

Carping Critics and the Microfinance Conundrum: Cambodia in the spotlight



M-CRIL advisory-1, 2024

A headline declares definitively “**We Know Microfinance Harms Cambodia’s Poor. What Can Be Done About It?**” sub-titled, “Much ink has been spilled identifying the many problems with the sector, but much less so about possible ways forward” (David Hutt, The Diplomat, July 05, 2023).

So emotive is the matter that even one of the most sober newspapers, The Guardian (of the UK), sensationalises it with “**‘I am afraid I will kill myself, like my husband’**: spotlight on loan firms in Cambodia after Indigenous suicides” – sub-title, “Microfinance was meant to reduce poverty, but borrowers allege they have been victims of ‘predatory’ loans and repayment tactics, which have led to desperation and deaths” (Jack Brook, The Guardian (UK), 23 October 2023).

Another headline announces, “**Cambodia Microfinance Association Findings Mark Retreat from Poverty Reduction Claims**” – sub-titled, “The country’s recent microcredit boom has highlighted the wide gap between the theory of microfinance and its reality” (David Whitehouse, The Diplomat, January 24, 2024).



Photo: Jack Brook, The Guardian, 23 October 2023

Microfinance has received much adverse media coverage around the world over the past decade and a half. This was (and continues to be) the result of its high growth in terms of overall portfolio, amounts lent to individual borrowers and now extensive coverage of relatively poor individuals and households in many low income and lower middle income countries. These include India and other countries of South Asia (Pakistan, Nepal, Sri Lanka, Bangladesh), Myanmar, the Philippines, African countries such as Kenya, Nigeria and South Africa as well as everybody’s favourite whipping horse, Cambodia. In every case, the emotive issue of borrower suicides allegedly caused by micro-lending is what has raised reporters’ hackles.

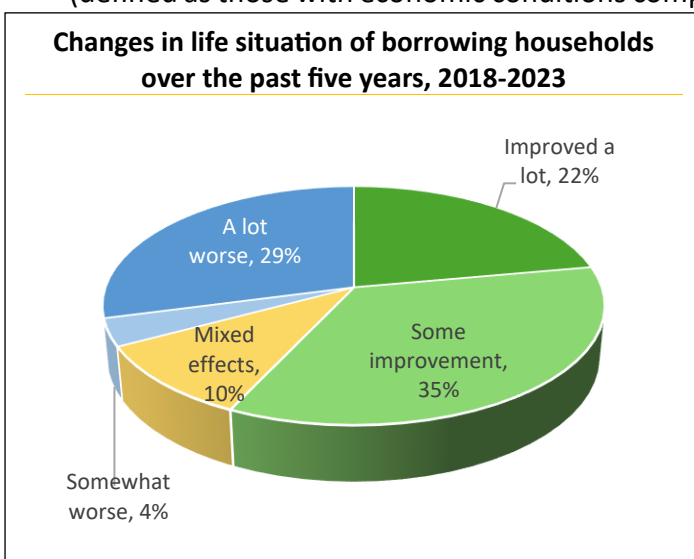
Since Cambodia has been at the centre of this debate over the past few years, this monograph focuses on the Cambodian microfinance sector. Given M-CRIL’s association with the Cambodian microfinance sector, and with the release on 19 January 2024 of the “impact assessment” study of Cambodian microfinance (undertaken in the first half of 2023) M-CRIL is uniquely placed to comment on the concerns for the welfare of income-poor borrowers encapsulated in the media headlines cited above. For the record, the study was sponsored by microfinance industry association (CMA) and M-CRIL was selected for it as an independent research institution with a deep knowledge of microfinance throughout Asia and engagement with Cambodian microfinance during its entire growth phase, from year 2000 onwards.

The key here is M-CRIL’s knowledge of microfinance and its independence enabled by the diverse geographical and subject matter spread of our business as a research and evaluation agency (not now for a number of years, “a ratings agency”). This is reinforced by our international reputation for ethical conduct of research and delivery of results validated by our engagement with the leading development support agencies in the world – the World Bank, UNCDF, UNDP, Asian Development Bank, UK FCDO, Swiss, Netherlands and Australian development agencies amongst others.

The purpose of this monograph is to examine the concerns that underlie the above headlines based on M-CRIL’s deep knowledge of the sector internationally and on its recent study of Cambodian microfinance.¹ The study covered the borrowing record of a sample of over 3,200 randomly selected households that had loans from microfinance institutions (as well as other institutional lenders) in ten provinces spread across Cambodia. The geography covered by the impact assessment study ranged from the densely packed centre and south of the country to the poorer and less densely populated northeast.

Let’s examine the headlines...

“We know microfinance harms the poor”: Assuming this headline refers to poor microfinance borrowers, the M-CRIL study shows the proportion of (likely) poor borrowers (defined as those with economic conditions comparable to those with incomes less than 150% of the National Poverty Line, NPL) who reported their lives improving or becoming worse off over the previous five years (2018-2023).



So, even if you place the blame exclusively on microfinance, (the figure alongside shows that) 33% of poor borrowers covered by the M-CRIL survey reported being a lot worse off or somewhat worse off, while 57% of poor borrowers reported being either a lot better off or somewhat better off. But remember...this is also the period when Covid brought the global

¹ M-CRIL, November 2023, [An impact assessment of microfinance in Cambodia](#). Study sponsored by the Cambodia Microfinance Association, Phnom Penh.

economy to a virtual standstill. Just 20% out of the borrowers who reported a worsening in their lives, attributed “too many loans” as **one of the reasons** for this situation. By contrast, 54% of borrowers with these worse conditions selected Covid as one of the factors and 47% selected illness/accidents as a factor. To the extent that microfinance harms the poor, it could surely be balanced by the 57% whose lives improved (compared to 33% worse off) with about 15% of them attributing their life improvements partly to the availability of credit.

‘I am afraid I will kill myself, like my husband’: Accepting that microfinance – or at any rate some form of debt (such as the leases as well as microfinance loans offered by the posters in the photo from the Guardian article above) – could result in some harm; if you scour the countryside looking for cases of suicide that can be linked to lending, you will surely find them but that is different from generalising that microfinance causes harm or leads people to suicide.

Life is complex. On the basis of the data from the M-CRIL study we cannot definitively assert that microfinance harms the poor; for the same reason we have refrained from suggesting that microfinance uniquely benefits the poor. Microfinance (or bank loans or commitments to lease rentals or loans from informal moneylenders) could harm a few households, unfortunately, but the resultant financial commitments are likely to have become unbearable on account of loss of incomes or increased expenses resulting from crop failure, or injury from motor accidents or, even, unemployment caused by the closure of garment factories suddenly shunned by buyers of Western brands. A number of these or other factors combined could result in suicide but none by itself could be blamed for this extreme step.

“Cambodia Microfinance Association Findings Mark Retreat from Poverty Reduction Claims”: The M-CRIL report is certainly not “the clearest retreat to date” from this statement as stated in the article cited above. If there has been a retreat, it has been happening for many years. As long ago as 1995, research cited in a book by two UK academics Susan Johnson (then of the University of Bath) and Ben Rogaly (University of Sussex), titled “Microfinance and Poverty Reduction” showed that “... a survey comparing micro-enterprise programmes in El Salvador and Vanuatu found that the development of successful enterprises and the improvement of the incomes of very poor people were conflicting rather than complementary objectives. By selecting those most likely to be successful for credit and training, the programmes inevitably moved away from working with the poorest people.” Indeed, the NGO BRAC of Bangladesh has, over the past 25 years (since 1999), had a programme (later supported by the World Bank affiliated, CGAP) for the economic graduation of the poorest of the poor to the level where they could qualify as microfinance clients.

While microfinance started with claims of reducing poverty, multiple evaluations over the past thirty years have shown that it can be a contributing factor but does not, by itself, result in poverty reduction (as the M-CRIL data from the survey also shows). This is well known in the microfinance ecosystem and only the most blinkered advocates of microfinance now claim poverty reduction as a unique result of micro-lending; journalists are enamoured of this idea because they are mostly new to microfinance. Those looking for the effects of microfinance on the poor would do well to cite its benefits for millions of relatively poor

people at the same time as lamenting its harms for some people. Eating fish is widely regarded as beneficial to humans, but even that can cause harm to a few people who get bones stuck in their throats; if you go looking for them, you will find them. It is easy to carp, less eye-catching to take a balanced view.

But does this mean all is well with Cambodian microfinance? The issue is discussed in the second advisory note on this subject.

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