Microfinance in Cambodia

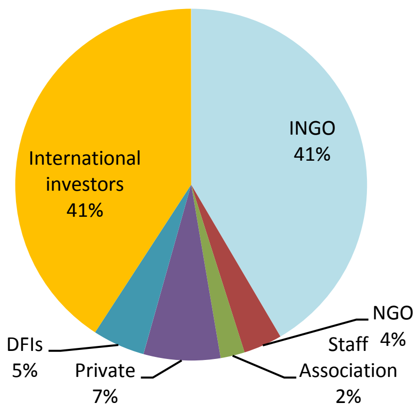
Investors' playground or force for financial inclusion?

Sanjay Sinha
M-CRIL, December 2013

Introduction to the social investors' "playground"

Cambodia is one of the smaller countries in Asia, its 14.5 million population pales in comparison with the likes of China, India, Indonesia, Pakistan, Bangladesh, Philippines and Vietnam – all with populations many times larger. Yet Cambodia is an intrinsically attractive proposition for social investors, indeed it is a microfinance investors' delight. Relatively light and supportive regulation of microfinance, systematic and graded requirements for deposit taking, and a positive approach to foreign private investors make the country a very popular destination for international social investors.

Figure 1
Cumulative shareholding pattern of 14 commercial MFIs in Cambodia



Source: Unless otherwise stated all data in this paper is compiled from MFI annual reports for 2012 (and earlier years).

Not surprisingly, over the past decade, Cambodian microfinance has gone from a largely NGO domain to a haven of commercial microfinance where INGOs remain but mostly (now) as commercial investors gradually cashing in on their grant investments of the late 1990s and early 2000s. **Figure 1** provides cumulative information (at end-December 2012) on the shareholding pattern of the 15 largest commercial MFIs in Cambodia (excluding ACLEDA which has been a bank for a number of years).[1] The international community – INGOs, international private investors and DFIs – between them own 87% of the shares of these MFIs. During the past decade, the size of the microfinance industry has grown more than four-fold (from just 256,000 in 2003 to 1.26 million) in terms of borrower accounts and nearly 40 fold in terms of portfolio, largely enabled by the inflow of foreign capital.[2]

The motivation for this international investment is undoubtedly mixed. The liberal investment environment is, presumably, a reason in itself but Cambodia is also a country with great potential for financial inclusion

- It is one of the poorest countries in Asia with Bangladesh and Nepal being the only significant countries that are poorer; its GDP per capita was just $946 ($2,494 at PPP) in 2012. Yet, its average per capita GDP growth rate has been 8.5% per annum over the past five years providing significant possibilities for savvy investors.[3]
- Financial inclusion is so low it approaches negligible levels. As **Table 1** shows, according to the Global Findex survey of the World Bank, in 2012 Cambodia had just 4% of adults with an account

[1] All references to Cambodian microfinance in this paper exclude ACLEDA unless specifically mentioned.
[2] In the meantime ACLEDA grew by 3.3 times in terms of borrowers and 32 times in terms of portfolio.
[3] Calculated from information in the World Bank database.

at a financial institution compared to 41% of all adults and 37% of women in developing economies as a whole. For the poorest income quintile, Cambodia reports virtually no financial inclusion compared to 25% for all developing economies. Investing in Cambodian microfinance is, therefore, a logical step for social investors. It could bring significant benefits to families at the bottom of the pyramid at the same time as producing good returns on investment.

Table 1
Financial Inclusion in Cambodia

Type of financial service/category of population		Cambodia	Developing economies
		% of total	
Share with account at a formal financial institution	All adults	4	41
	Poorest income quintile	0	25
	Women	4	37
Adults saving in the past year using…	A formal account	1	17
	A community-based method	4	
Adults originating a new loan from…	A formal financial institution	19	8
	Family & friends	39	
Adults paying personally for health insurance		3	

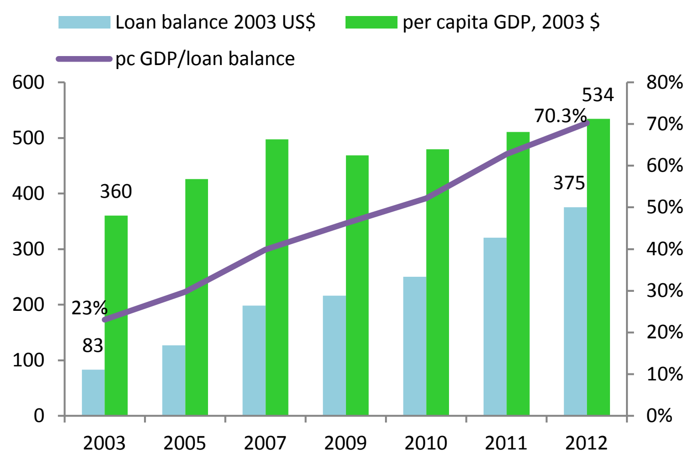
- Nevertheless, by end 2012 credit outstanding from MFIs ($841 million) was a high 17.7% of the $4.75 billion of credit provided in Cambodia by the banking sector. Including ACLEDA increases this contribution to an impressive 45.5%. As is apparent from **Table 2**, these figures are very high by the standards of other countries; even MFI-intensive Bangladesh has an equivalent contribution of just over 8%.

Table 2
MFI contribution to domestic credit

Country	Contribution 2012, %
Cambodia	17.68
Bangladesh	8.05
India	0.29
Nepal	2.20

In this context, the impact of the growth of the microfinance sector on financial inclusion bears examination. In most countries, microfinance institutions have made a virtue of focusing on bottom of the pyramid clients projecting themselves as purveyor of services to the poor, enabling both investment and consumption smoothening for families clustered just above and just below the poverty line. However, this has resulted in the emergence of a "missing middle" where small entrepreneurs in the middle quintile – often the largest providers of employment per unit of investment – have found themselves excluded from loan capital by the restrictive practices of the banking sector at one end of the spectrum and by those of the MFIs at the other.

Figure 2
Loan balance as a proportion of GDP at constant (2003) prices



This paper examines the effect of the advent of microfinance in Cambodia on financial inclusion in the country.

The average loan balance rises as a proportion of GDP – is the mission drifting?

Figure 2 shows the trend in Cambodian microfinance over the past 9 years – the period since the microfinance sector became significant in that country. The ratio of the average loan balance (at the end of each year) to the per capita GDP (at constant prices) has risen from 23% in 2003 to over 70% in 2012. The 2012 proportion compares with average balances of 11% in India, 45% in Nepal and 11% in the Philippines at roughly the same time. In Nepal this proportion has been roughly constant over the years while in India and in the Philippines it has fallen from 17% and 19% respectively in 2003. The apparent implication of this is that while in other countries MFIs have focused on their traditional client base of families in the second to third income quintiles from the bottom, in Cambodia much better off clients (with a need for larger loan sizes) are now being served. Developmentally this is an apparently negative result for a low income country.

But more and more borrowers at the lower income levels are being served

Table 3
No. of MFIs with loan balance in range

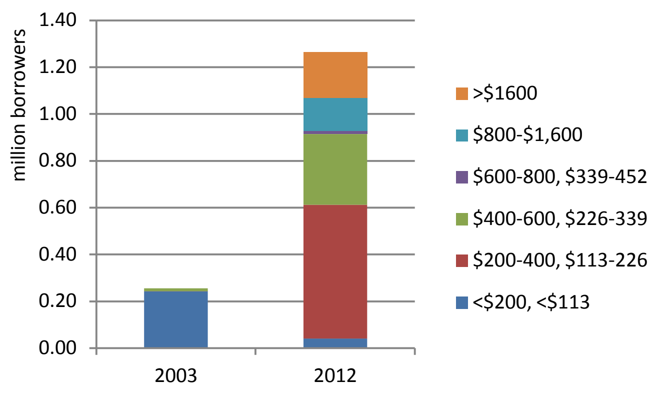
Loan balance 2012, 2003	Proportion of pc GDP	2003*	2012
<$200, <$113	<21%	8	1
$200-400, $113-226	21-42%	1	3
$400-600, $226-339	42-63%	2	4
$600-800, $339-452	63-85%		1
$800-1,600	85-170%		4
>$1600	>170%		2
Total MFIs		**11**	**15**

* 2003 MFI data from www.mixmarket.org.

Table 3 and **Figure 3** provide a more balanced picture of the shift in the distribution of Cambodian MFIs relative to the economic status of the population during the 2003-12 period. As the table shows, in 2003 9 of the 11 largest MFIs in Cambodia provided loans of a size that averaged less than 42% of per capita GDP, 8 of them less than half that size. By 2012, there had been a substantive shift with just 4 of 15 MFIs averaging loan size less than 42% of per capita GDP; the other 11 were spread up the spectrum to nearly twice the per capita income per person. [In the analysis here, $113 in 2003 is equivalent to $200 in 2012 at constant prices. Other size classes have also been converted accordingly].

In terms of numbers of borrowers, this translates to virtually all the 256,000 borrowers in 2003 being served by MFIs with average loan size less than 21% of per capita GDP. By 2012, most of the MFIs had moved above the lowest size class but 48% of borrowers were still served by MFIs with average loan sizes less than $400 (42% of per capita GDP). Thus, while in 2003, 244,000 borrowers were served with average outstanding loan sizes less than 42% of GDP, by 2012 this number had increased to more than twice that level, 612,000. Thus, far from abandoning borrowers at the lower end of the spectrum, Cambodian MFIs had actually increased the numbers covered at that level.

Figure 3
Borrowers served by MFIs with average loan size...



...while there is an effort by some MFIs to cover borrowers with larger loan requirements

The remaining 52% of borrowers are covered by the 11 MFIs spread up the spectrum in terms of loan size as presented in **Figure 3**. Some 24% of the total are covered by MFIs with average loan balances in the $600-800 range (up to 63% of GDP per capita), 11% with average size up to 85% of GDP per capita and as many as 16% (nearly 200,000) by the two MFIs with average loan sizes in excess of $1,600 (1.7 times GDP per capita). This is a relatively good spread of average loan sizes over a range of sizes suited to small and micro-entrepreneurs in the second and third income quintiles.

The deposit service is becoming more important, increasing overall outreach of microfinance services to around one million families, and other financial services are also gradually being offered

Of the 15 MFIs covered by this analysis, 7 are licensed microfinance deposit-taking institutions (MDIs) with the first two MFI deposit licences having been provided in 2009 to Amret and Sathapana. The total deposits of the MFIs amounted to nearly $274 million, 33% of outstanding loans at end-December 2012 and 27% of total MFI funds on that date. The 620,000 depositors at MFIs were 49% of the total number of borrowers and the average size of deposits ($441) was a significant 66% of the average outstanding loan of $660. However, not all depositors are borrowers; indeed, observation at a couple of MFIs suggests that most depositors are not borrowers.

More recently, these MFIs have also started to offer **money transfer services** and to experiment with **micro-insurance** in collaboration with foreign insurance companies. **Annex Table 1** provides a summary of the current information available on micro-insurance pilots in Cambodia and on the progress of money transfer services by MFIs. The outreach of both these services is expected to grow strongly over the next few years.

Based on this discussion, the outreach of Cambodian MFIs could far exceed the 1.25 million who are MFI borrowers and can be estimated at around 1.5 million adults. Adding ACLEDA would take this number to nearly 2 million. But, there is a significant degree of overlap of clients amongst MFIs in Cambodia. A recent client survey by one of the leading MFIs in Cambodia indicates 30% overlap; some observers suggest this may be an underestimate. Thus, the total number of families served by microfinance is probably closer to one million than 2 million. Nevertheless, in a country of under 15 million people, a total of ~3 million households (average household size, 5.1 persons in 2004), MFIs apparently serving 1 million households forms a substantial contribution to financial inclusion.

…and the geographical distribution of services is considerable

The inclusive effect of microfinance could be limited if services were extraordinarily concentrated in the more populous parts of the country. In practice, this does not appear to be the case in Cambodia. Having started with a concentration of offices in central and southern Cambodia most MFIs quickly spread to the north but, in recent years, have taken criticism of geographical concentration to heart and started to work in the underdeveloped north-east as well. **Table 4** shows that the leading MFIs operate in 18 to all of the 24 provinces in Cambodia through 661 branch offices. This distribution applies not only to MFIs offering loans at the top or bottom ends of the scale but broadly to all average loan size classes. In addition ACLEDA Bank has 238 branches in the 24 provinces resulting in quite widespread availability of microfinance services in the country.

Table 4

Distribution of MFI offices in Cambodia

MFI name	Avge loan balance, $	Branches	Provinces
Chamroeun	122	35	13
AMK	213	24	22
VFC	306	74	20
TPC	396	39	17
AMRET	496	96	18
CCSF	499	7	2
Seilanithih	585	25	7
CBIRD	594	5	5
SAMIC	612	17	7
Kredit	891	51	12
Maxima	1,089	2	2
HKL	1,379	42	21
IPR	1,562	12	5
PRASAC	1,677	167	24
Sathapana	1,779	65	22
Total		**661**	

Source: MFI Annual Reports, 2013

To conclude, while international investors may have gone to Cambodia attracted by the liberal regulatory framework and approach of the government and the National Bank, **the net effect of the inflow of foreign capital into the microfinance sector has been a growing and already impressive contribution to financial inclusion**. With the expansion of financial services like money transfers and micro-insurance, this contribution is only likely to grow further. ***Investors' playground, perhaps, but force for financial inclusion as well***.

Annex Table 1

Status of micro-insurance and money transfer services by MFIs in Cambodia

MFI name	Insurance services	Money transfer services
AMK	AMK began a pilot of micro-insurance in partnership with a commercial insurance company during 2013	Money transfer product was launched in July 2011 The money transfer business grew to 78,660 transactions during 2012.
Chamroeun	A pilot project started early 2013	
KREDIT	Planning for micro-insurance	Local money transfer started
PRASAC	PRASAC is pilot testing the insurance product, which includes both health and accident insurance. Bought insurance from Infinity Insurance Company related to Bankers Blanket Bonds	Money transfer service started in 2012
SAMIC	Micro- insurance roll-out in 2009 with credit life insurance and basic life insurance	
VFC (Vision Fund Cambodia)	Partnership with PKMI for micro insurance started in November 2012. (PKMI is a French affiliate insurance company).	Vision Fund Cambodia incorporated mobile money transfer with cash in/out service counters, into its financial services in January 2009 in partnership with WING Cambodia, then a subsidiary of Australia and New Zealand Banking (ANZ) group.