLEDA		1		3	4
Hattha				1	1
WB Finance	1	3		1	5
Sathapana		1		2	3
AMK		5		9	14
Prasac		4		4	8
LOLC		3	1		4
Amret		4		7	11
Other MFI		3		3	6
Total	1	24	1	30	56*

*N=51 children. Some children helped repay loans from multiple MFIs/banks.

18.3%

households that reported eating less food following their loan

8.5%

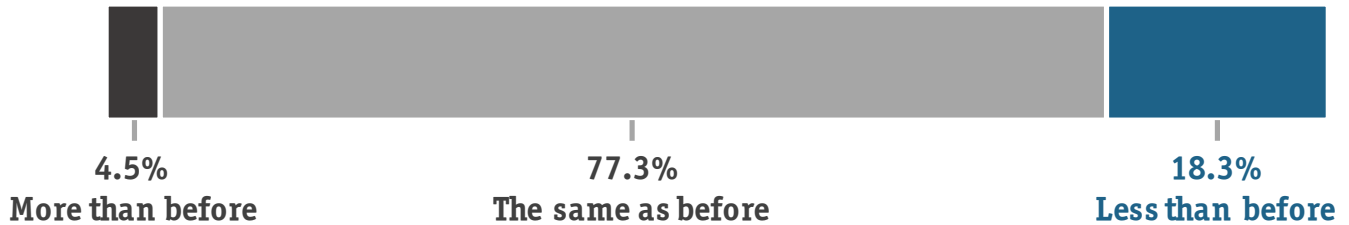
households that did not have enough food to eat

Food Insecurity

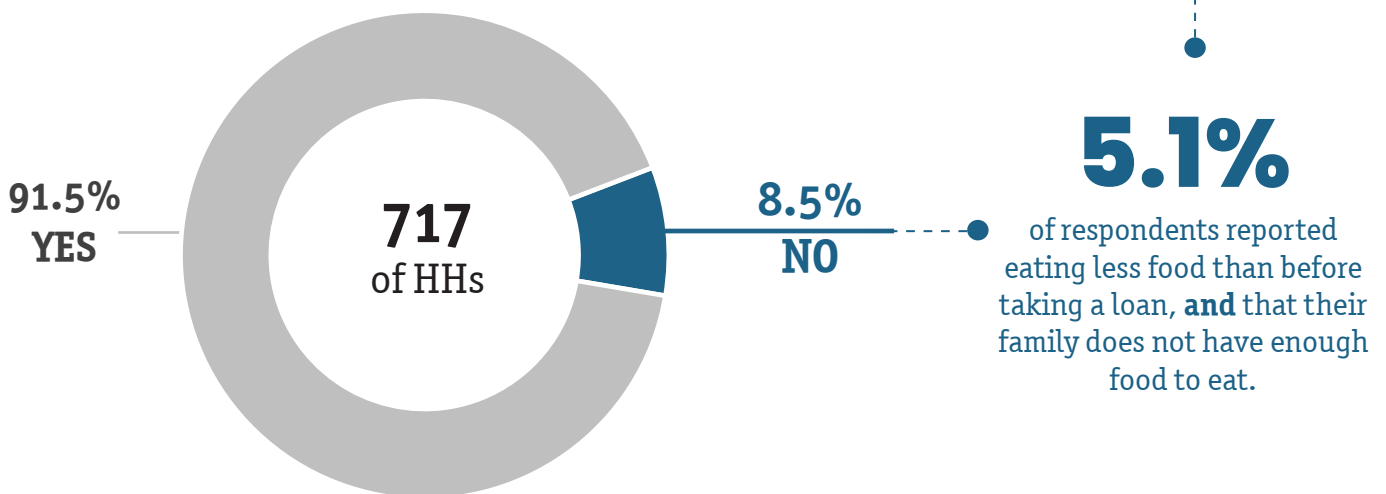
18.3% of borrowers reported eating less food following their loan, while only 4.5% reported a positive impact on their food intake. Most borrowers reported no change.

In a separate question, 61 respondents (8.5%) said their family did not have enough food to eat. Of those 61 households, more than half were among the 18.3% of households who were eating less after taking an MFI/bank debt – indicating that of all families without enough food, more than half also had their food intake negatively impacted by their formal MFI/bank loans.

How much food does your family have after taking a loan?



Does your family have enough food to eat?



Frequency of Harms

The data in our survey allows us to estimate the percentage of all households in Kampong Speu that currently hold an active, formal MFI/bank microloan (81.7%). This estimate is nearly identical to the penetration rate of formal loans

reported by an industry-funded quantitative survey in 2017 (82%). Using this rate, our survey indicates that across Kampong Speu province:

- **157,413** households have at least one active, formal MFI/bank loan.
- **144,819** households have put at least one land title as collateral for a formal MFI/bank loan.
- **9,602** households have had to sell land to repay a formal MFI/bank loan.
- **28,806** households are eating less food after taking a formal MFI/bank loan.
- **42,973** households are paying more than 70% of their income toward debt repayments each month.
- **8,912** children dropped out of school due to MFI/bank loans, across **4,565** households.

How these estimates were calculated

There is no available data on how many households in Kampong Speu province have taken a formal MFI/bank loan in the last 10 years.

However, based on industry data, we know:

- There were 192,505 active, formal MFI/bank loans in Kampong Speu (as of mid-2021).

Based on survey responses, we know:

- The 628 households with active, formal MFI/bank loans held 768 active formal MFI/bank loans — an average of 1.22 active formal loans per household.

Because this survey is statistically representative of households with formal MFI/bank loans, we can take this ratio (1.22 active, formal MFI/bank loans per household) and apply it to industry data (192,505 active, formal MFI/bank loans in Kampong Speu province) to approximate how many households in Kampong Speu have active, formal MFI/bank loans.

This results in a finding of 157,413 households in Kampong Speu that hold active, formal MFI/bank loans — roughly 81.7% of the province's 195,882 households. This is nearly identical to the 82% rate of formal microcredit penetration for Kampong Speu province reported in a 2017 "Over-Indebtedness in Cambodia II" representative survey, conducted by several MFI investors.¹⁷

This ratio allows us to extrapolate the frequency of harms across all households within Kampong Speu province, as shown above.

¹⁷ Despite the original "Over-Indebtedness in Cambodia" report being public, the second report from 2017 was never published.



Conclusion

The results of this survey add to what is already a significant and sizeable body of evidence demonstrating that Cambodia's microfinance crisis is causing a human rights crisis.

Most of these findings repeat and support findings from other research and reporting on this crisis. Despite this evidence, many within Cambodia's microfinance sector – financial institutions, investors, and industry bodies – continue to obfuscate and downplay the increasingly urgent need to take action to stop this crisis.

LICADHO, EC, and other partners are increasingly assisting borrowers who are suffering severe human rights abuses and harms due to their microfinance debt. Cambodian borrowers are currently the only group in Cambodia suffering from the lack of effective consumer protection and years of predatory lending by highly profitable financial institutions. Their suffering has largely been overlooked or ignored by investors who have failed to conduct adequate due diligence on impacts in the sector.

Meanwhile, the loudest voices within the MFI/bank

sector continue to try to dismiss the evidence of these impacts, whether it comes from local NGOs, foreign investors, academic researchers, or journalists. So much effort goes into attempts to discredit independent and credible research and shift the conversation away from evidence-based documentation, which should instead be spent on implementing direly needed remediation and relief for suffering borrowers.

NGOs can continue to raise this issue and provide evidence of the scale and severity of harms in Cambodia's microloans sector, but do not have the ability to stop land titles from being used as collateral, nor to implement remediation and relief for affected borrowers. What is urgently needed is action from other stakeholders – investors, regulators, MFIs, banks, and development partners – to start implementing these solutions. Failing to lower debt burdens and remove the coercive practices around land as collateral will lead to further harms and worsen an ongoing human rights crisis among Cambodian microloan borrowers, their families, and their wider communities.

Recommendations

We reiterate our call to enforce existing laws and reform Cambodia's microfinance sector consistent with OECD guidelines, development bank policies, and human rights principles. Specifically, we once again recommend that all MFIs, their investors and the government:

- **Demand that MFIs in Cambodia** cease coercing land sales outside of the judicial system, end predatory lending practices, and take substantive steps toward reducing the number of land sales required to repay debts.¹⁸
- **Provide debt relief and proper compensation for borrowers** who suffered human rights abuses as the result of predatory microloans.¹⁹
- **Change MFI internal rules** to prohibit requiring land titles as collateral for all new microfinance loans.²⁰
- **Return all land titles** that are currently held as collateral for microloans.²¹

¹⁸ First recommended in August 2019 in "Collateral Damage".

¹⁹ First recommended in June 2021 in "Right to Relief".

²⁰ First recommended in August 2019 in "Collateral Damage".

²¹ First recommended in June 2021 in "Right to Relief".

www.mficambodia.com

www.licadho-cambodia.org

www.equitablecambodia.org