

Joint Press Release

German Government-Funded Study Confirms Grave Problems in Cambodia's Microfinance Sector

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A study commissioned by the Federal Ministry for Economic Cooperation and Development (BMZ) provides further evidence of widespread over-indebtedness in Cambodia, resulting in an “alarmingly high” and “unacceptable” number of distressed land sales. The study’s findings indicate that more than 167,000 Cambodian households have had to sell land to repay loans over the past five years. FIAN as well as Cambodian NGOs Cambodian League for the Promotion and Defense of Human Rights (LICADHO) and Equitable Cambodia (EC) call on the German government and other donors of the microfinance sector to fulfil their responsibilities and take immediate and concrete action to address this untenable situation.

Since mid-2019, Cambodian human rights groups have released several reports highlighting the severely negative impacts that the microcredit indebtedness crisis is having across Cambodia. Conducted by researchers at the Institute for Development and Peace (INEF), the study, entitled [“‘Micro’ Finance in Cambodia: Development, Challenges and Recommendations”](#) adds to the existing body of evidence about an ongoing crisis that cannot be ignored any longer.

As commissioned by BMZ for the purposes of obtaining additional “statistical evidence” on over-indebtedness in Cambodia, the study consisted of a large household survey, group discussions with villagers and interviews with local authorities in 24 villages across Cambodia. It found, amongst other things:

- Very high average loan sizes of 5,183 USD among the indebted households, many of whom are very poor (with annual interest rates of 18% plus fees for microcredits);
- Almost half of the indebted households face repayment difficulties;
- Amongst those households with repayment difficulties, 13% have reported selling land to repay loans over the past five years (extrapolated to all borrowers, this would mean 33,480 debt-driven land sales per year, or roughly one sale every 16 minutes);
- “In a number of cases” borrowers suffered from human rights violations;
- Reduction of food consumption “is frequently used” to cope with the debt burden;
- Participants in the group discussions stated that children are taken out of school in order to work to repay loans, as was similarly asserted by local authorities.

The researchers’ analysis also confirms that the Cambodian microfinance sector is highly saturated, resulting in massive competition amongst formal microcredit providers. This has led to aggressive door-to-door loan solicitation, as well as an over-reliance on land as security for microloans as a common tactic to gain/retain customers. As was noted in a 2017 donor-funded over-indebtedness study (which also included BMZ), the INEF-researchers concluded that between 25% - 50% of the 2.8 million indebted households in Cambodia are over-indebted.

Based on these findings, the INEF-study puts forth a range of recommendations, such as general debt cancellation for very poor households, termination of contracts and compensation for households who were forced to sell land in cases involving gross negligence by credit institutions, and limiting the use of land titles as collateral for loans. As most of the suggested measures would undoubtedly require

time in order to see potential impact, and given that each day up to 100 Cambodians households have to sell their land to repay loans, LICADHO, EC and FIAN reiterate their call for the hundreds of thousands of land titles currently held by MFIs and banks to be returned to microcredit borrowers immediately. This would significantly ease pressure off households and reduce the number of forced land sales. This form of alleviation could also be implemented before or at the same time as BMZ and the Cambodian government formulate other types of relief for borrowers.

Furthermore, the INEF researchers recommend that the German development cooperation, which continues to support the microfinance sector directly (by DEG development bank) and indirectly (by KfW development bank and BMZ) via microfinance funds, use its existing leverage to persuade its partner MFIs and banks to implement such key recommendations, and to end its support to Cambodia's microfinance sector in the medium term.

While the study correctly points out that Cambodian MFIs and banks make more than sufficient profits to cover the costs for the much-needed debt relief, donors such as the relevant German development banks should not evade their responsibilities.

"The German development banks and the supported microfinance funds have without doubt failed to uphold their diligence obligations in Cambodia," said Mathias Pfeifer, program officer at FIAN. *"Since at least 2017, the German government and other donors have been well aware of the severe over-indebtedness levels in Cambodia, yet they have done next to nothing to address this problem and continue to pump millions of Euros into the sector to this day"*. The microfinance fund MEF for instance, where KfW and BMZ are both key shareholders, funnelled nearly 20 million US-Dollars in new investments to Cambodian microcredit providers in 2021 alone. That same year, the income on MEF's (total) investments amounted to 49.9 million US-Dollars.

"The German development banks and other donors should use the profits that were squeezed out of over-indebted Cambodian borrowers over many years for debt relief and provide effective remedy for victims of human rights violations now," said Naly Pilorge, outreach director of LICADHO.

Other important supporters of the microfinance sector include various European and multi-national development banks, as well as private *"ethical"* investors such as Oikocredit, Triodos Bank, Invest in Visions, Vision Microfinance and – with smaller investments – the Bank im Bistum Essen and GLS Bank.

For more information, please contact:

- Eang Vuthy, Executive Director of Equitable Cambodia, on Signal at (+855) 12 791 700 (English and Khmer)
- Pilorge Naly, Outreach Director of LICADHO, on Signal at (+855) 12 214 454 (English)