MICROFINANCE IN TIMES OF COVID-19

Consumer Protection and the Loan Restructuring Process in Cambodia

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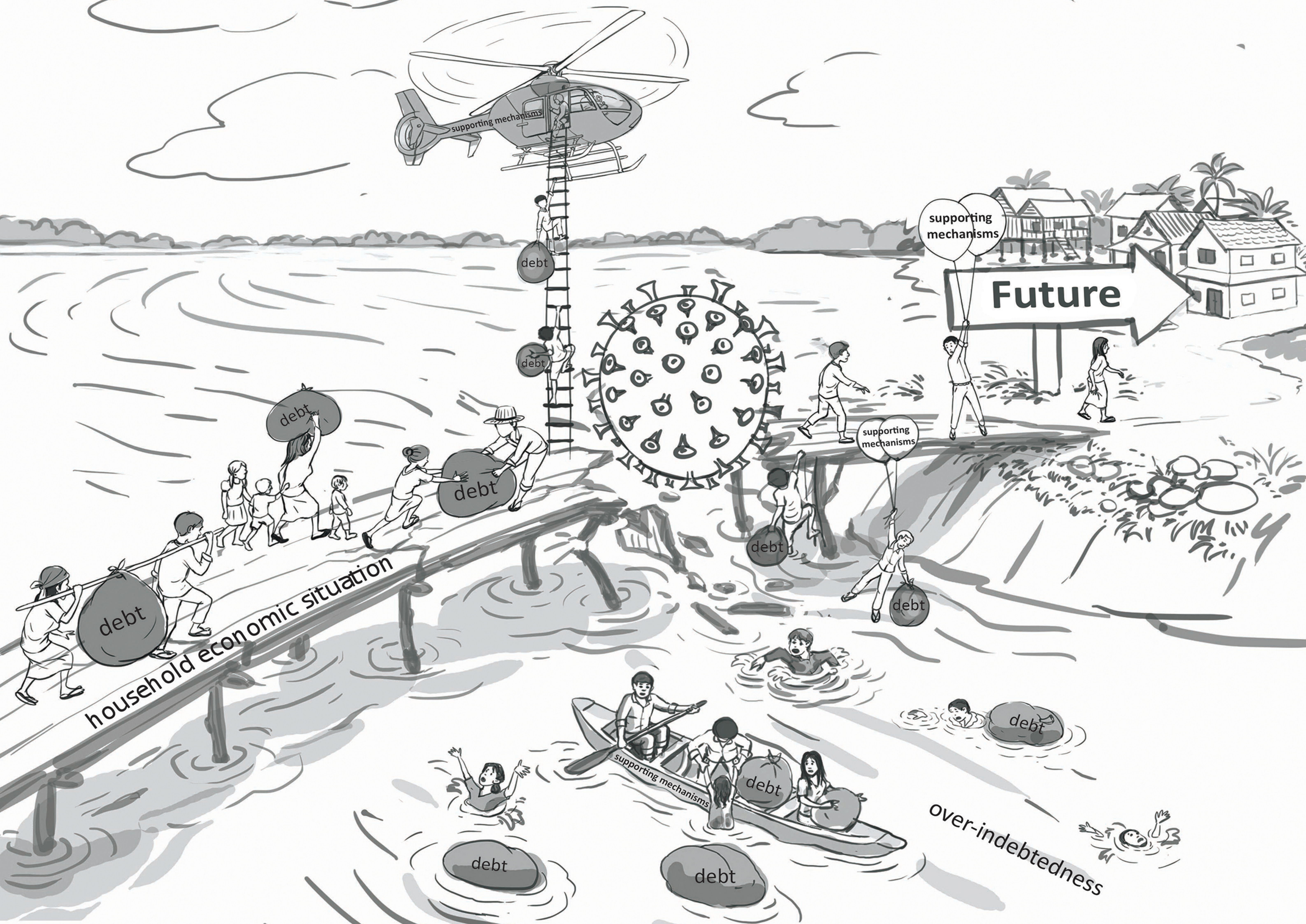
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Disclaimer: the views expressed in this report are the lead researcher's alone and are not necessarily the views of the Australian Government, The Asia Foundation, The Center for Khmer Studies, or other contributors.

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FOREWORD

by Natharoun Ngo

The ongoing economic downturn in Cambodia as a result of the global COVID-19 pandemic has created an opportunity for actors in the microfinance space to shift their business practices and recenter the social mission that formed the core of their sector at its birth.

In the beginning, as part of their effort to reduce poverty and economic inequality, the United Nations and international nongovernmental organizations (NGOs) together funded programs that aimed to increase financial inclusion in the developing world. These programs would eventually transform into the first microfinance institutions (MFIs). As grants and subsidies from their initial backers decreased, MFIs began their transition to a new, private sector led model. However, their newfound dependence on private capital did not immediately erode their social mission, possibly qualifying those among the first generation of Cambodian social enterprises. As Cambodia stabilized politically and developed economically – reducing poverty, raising GDP per capita figures, and fostering the growth of a new middle class – MFIs active in the country saw the market growth opportunity, opening their capital and decision structures to international investment funds and venture capital firms in the process.

Overseas investors, burned by the 2008 financial crisis and concerned about diminished returns in the developed world, saw in Cambodia (and the Southeast Asian region more broadly) a promising emerging market. They were reassured by Cambodia's track record of strong, consistent economic growth and potential for high returns. Their introduction to the Cambodian microfinance sector, though, spurred a reorientation of local MFIs' institutional priorities. As the demand to hit increasingly stringent commercial and financial targets grew, these firms tended to relegate their social purpose to the backburner. The ultimate transformation of certain Cambodian MFIs into regular commercial banks provides a stark illustration of this point.

After more than twenty years of MFI operations in Cambodia, we understand that the sector is heterogenous – we cannot put all Cambodian MFIs into the same proverbial basket. A core social mission still animates the staff and leadership of some national microfinance firms. In addition to their efforts to comply with and apply international standards and frameworks, these organizations also effectively integrate the social dimension into their strategic planning and allocate resources toward the assessment of their activities' social impact. However, even these firms' foremost priorities are usually set by senior board members and global executives whose primary focus remains traditional business performance indicators, with purviews sometimes covering multiple countries and commercial sectors throughout

Southeast Asia. Their professional backgrounds and financial mindsets tend to prevail over social and developmental commitments. Understanding how financial performance drives the decisions made by MFI leaders and investors alike allows us to not only get a sense for the future of the Cambodian microfinance sector but also for how we might influence that future.

With the benefit of hindsight, we can see that Cambodian MFIs have drifted away from the vision of microfinance espoused by its creator, Nobel Peace Prize laureate Dr. Muhammad Yunus. Recognizing that commercial banks devoted the bulk of their resources and attention to large, collateralized loans with high rates of return distributed primarily to middle- and high-income men, Dr. Yunus sought to develop a more humane and inclusive approach to finance. His pioneering efforts at microcredit relied on non-collateralized "microloans" disbursed to lower-income women and residents of remote and rural areas in an attempt to alleviate poverty and produce positive, broad-based social outcomes. Twenty years on, how well do Cambodia's MFIs reflect their sector's foundational *raison d'être?*

Reexamining poverty reduction and MFIs' social mission

Microcredit products are today the principal service offered to lower-income households by Cambodia's MFIs. In its current form, it reaches out to the large number of Cambodians working in the informal sector. However, the efficacy of this model as a means of poverty reduction merits reexamination. The current model's ability to reduce poverty at scale has not yet been demonstrated. This may seem like a controversial statement, considering the industry outreach to the most in need, and especially given the explosive growth of the microfinance industry in the recent past. Several crucial questions remain. For example, how has the composition of these firms' loan portfolios evolved over time? Do the lowest-income borrowers still constitute a large share of MFIs' customer portfolios? If so, have we been able to accurately measure whether or not these loans have had a positive impact on borrowers' livelihoods? After all, access to credit and timely loan repayment do not necessarily equate to poverty reduction and expanded opportunity for the low income individuals and households. If developing new economic alternatives for the lowest-income Cambodians by providing financial access is a core mission of the country's MFIs, then understanding the extent to which this goal is actually met is key to forecasting the sector's future.

Unfortunately, there is no conclusive research at a large enough scale that provides evidence for the proposition that financial service outreach to low-income Cambodians by MFIs has improved income equality or created more inclusive economic growth. A comprehensive impact evaluation using randomized control trials is needed to accurately measure what social and economic benefits, if any, microcredit provides its borrowers. The monitoring and measurement of this impact, especially its social dimension, cannot be brushed aside any longer.

Is a different model possible?

The existing MFI lending model requires innovation. A central issue is the extent to which MFIs can decrease the cost of finance for the most deeply impoverished (paradoxically the most expensive borrowers to finance) relative to their higher-income customers. Is there any room to reduce the labor intensiveness of providing microcredit services? How can MFIs ensure revenue streams sufficient to meet their operating costs such that a private sector model of financial inclusion for the poor can remain competitive with the nonprofit, nongovernmental model? How might these firms guarantee their achievement of the multi-year financial performance targets set by microfinance investment vehicles and maintain financial return stability for all of their investors? Addressing these questions will entail increased capital and financial costs, as new roles and business practices will need to be created and absorbed into firms' existing operational structures. Such moves are also very likely to meet with disapproval from investors who might not see the value of making these changes, as they would not open new revenue streams for the businesses in which they have invested. Does this imply that NGOs will inevitably be required to step in and provide those non-financial services essential to satisfying MFIs' social mission?

We need to shift away from the mindset that these firms exist merely as providers of financial goods and services. We need to appreciate that offering microloans carries with it a set of responsibilities different from that involved in selling mobile phone service credits or bottles of shampoo to vulnerable populations. Microfinance is, simply put, far more consequential. It holds the potential to both hasten the achievement of a range of socially desirable development outcomes and to push low-income borrowers into a series of micro-debt traps (which, when great enough in number, lead to fatal social and economic bankruptcy).

Private sector actors in Cambodia may see their role as supplying regulated microfinance products within a regulated market, as well as assessing whether sufficient information is provided to customers by well-trained credit officers, managers, and salespeople such that they become borrowers enthusiastically and of their own free will. They may believe that they cannot, as sellers, be held responsible for whatever "erratic" behaviors are expressed or imprudent choices are made by those customers. What to do about Cambodian microcredit borrowers whose decisions land them in financial hot water, then, is a problem without a straightforward answer, as it is not clear that the government, the private sector, the nongovernmental sector, or the borrowers themselves can alone reach a resolution.

Beyond generating sufficient returns for their shareholders and investors, Cambodia's MFIs need to ask themselves: does their current model genuinely deliver on microfinance's promise to generate economic development opportunities and help borrowers avoid poverty-exacerbating debt traps? Can their current model arrest and reverse the trend among Cambodia's borrowers wherein a larger number of the most vulnerable lose their collateral – especially their land – and in the process become *more* vulnerable than they ever were before?

Is it possible for Cambodian MFIs to develop a business model that meets the needs of the vulnerable without putting them at greater risk? Instead of limiting the value proposition to financial inclusion, and access to micro-credit, should microfinance services directly enable access to better quality access to healthcare, education, affordable housing, and productive capital? A few Cambodian and overseas MFI leadership teams do believe in and seek to further their firms' social missions. Though they may not represent a majority of the sector's players, they understand the difficulties of serving markets at the bottom of the wealth pyramid and adhere to the foundational values of microfinance more genuinely than do their competitors. They are attentive to the commercial and financial indicators key to loan collection and customer portfolio growth, but they also regularly venture out "into the field," meet their most impoverished customers, and try to better understand the issues those customers face and how to serve them. They have proven that MFIs can directly influence repayment rates and adjust to their most vulnerable customers' repayment capacities. If there is any hope that the sector can reform its model and restore its sense of social purpose in the aftermath of the COVID-19 pandemic, it lies with firms like these.

Research scarcity and the potential for crisis

This study does not examine the Cambodian MFI sector's entire borrowing pool, but instead focuses on those borrowers who are among the hardest hit by the COVID-19 pandemic. It does not make the claim that the pandemic's impact has been equally distributed across Cambodia's provinces, nor does it assert that the microfinance sector is solely responsible for alleviating the problems it may have caused. Rather, the study is meant to call for further analysis of these issues and to draw rapid attention to the increasing levels of vulnerability and precarity among the country's most vulnerable. It questions the extent to which its findings can be replicated within vulnerable populations across Cambodia. As the COVID-19 pandemic remains ongoing, we do not yet have the necessary distance in time to allow for a precise estimation of the exacerbated poverty it has left (and will continue to leave) in its wake. However, inferring the unfortunately inevitable rise in rates of poverty in the short- and medium- terms is necessary to determine just how much damage the pandemic has done to Cambodia's efforts at poverty reduction thus far – and to projecting what sort of work will be needed to ensure that the past two decades of progress in this area will not be erased.

In this study, while we can observe a few hopeful cases, we also find far too many instances of families struggling with loan repayment. This problem was noted in several studies conducted prior to the COVID-19 pandemic and has only become starker in recent months. While actors in the microfinance sector continue to assert that no risk of imminent crisis exists, other analysts have issued warnings about the rapid increase in liquidities, concurrent with ever-higher levels of indebtedness forcing already low-income Cambodians to sell off their most productive assets (i.e., their land). This leads us to ask: are MFIs overlooking any crucial indicators in their analyses? Are their interpretations of traditional indicators such as the portfolio at risk (PAR) ratio sufficiently comprehensive? How can institutions scientifically assess the solidity of or potential for failure within a country's microfinance system? Further research is needed to determine whether what data is available related to non-performing loans and loan restructuring requests is sufficient to assess if a borrowing population is at risk or if the warning signs for an impending systemic crisis are present.

It is undeniable that credit has become much more widely available to Cambodians living around or above the poverty line, including rural Cambodian women. In past decades, the bulk of the research analyzing Cambodia's MFIs has made clear the limitations and negative impacts of the national microfinance sector: leaving low-income Cambodians' livelihoods more fragile, increasing instead of tamping down on poverty levels, and failing to demonstrate a definitive correlation between microloans and education or health outcomes. As before, many key questions about the sector's performance remain unanswered. Is the COVID-19 pandemic producing problems that cut across the entirety of MFIs' customer portfolios or has it only affected the most vulnerable? How should we define and quantify the concept of vulnerability? How can we measure, in percentage terms, the extent to which the most vulnerable are represented in MFIs' customer portfolios? How many of these borrowers are at risk of backsliding into extreme poverty as a result of the pandemic? And what are the chances that such backsliding might threaten to balloon into a larger, entrenched systemic issue, especially when such a large number of formal and informal actors are involved?

Given this multitude of unanswered questions, recent empirical findings should be a cause for more caution, more research, and more in-depth analysis. Only access to more comprehensive data sets will allow us to understand the seriousness and scope of these issues. Projections about systemic risk need to look beyond portfolio at risk ratios, portfolio yields, capital reserves, total asset growth rates, and other traditional business indicators that shed some light on the internal performance of MFIs but are not sufficient to measure external systemic risk as it pertains to borrowers' vulnerability to default.

Longitudinal research studies analyzing the economic and social impacts of the microfinance sector in Cambodia would be useful to either corroborate or not results of randomized control trials related to poverty reduction efforts.

Addressing emerging risks

In the aftermath of the COVID-19 crisis, another type of economy is possible: an economy that continues to be market-oriented but that devotes greater focus and resources to ordinary people, especially the most vulnerable, and that works to keep economic and social inequities in check. While hope for these kinds of changes exists in Cambodia as it does all around the globe, there is significant work that remains to be done. The microfinance sector is well-positioned to drive these changes in the Cambodian context.

What matters most today is that the sector's stability is ensured, most importantly by guaranteeing that all MFI borrowers benefit from their contracted loans and that the most socially and economically vulnerable among them receive adequate protection. Microloans distributed to especially vulnerable populations have too often resulted in unacceptably high levels of indebtedness, which have in turn produced household precarity of a scale that is still poorly understood. Could the types of financial metrics required by international investors, which incentivize MFIs to rapidly grow their customer bases and issue ever-larger numbers of loans, be a primary cause of this trend?

Decreasing the cost of capital for low-income Cambodians is both a market and moral imperative. Profitability and social mission can be compatible with the right type of investment approach. Impact investors need to strike a balance between business performance indicators and social metrics. If venture capital funds investing in MFIs have thus far only been interested in returns on equity, investment, and assets, then a greater role within the microfinance sector for impact investors committed to delivering both social and economic returns could be game-changing. However, while impact investors often situate themselves within a strong narrative of social responsibility, they have not always delivered on their promises. Though these investors often commit themselves to poverty reduction and inclusive economic development on paper, in practice they are still quite far off from their professed goal of empowering low-income households and lifting them out of poverty. Banking the unbanked and shifting vulnerable borrowers away from loans sharks and toward institutionalized, market-driven lenders have been positive first steps within this space, but they have been only first steps. Poverty is sustainably reduced not when money is given to the vulnerable but when industries are growing and economic sectors are creating jobs. Vulnerable populations must have better access to local and provincial economies if they are to contribute to growth and value chain ascension within the national economy.

The behavioral dimensions of borrowing and the ability of borrowers to distinguish between productive and non-productive loans have been altered by the COVID-19 pandemic. The initial capital and productive asset requirements to start a business and the amount of time needed for the business to generate revenue have increased, exacerbating borrowers' risk (and probability) of default.

Several academic studies at the subnational level have described the process by which productive loans can become destructive debts. The assumption that all impoverished persons are able to initiate and remain engaged in some form of entrepreneurial activity needs to be challenged. Is it realistic, for example, to assume that an individual or household living on two to five dollars a day will always use borrowed capital to increase business revenue when the cost of living is increasing rapidly? Are we able to measure the impact of non-productive loans on the economic situations of the poor? Can we determine whether the non-productivity of those loans resulted from conscious decisions made by borrowers to invest in failed ventures or from an insufficient capacity to drive business expansion? We should focus on understanding the dynamics behind loan repayment and default instead of relying solely on repayment and default rates and other purely numerical figures.

High repayment rates signify sector stability from the standpoint of lenders and regulators. From the prospective of borrowers, if loans are being repaid with increased business revenues, then a virtuous cycle has been produced. However, most research indicates that borrowers instead use loans for consumption purposes, and that many of them end up losing their land as a result. Where, then, is the money being used to repay these loans coming from? And is there any risk of a largely unrecognized micro-debt bubble bursting and affecting the macroeconomy? The behavioral sciences have a role to play in answering these questions and in designing better financial models and instruments adapted to the needs of low income population.

How might less commercial profiling and stronger social profiling lead to better policies?

Assuming that low-income and vulnerable borrowers continue to represent a majority of Cambodian MFI customers, better segmenting these customers in terms of their vulnerability and susceptibility to the economic shock caused by the COVID-19 pandemic is essential to both developing better policy instruments aimed at assisting these individuals as they cope with the ongoing economic slowdown and ensuring the stability of the microfinance sector writ large.

The income irregularity faced by the most vulnerable Cambodians (MFI customers' daily cash flows fluctuate on an almost daily basis, sometimes bringing them close to the national poverty line, other times securing them double that amount, and other times still even approaching zero) and the unpredictability of their expenditures leaves their financial situations complex to analyze and difficult to anticipate. When increased vulnerability is added to that irregularity and unpredictability, the result is greater instability for the entire microcredit system. The risk is that these trends may be nonlinear and could therefore lead to a sudden and exponential acceleration of over-indebtedness that results ultimately in systemic failure. We have already observed this pattern in larger financial crises, and we must take caution to ensure that the same phenomenon is not now unfolding within the Cambodian microfinance sector.

This study looks at the intersection between economic and social vulnerability for the most at-risk Cambodian households in an attempt to understand what consequences the COVID-19 pandemic has had for them. It represents the first inches of a line of inquiry that needs to be further pursued, analyzed, and understood. One of the lead researcher's main conclusions could not be more relevant to our present situation: the urgent need to provide stronger, faster-acting, and higher-quality protection to the most vulnerable borrowers, both to prevent them from defaulting on their loans and to insulate them from various negative pressures if they have already defaulted. It is recommended that this protection be implemented against risk, economic shock, and third party pressure on borrowers to fall into debt traps from which escape can often seem impossible.

Developing an adequate framework to address these issues is no easy task, especially given the absence of a "customer protection mindset" in Cambodia. However, the microfinance sector cannot afford to wait for standards to be set externally – it must develop strategies to mitigate the risks discussed above on its own. A solid foundation already exists for establishing new and more efficient measures to protect the poor: better targeting methods developed through Cambodia's ID Poor system, recent data made available through the Cambodia Socio-Economic Survey of 2019-20, frameworks established for social protection and social safety nets programs, et cetera. The risks are too great and the stakes too high for Cambodia's MFIs sector stakeholders not to act now.

Ponlok Chomnes is an innovative program supporting selected research institutions through a grant from the Australian Department of Foreign Affairs and Trade and managed by The Asia Foundation, with the objective of supporting the growth of Cambodia's knowledge sector to inform Cambodian public policy analysis. Ponlok Chomnes has opened a unique space for Cambodian researchers to take a leading role in the conduct of independent research of consequence to their country. Unbiased, data-oriented, and multidimensional studies with design freedom in the hands of their research teams are fundamental to deepening our understanding of contemporary issues. It is thanks to Ponlok Chomnes that the Center for Khmer Studies has been able to work with a Cambodian researcher, Ms. Phasy Res, who has demonstrated academic rigor, keen intuition, and great perseverance in the development of her own independent research framework and the collection and analysis of her field data. Through this study, Ms. Res has for the first time taken the lead role in the conduct of research crucial to Cambodia's sustainable development.

ACKNOWLEDGEMENT

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CONTRIBUTORS

Ms. Phasy Res was the lead researcher for this project and participated in desk research, research design, data collection, data transcription, data coding, data analysis, and interpreting findings. She drafted the report, reviewed, revised, and incorporated comments made by **Dr. Maryann Bylander**, the CMA, **Mr. Natharoun Ngo**, and The Asia Foundation. The rest of the research team includes **Eng Sreymom**, **Khlang KimAnn**, and **No Asim**, who contributed to this project through data collection. **Dr. Maryann Bylander** served as a research mentor and supported the research team in their methodological approach, treatment of research ethics, and analytical strategy. **Dr. Bylander** and **Mr. Natharoun Ngo** reviewed and made relevant suggestions for the revision of concept notes, analysis, draft and final report content.

ABBREVIATIONS

ABC	- Association of Banks in Cambodia
ACLEDA	- Association of Cambodian Local Economic Development Agencies
COVID-19	- Coronavirus Disease 2019
CBC	- Credit Bureau Cambodia
CFI	- Center for Financial Inclusion
CMA	- Cambodian Microfinance Association
CP	- Consumer Protections
CPPs	- Consumer-Protection Principles
CGAP	- Consultive Group to Assist the Poor
EBA	- Everything But Arms
GDP	- Gross Domestic Product
FSPs	- Financial Services Providers
FIs	- Financial Institutions
IMF	- International Monetary Fund
LR	- Loan Restructure
MOLVT	- Ministry of Labour and Vocational Training
MFC	- Microfinance Center
MFIs	- Microfinance Institutions
NGO	- Non-governmental organisation
NBC	- National Bank of Cambodia
THB	- Thai Baht
USD	- United States Dollars
UNDP	- United Nations Development Programme
WHO	- World Health Organization

EXECUTIVE SUMMARY

Background

The COVID-19 crisis has generated unprecedented economic upheaval across Cambodia, with large-scale job losses in key sectors of the economy, and concerns about the potential for poverty and vulnerability to rise. A particular concern in the Cambodian context has been how COVID-19 may be intersecting with other forms of economic vulnerability, as prior to the pandemic there were already concerning levels of household over-indebtedness reported by various actors. Given this background, this research study began as an attempt to understand two related concerns: how COVID-19 has impacted borrowers/debt stress, and how financial actors have responded to the crisis. Through exploring these questions our broader goal is to propose evidence-based suggestions for policy makers, financial institutions, and development actors in order to better protect economically vulnerable households during and after the COVID-19 crisis.

Methodology

To address the research questions and research objectives, we selected semi-structured, in-depth interviews as our research method. This method allows us to capture the complexity of issues and possible consequences faced by indebted households. It also gives us the flexibility to identify emerging issues and opportunities to improve the conditions of debt distressed households. As a result, this research features a much smaller sample size than many household surveys. However this approach is appropriate as our goal is to show the complex nature of issues that microfinance borrowers are facing and to learn about the challenges most relevant to borrowers. Qualitative research is well-suited for this kind of exploratory work.

To ensure that we are able to unpack these issues, and to integrate gender equity and social inclusion frameworks, we selected households with diverse characteristics, such as: international and internal migrant households; factory workers; corn/cassava/rice land-owning farmers; land-owning-tenant farmers[1], tenant farmers, souvenir sellers, tuk tuk drivers, tour guides, and hotel and restaurant staff.

The semi-structured interviews were conducted with microfinance borrowers, non-microfinance borrowers, and the staff of financial institutions. 34 interviews were conducted with employees

[1] Land-owning-tenant farmers refer to those who own a piece of land but they also work on other people's farm as a daily wage labourer.

from five financial institutions. Most of the interviews were with loan officers (N=18) and branch managers (N=15), however we also spoke with one chief executive officer. Given that the microfinance sector predominately employs men, all but one of the MFI employees interviewed for the project were men. In addition, the research team conducted interviews with 119 current microfinance borrowers, and 17 non-microfinance borrowers. The interviews with non-microfinance borrowers contribute to general understanding on the differences between coping strategies among microfinance indebted households and non-microfinance indebted households who have experienced COVID-related income shocks. The majority of those interviewed were women (see Appendix 1 for more details). The interviews with households were over four months from July to October 2020, taking place in Battambang, Siem Reap, Kampong Chhnang, and Phnom Penh.

Findings

- Common coping strategies during normal times, such as the reduction of consumption and depletion of personal savings, has not been adequate for vulnerable households coping with the impacts of the COVID-19 crisis. As a result, households have had to seek temporary work in the construction or agriculture sectors; restructure their income-generating activities or household needs; or engage in some combination of all of these coping mechanisms.

- The practice of credit circulation, or *Bangvil Luy*, is a traditional livelihood response that can be complemented with other livelihood responses or can be used independently. The practice of credit circulation among kinship circles functions as an informal social protection for debt distressed households. The size, wealth, and the willingness to help among a household's kinship circle reflects their capacity to recover from the economic shocks. However, in most cases, low-income households do not have rich financial kinship circles.

- COVID-19 has limited the capacity of low-income households to diversify their income sources. For example, it has limited households' ability to routinely migrate to neighbouring Thailand. The inability to routinely migrate, and the loss of employment in the tourism sector, has created a labour surplus in the domestic labour market. The construction and agriculture sectors can absorb some labour supply, but at the current levels, the two sectors are not able to absorb all the job losses caused by the COVID-19 disruption.

- Access to finance allows some households to restructure their income generating activities. To minimize the livelihood risk, households preferred to shift from one activity to another that either requires a similar set of skills, or at least does not require a different set of skills. For example, with the help of microfinance loan, a dismissed garment worker was able to open a tailor shop in her hometown. However, due to the volatility of the situation induced by COVID-19, it is not yet clear whether such new income activity will be successful.

- Despite some reported challenges of how the money is being distributed at the local level, the ad-hoc financial assistance run by the government for low-income households who hold an ID Poor registration card has proven to be effective in easing income losses in those households.

- In the context of difficulties meeting debt repayment obligations, borrowers are reluctant to negotiate with their financial institutions. The reasons that borrowers are reluctant is either because they are not aware of the supporting mechanisms, or they are scared to approach the financial institutions due to the fear that doing so can negatively affect their credit history, which can hinder future access to credit. The fear is not groundless as a few of our participants were told by their credit officers that irregular repayment will prevent them from future access to credit. Both cases can result in over-indebtedness because without the supporting mechanisms, debt distressed households can engage in unwanted coping strategies.

- During the COVID-19 crisis, financial institutions have implemented loan restructuring policies to support their clients whose income are affected by the COVID-19. However, our research identified several policy implementation concerns. First, loan restructuring has not been available to all affected households. Second there has been inadequate outreach to vulnerable and COVID-19 impacted households. Third, loan restructuring has been challenging to access in cases of proxy-borrowing, in which the people who take out a loan are different from those principally responsible for loan repayment. In some cases borrowers were unable to access loan restructuring because their livelihood activities were not seen as being directly impacted by COVID, despite the fact that those helping them repay the loan were directly impacted.

- The loan restructuring processes is driven by loan officers rather than by borrowers. Drawing from data collected with branch managers and loan officers, it is loan officers who primarily identify which borrowers are eligible for the loan restructuring policy. Late repayments are the main criteria to identify households who have lost their ability to repay, and therefore are eligible for the policy. However, as the repayment dynamics of debt distressed households show, borrowers may struggle before showing any signs of late repayment. Thus, one main concern is that waiting for borrowers to miss a payment means that the window for protecting clients can all but disappear. It is comparable to waiting for cancer to being diagnosed at stage 2 or 3 prior to considering possible remedies. Moreover, putting the onus on loan officers to discern who is needy or deserving of loan restructuring, and without proper tools, training, and assessment methods in place, is likely to result in bias and inadequate assessments. Putting the burden on loan officers also discourages borrowers from being active participants in the lending process and advocating for their needs. In doing so, it may distort FIs understanding of their loan portfolios.

- The loan restructuring policy has helped prevent the microfinance sector from entering into crisis, buying some time for borrowers to seek temporary work or restructure their income generating activities (or both). However, the option provided under the loan restructuring policy to allow the borrower to repay only interest (without principal) ultimately increases the total cost of the loan for the borrower.

- Overall, the affected households with outstanding loans manage to survive the crisis through utilising the loan restructuring policy, ad-hoc government financial assistance, and kinship circles. Households can recover from the economic shocks when they can diversify these support mechanisms. However, most vulnerable households that we interviewed cannot utilise the combination of these mechanisms, raising a central concern that it is possible these households are sinking deeper into debt.

Possible Responses from Different Actors

- Currently the Client Protection Principles (CPPs) that were initiated by the global SMART Campaign are not legally binding and adherence is self-regulated. Government actors may consider enacting regulation that enshrines the current CPPs into law and allows for sanctions to be levied against institutions who do not abide by the CPPs.

- The NBC could consider the creation of a publicly accessible clearinghouse of data on local lending to help borrowers make decisions among financial providers. This is an example of how one of the CPPs - transparency- can be put in place. For example, the NBC could support an online platform in both Khmer and English listing all the financial institutions registered with the NBC. Reporting to the clearinghouse would be compulsory and information might include data such as the average or range of interest rates, average or range of service charges, FI complaint mechanisms, loan terms and conditions, and stated commitments to CPPs. This information should be centralised and made available for the public.

- All options in the loan restructuring policy should be made available to all affected households. While this is currently the case on paper, it is not the case in practice. It is critical that financial institution managers ensure that field staff make all options available to all households who are affected by the COVID-19 crisis, and ensure the thorough, smooth, and fair implementation of these policies. When a suitable loan restructuring option is not available to affected households that need it, it can lead to coping strategies such as high-risk migration, consumption reduction, taking children out of school (or children deciding to drop out on their own), and the sale of productive assets, including land. These coping strategies can exacerbate the economic vulnerability of low-income households.

- Future restructuring should allow processes to be driven by both loan officers and borrowers. This would require field staff verbally explaining to borrowers, in plain language, about existing mechanisms and options for households to navigate debt stress. This information can be given as early as at the time of loan application, and/or be more widely publicized by financial actors, the government, and other relevant actors.

- Financial institutions and the NBC should clearly communicate that loan restructuring will not impact credit histories and future access to credit. This information should be disseminated both to staff and borrowers as a uniform policy supported by the NBC.

- The government should consider establishing personal bankruptcy laws that grant debt relief in warranted cases specifically to low-income households. Building on the 2007 bankruptcy law or know in Khmer as the law of *Khsay Thun* number NS/RKM/1207/031, first, the government could issue guidelines to clearly distinguish the implementation of the bankruptcy law for businesses and the personal bankruptcy law for individuals. Second, simplifying the processes so that the law is more known and accessible to the public, especially to the most vulnerable households. Currently, the existed bankruptcy law is almost not accessible to the public due to its complex, insufficient, and uncertain procedures.[2] Adding to this, a known and accessible personal bankruptcy law also contributes to strong consumer protection practices as it disincentivises risky lending practices.

- The same priority and energy driving the finance sector's growth should also support client protections measures, and development actors could fund innovative financial education for low-income households that goes beyond traditional financial literacy by focusing directly on client protections and legal rights.

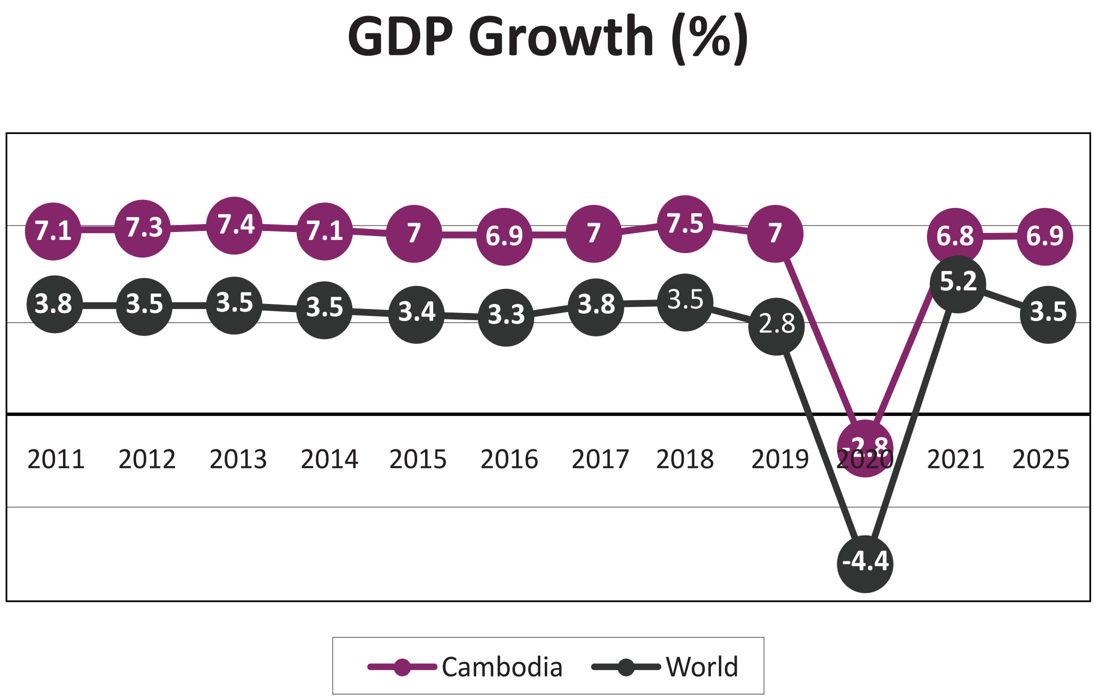
- As a complement to the clearinghouse, development actors could establish an independent credit consumer feedback mechanism which allow users to share their experiences about their financial providers. One possibility that we could think of would be a digital platform in the local language. Such a platform should address the issues of reviews' quality and reliability, and how to incentivise platform users, knowing that many are likely not digitally connected.

[2] Ly 2020.

I. INTRODUCTION

On 27 January 2020, Cambodia detected and confirmed its first case of COVID-19. According to reports published in May 2020 by the World Health Organization (WHO) Cambodia has demonstrated a successful and effective rapid response to the pandemic, with zero COVID-19 related deaths thus far.[3] However, despite Cambodia's successful effort in containing the virus, the economic impacts remain. As part of a globalised world, it has been impossible for Cambodia to avoid economic losses resulting from COVID-19. Indeed, states across the Asia-Pacific are likely to experience severe economic impacts, with the Asian Development Bank suggesting economic losses ranging between 1.7 and 2.5 trillion USD.[4]

Figure 1: GDP Growth and Projection



Source: International Monetary Fund 2012, October 2020

These losses follow a decade-long period of stable and sustained economic growth in Cambodia. After growth rates averaging 7 percent since 2011, in 2020 the country's GDP is expected to shrink by 2.8 percent[5] (see Figure 1). This is largely due to the severe impacts COVID-19 has had on the country's primary engines of growth: tourism, construction, and manufacturing. COVID-19 has disrupted supply chains, forced

[3] World Health Organization 2020.
[4] Asian Development Bank 2020.
[5] International Monetary Fund October 2020.

countries to impose strict travel bans, and caused job losses across a range of sectors. As a result, it is estimated that 1.76 million jobs in Cambodia are at risk of being lost.[6] Low-income and vulnerable households are likely to be hardest hit by this economic downturn. These challenges have led the World Bank (2020:3) to state that, "the global epidemiological and economic crisis unleashed by COVID-19 poses the greatest threat to Cambodia's development in its 30 years of modern history…Poverty could increase between 3 to 11 percentage points from a 50 percent income loss that lasts for six months for households engaged in tourism, wholesale and retail trade, garment, construction, or manufacturing."[7]

The economic impacts of COVID-19 raise major concerns for Cambodia's microfinance sector, as well as its clients. Prior to the pandemic, a range of actors were already raising concerns about high levels of household over-indebtedness and the relationship between debt and household vulnerability.[8] For example, a sector-sponsored survey (N = 802) conducted in 2017 with borrowing households in 12 provinces and Phnom Penh suggesting that 28% of microfinance borrowing households were insolvent, and another 22% were critical or at risk.[9] Scholarly research in the region has pointed to a number of specific problems associated with over-indebtedness to microfinance institutions, including land loss[10], distress migration[11], declining household nutrition through a reduction in food consumption[12], and debt-bondage.[13] With the COVID-19 crisis, the livelihoods of vulnerable households are becoming more precarious as many lose or see dramatic decreases in their main sources of income due to the broader slowdown of economic activity. These losses make it even more difficult for these households to repay their loans.

Given the economic impact of the COVID-19 crisis and growing concerns about indebted households, this report seeks to identify the impact of COVID-19 on microfinance borrowers who have experienced income losses due to the pandemic. Specifically, it focuses on microfinance client households who were engaged in factory work, tourism, agriculture, or labour migration prior to COVID-19. First, it documents how COVID-19 has shaped economic security among borrowing households, and what coping strategies they have engaged in to mediate these losses. Next it explores how financial institutions (banks and MFIs) have worked to support borrowers during the crisis, and the kinds of loan restructuring made available to COVID-impacted borrowers. In doing so, it points to the opportunities and limits of current forms of consumer protection in the financial sector. Last, it calls for different actors to assume responsibilities to weather the economic impacts of the crisis and to better protect low-income households, especially those who are struggling to repay. Prior to these sections, the next section of this paper will summarise the pre-COVID-19 situation in Cambodia, with a focus on the existing levels of debt-stress and mechanisms for consumer protection in the financial sector.

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6 World Bank 2020.
7 World Bank 2020:3.
8 Ovesen and Trankell 2014; Bylander et al 2017; MFC and Good Return 2017; Bateman 2019; LICADHO 2019.
9 MFC and Good Return 2017.
10 Green 2018; Green & Bylander forthcoming.
11 Bylander 2014; Ovesen and Trankell 2014; Green and Estes 2018.
12 Seng 2018.
13 Natarajan et al 2020.

II. BACKGROUND

As of the end of 2020, MFIs have provided loans with relatively lower interest rates (when compared to unregulated private lenders) to approximately 2.2 million borrowers in Cambodia. MFIs have also held 8.1 billion USD in outstanding loan.[14] As of 2019, the sector has employed a total of 35, 169 Cambodians[15], especially young men, and allows them to be covered by the government's and or private formal health insurance scheme, as well as access to other benefits. It also helps young undergraduate students to finance their education through these employment opportunities. Moreover, microfinance helps a number of people in rural areas access to clean water and improve hygiene through the sales of water filters and latrines on credit.

While there is no denying that microfinance benefits some segment of the population, the current direction that the sector is going is worrisome. The microfinance sector in Cambodia has undergone rapid transformation over three decades. Cambodia opened up as a free market economy in the early 1990s, and at that time microcredit was provided to the rural poor as part of development programmes, led by international organisations who strongly embedded their social mission to alleviate poverty. The most well-known and pioneering MFI was the Association of Cambodian Local Economic Development Agencies (ACLEDA), an MFI that sprouted out of a development project originally spearheaded by UNDP. But most of Cambodia's largest MFIs have their roots in the development sector. A few years after ACLEDA was formed, other development INGOs joined the sector. For example, in 1994 the humanitarian NGO Catholic Relief Services founded Theaneakea Phum ("village bank"), which was later bought by an international corporation and renamed LOLC (Cambodia). In 1995, Prasac was started as a development project funded by the European Union (EU), aiming to rehabilitate and support the agricultural sector. AMRET was the result of GRET, a French NGO, experimenting with a project to deliver microcredit to the rural population in Cambodia, and around the same time Concern established AMK, OCSD/OXFAM Quebec established Hattha Kaksekar, and Kredit was established by World Relief US.[16]

By early 2000s, most of these organisations had transformed and received licenses to operate as microfinance institutions from the National Bank of Cambodia.[17] A decade after the sector's transformation, some scholars began raising concerns that Cambodia had one of the most saturated microfinance sectors in the world.[18] At the end of 2009, the microfinance system in Cambodia consisted of 20 licensed microfinance institutions (MFIs), 26 registered rural credit operators, and around 60 NGOs, all of which provided

[14] Personal communication with CMA in December 2020.
[15] Personal communication with CMA in February 2021.
[16] Information obtained through FIs' annual reports and websites.
[17] Ibid.
[18] Gonzalez 2010; Gonzalez & Javoy 2011; Krauss et al 2012.

informal financial services in the areas throughout the country.[19] By 2018 there were 353 microfinance institutions, comprised of 7 microfinance deposit-taking institutions, 73 microfinance institutions and 273 rural credit operators.[20]

How did this transformation affect MFIs' commitment to lift low-income households out of poverty? While a few managed to keep social missions, most have abandoned them. For those who are still able to keep a social mission, this report asks how long will they be able to do so? A similar transformation- microfinance moving away from social-oriented missions to profit-maximisation seeking -was also documented in the microfinance 'birthplace'- Bangladesh[21]- as well as in India.[22]

As Cambodia's market has further opened to attract international capital and global ventures, there is cause for concern. In 2018, according to a survey of international investors, Cambodia received 8.4% of all microfinance-specific investment in the world. The sector's loan portfolio is ranked second globally after India, a country with a population size almost 85 times larger than Cambodia's.[23] As study released in March 2020 by MIMOSA found, that Cambodia's credit penetration (microfinance and bank loans) was between 21.8 and 34.9 borrowers per 100 adults – yielding a minimum saturation score of 6, the highest level available within MIMOSA's framework and the highest score among the eleven countries that were studied.[24] This financing can undermine consumer protection principles and encourage risky lending (such examples can be seen across the world, such as the subprime housing mortgage crisis in the late 2000s in the United States), and it can increase the risk of over-indebtedness. Indeed, credit markets are prone to cycles of expansion and contraction, and can lead to crises in the absence of effective regulation.[25]

Over the past decade, both financial actors and scholars have raised concerns about the rapid expansion and saturation of the microfinance sector in Cambodia, and the resulting increases in over-indebtedness and debt stress among borrowing households.[26] These concerns are also acknowledged by the Cambodian Microfinance Association (CMA), which as far back as 2014 noted that over-indebtedness was one of the three major concerns impairing the sustainable growth of the sector.[27] In 2012, microfinance investors commissioned the first over-indebtedness study in Cambodia, motivated by their concern that "over-indebtedness has become among the most serious risks of microfinance today."[28] Its findings motivated a

[19] NBC. 2009.
[20] NBC.2018:38.
[21] see Karim 2011.
[22] see Bateman 2010; Mader 2015.
[23] Symbiotics 2018 as cited in Green 2020.
[24] MIMOSA 2020:7.
[25] Davel 2013.
[26] Gonzalez 2010; Gonzalez & Javoy 2011; Krauss et al 2012; Bylander et al 2017.
[27] CMA 2014.
[28] Liv 2013.

larger, national study of the same issue, which was completed (although unpublished) in 2017. The results indicated high levels of debt stress among microfinance borrowers. The survey (N = 802) conducted with borrowing households in 12 provinces and Phnom Penh suggested that 28% of microfinance borrowing households were insolvent, and another 22% were critical or at risk.[29] While repayment rates at this time remained very high (98% of clients repaid on time or within 30 days), a significant number borrowers reported subjective feelings of debt stress. The same report notes that there are a range of causes of debt stress, including supply side factors (such as institutional growth, lending practices, and high levels of competition), demand side factors (including multiple borrowing, psychological biases, and demographic characteristics such as education), and external factors (such as macroeconomic and environmental instability).

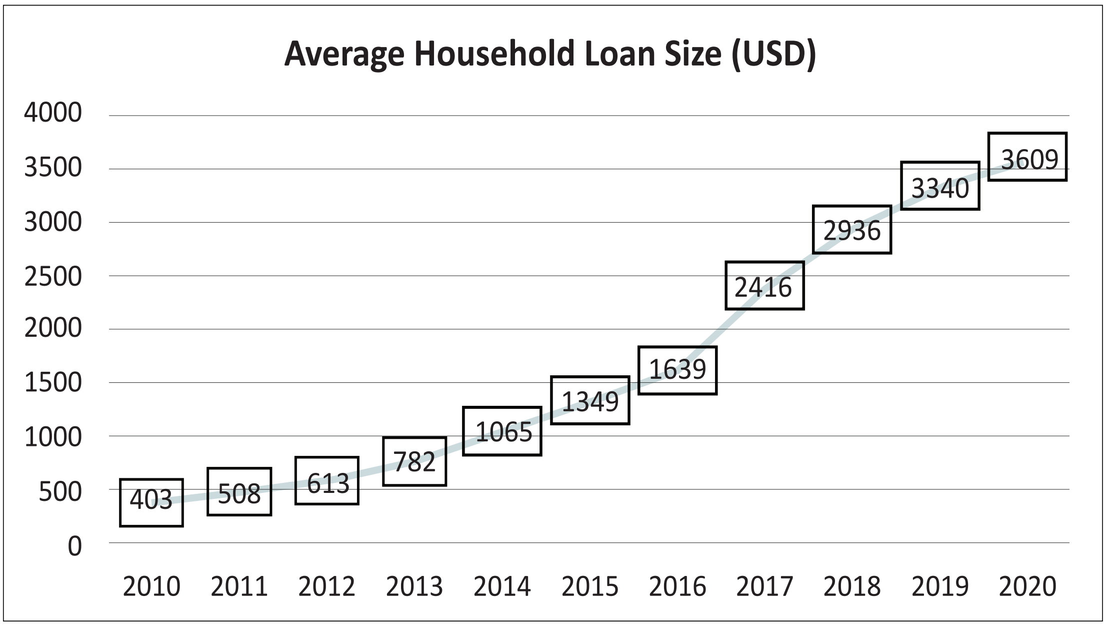
Limited regulation also plays a role. Those working within the financial sector note the importance of regulatory action, such as prohibiting unsolicited credit, limiting automatic credit increases (or re-loans), limiting commissions on credit for loan officers, compulsory affordability assessments, and industry ombudsperson schemes (among others) as important ways to curb market excess.[30] To date, the Cambodian government has imposed limited forms of regulation on the microfinance sector. The Center for Financial Inclusion notes the current financial consumer protection regulations in Cambodia are weak.[31] Moreover, according to Economist Intelligence Unit 'Microscope' report shows, Cambodia ranks nearly at the bottom for consumer protection. Cambodian ranks 53 with the score of 14 while Indonesia ranks 13 with the score of 77 on consumer protection.[32]

Over the past five years, concerns about over-indebtedness have expanded, and the issue has now attracted the attention of a range of scholars, non-governmental organisations, social impact funds, donors, and financial practitioners. In recent years these issues have also garnered attention from international and local news outlets. The central concern of many of these actors is that loan sizes have grown rapidly, while average incomes have not grown at a similar pace. For example, as cited in the Center for Financial Inclusion (CFI), according the Credit Bureau of Cambodia, between 2004 and 2014 average loan sizes grew four times faster than average borrowers' income, leading CFI to conclude that this growth is unsustainable.[33] Additionally, according to the World Bank (2019), over the past five years the average household loan

[29] MFC and Good Return 2017.
[30] see Davel 2013 for more discussion of regulatory acts to curb debt stress.
[31] Center for Financial Inclusion 2019.
[32] Economist Intelligence Unit 2019.
[33] Center for Financial Inclusion 2019; Evers 2019.

size has increased by tenfold[34] (see also Figure 2). Research has already documented that debt distressed Cambodian households engage with a range of coping strategies, many of which can heighten vulnerability. For instance, sector reports have shown that Cambodian microfinance borrowers regularly engage in coping strategies that they deem unacceptable in efforts to repay loans. Common coping strategies that are most often described as 'unacceptable' include reducing medical expenses, taking out new loans, selling assets, sending children to work, and taking children out of school. Resorting to such coping strategies can make indebted households more vulnerable. To prevent debt distressed households from engaging in coping strategies that can heighten their vulnerability or economic insecurity, supporting mechanisms are needed. To date, there are limited regulatory framework and supporting mechanism for debt distressed households.

Figure 2: Trajectory of average household loan size



Source : Cambodian Microfinance Association (CMA) 2020.

** The statistics include AEON, Phillip, Ly Hour and Hatta who have changed to become banks in 2020.*
** Exclude: ACLEDA and Sathapana*

[34] Pimhidzai et al 2019.

Recognising these concerns, financial and government actors have taken a number of steps to mainstream best practices in consumer protection across the financial sector. For instance, since 2016 the Cambodian Microfinance Association (CMA) has worked to build stronger consumer protection practices, via its lending guidelines, and in 2015 Association of Banks in Cambodia (ABC) also initiated *Code of Banking Practices and Cambodian Sustainable Finance Principles Implementation Guidelines*. The two mechanisms are used by both groups to guide member institutions. In addition, the National Bank of Cambodia (NBC) has also noted the importance of consumer protection in its most recent financial sector development strategic plan 2016-2025. In this strategic plan, NBC appears committed to bringing consumer protection into its regulations. In late 2019, the Cambodian government approved and issued a Consumer Protection (CP) law (number ns/rkm/1119/016). However, the law does not cover financial services of non-bank providers. As Point 14 of Article 4 states, "Service refers to any rights, benefits, priorities, facilitation provided or offered under the following types of contracts, except non-bank financial services." The decision to leave financial services of non-bank providers uncovered by this law raises concerns over the welfare and rights of indebted households who receive financial services from institutions other than banks.

Returning to consumer protection principles, the SMART Campaign (hereafter, SMART) is a global campaign committed to embedding client protection practices into the institutional culture and operations of the financial inclusion industry. CMA is supportive of SMART, and is working with NGO partners to support MFIs to become SMART certified. To be SMART certified, the MFIs must commit to enacting seven consumer-protection principles (CPPs), including: 1) Appropriate product design and delivery, 2) Prevention of over-indebtedness, 3) Transparency, 4) Responsible pricing, 5) Fair and respectful treatment of clients, 6) Privacy of client data, 7) Mechanism for complaint resolution (Smart Campaign 2011). The campaign's goal is to ensure financial products do no harm to consumers. To date, the CMA and NBC have been actively engaged in implementing and monitoring the CPPs. However, CPPs are not currently legally binding, and adherence to guidelines from SMART Campaign[35], which are all self-regulated within the sector. As industry insiders have shown, this self-regulation has proven to be ineffective in protecting borrowers[36], and can lead to credit crises.[37] This highlights the limitation of these forms of self-regulated lending guidelines and client protection principles.

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[35] Now this task is transferred to Social Performance Task Force (SPTF).

[36] Rozas 2020.

[37] See Afonso, Forcella, and Guérin 2016.

III. RESEARCH METHODOLOGY

1. Research Approach

Since the COVID-19 crisis began, the livelihoods of many vulnerable households have become more precarious as many have lost their main source of income or seen it decrease dramatically.[38] This has exacerbated problems of debt stress, making it even harder for borrowers to meet their payment obligations. Given this background, this research study began as an attempt to understand two related concerns: how COVID-19 has impacted borrowers, and how financial actors have responded to the crisis. In particular, we were interested in the new mechanisms of loan restructuring put in place by financial institutions in response to COVID-19. The objectives of the research were to, first, understand households' responses to income loss, and second, understand the dynamics of debt repayment among microfinance debt distressed households, as well as the possible consequences of this distress. The research aims to highlight issues that are recurrent and exacerbated during COVID-19 times. Finally, it aims to propose possible responses for policy makers, financial institution actors, and development actors in order to better protect the most vulnerable households in Cambodia to help them weather the social and economic impacts of the COVID-19 crisis. Since what we are trying to understand is the dynamics of these issues, we selected semi-structured, in-depth interviews as our research method. First, this method allows us to capture the multiple layers of the issues and their possible consequences. It also gives us the flexibility to identify emerging issues and opportunities to improve the conditions of debt distressed households. As a result, this research features a much smaller sample size compared to household surveys. However this approach is appropriate as our goal is to show the complex nature of issues that microfinance borrowers are facing and to learn about the challenges most relevant to borrowers. Qualitative research is well-suited for this kind of exploratory work.

In setting the scope of the study, we were guided by the National Bank of Cambodia's circular No. T7.020. 001, issued on 27 March 2020, which request the banking and financial institutions in Cambodia to be flexible with regards to debt repayment by offering loan restructuring for borrowers in four priority sectors: (1) Tourism, 2) Garment manufacturing, 3) Construction, and 4) Transportation and logistics. However, we also wanted to explore households in other sectors who may be impacted by COVID-19, but were not prioritised and therefore were not specifically noted in the NBC's circular. Thus, we chose to explore the experiences of borrowers in two sectors described as priority sectors by the NBC (tourism and garment manufacturing) as well as two additional groups of borrowers not designated as belonging to

[38] See World Bank 2020 for statistical figures.

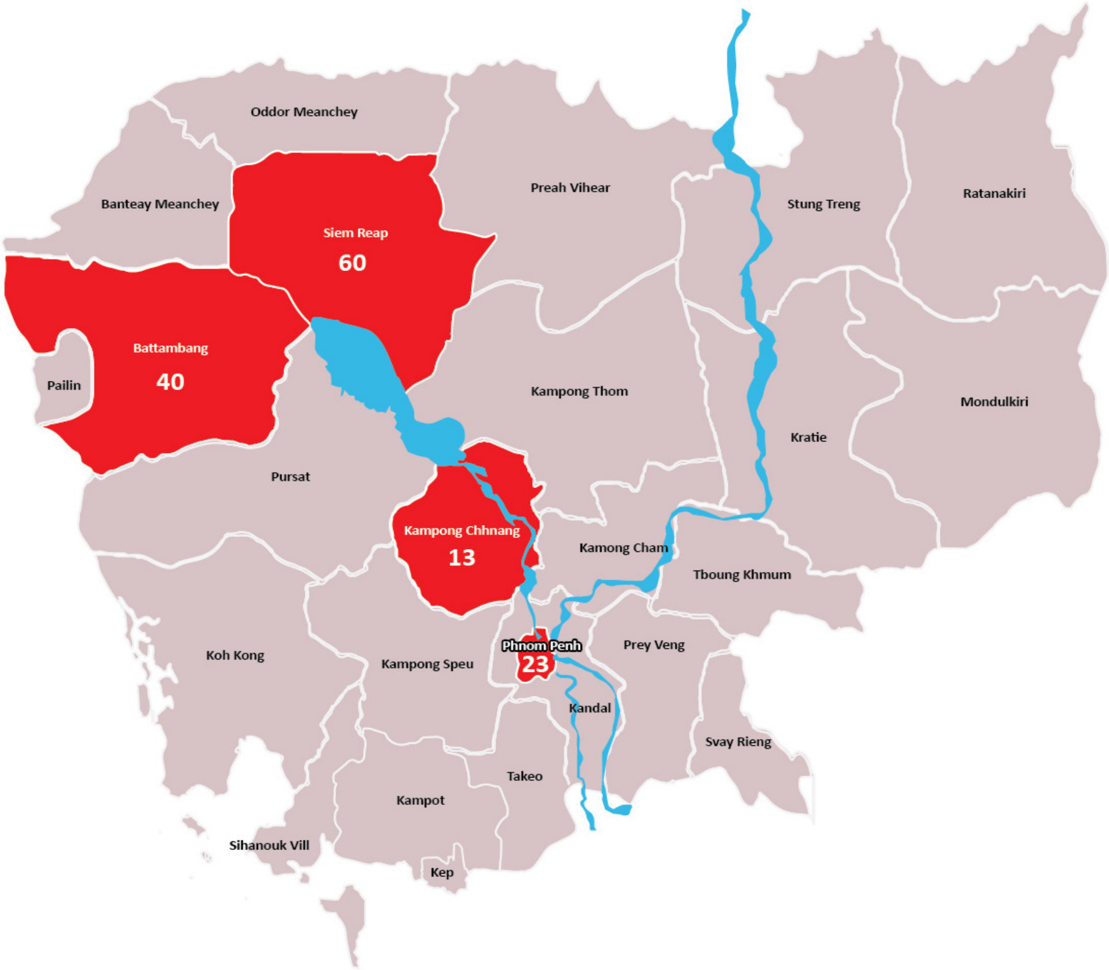
'priority sectors' (cross-border migrant households reliant on remittances and households involved in export agriculture). Prior research has documented that these groups also experience high levels of debt stress[39], and would also be impacted by COVID-19. For instance, the World Bank (2020:21) recently noted that, "returning migrants from Thailand and their households that relied on their remittances, are also likely to face significant income losses and elevated risk of falling into poverty." Often in such cases, migrant workers and their family members are more vulnerable and can face social exclusion, such as experiencing difficulty in getting access to legal documents and health care in both their destination and origin countries. Additionally, export agriculture households are specifically included in the study because they are likely to have taken a microfinance loan to invest in their agricultural activities, and they make up of the majority of farming households. According to our previous fieldwork experience, we observed that compared to households engaged in agriculture in general, export agriculture households are more likely to be indebted. This makes them more vulnerable in the event of COVID-19 because we expect that COVID-19 may limit farming households' capability to diversify as daily wage work that took place in the farm's off-season may no longer be available. Since the NBC did not specifically mention these groups in their policy, it was unclear whether MFIs deem these households eligible for the loan restructuring policy, even if they are clearly impacted by COVID-19. Thus, one of the research purposes was to understand whether loan restructuring policy is available for them.

2. Research Locations

The interviews with households took place in Battambang, Siem Reap, Kampong Chhnang, and Phnom Penh (see Figure 3). The areas were selected based on their high concentrations of the sectors of interest. For example, most garment factories are in Phnom Penh, with some in Kampong Chhnang. Siem Reap heavily depends on international tourism. Battambang is one of the main origin regions for cross-border migrant workers and is also well-known for its cash crop cultivation, such as rice, corn, and cassava. In addition, the researcher's prior research experience (Kampong Chhnang) and the research team's connection to these communities also contributed to their selection. These prior connections were important in allowing the fieldwork to run smoothly during a time where anxieties about outsiders were high.

[39] Bylander 2014; Bylander 2015; IOM 2019; Green 2018; Green 2020.

Figure 3: MAP of Studied Areas



Source: Author's concept. Graphic designed by Gcreatives

3. Data Collection & Analysis

Data collection took place over four months, from July to October 2020, and involved microfinance borrowers, non-microfinance borrowers, and the staff of financial institutions. With support from the Cambodian Microfinance Association, seven letters of permission were sent to SMART-certified members that were major microfinance financial institutions, and two letters were sent independently to SMART-certified leading banks. Three institutions responded and agreed to participate in the research project by giving permission to conduct interviews with their staff. Others did not respond or declined. In addition, the research team used our own connections to interview several MFI employees. In total, 34 interviews were conducted with officials from five financial institutions. Most of the interviews were with loan officers (N=18) and branch managers (N=15), however we also spoke with one chief executive officer. Given that the microfinance sector predominately employs men, all but one of the MFI employees interviewed for the project were men.

In addition, the research team conducted interviews with 119 current microfinance borrowers. The majority of those interviewed were women (see Appendix 1 for more details). This research project also conducted interviews with 17 people who do not have any current formal loans. This contributes to general understanding on the differences between coping strategies among indebted households and non-indebted households who both experienced COVID-related income shocks.

Borrowers were selected based on their sector of work and were limited to those who had been engaged in garment factory work, tourism, labour migration and/or export agriculture prior to COVID-19. Within the borrower sample, we also worked to ensure that a diversity of livelihood activities was represented. Our borrower sample included interviews with international and internal migrant households; factory workers; corn/cassava/rice land-owning farmers; land-owning-tenant farmers; tenant farmers; souvenir sellers, tuk tuk drivers; tour guides; and hotel and restaurant staff. Prior to conducting the interviews, the research teams screened for households who are holding a bank or microfinance loan, but we did not know yet whether borrowed households were struggling to repay.

The research team was equipped with COVID-19 protection kits, and advised all participants to keep social distance while conducting interviews (see Photo 1). The research team comprised four people: the lead researcher, an independent researcher, and two research assistants. Each received an individual training and briefing from the lead researcher regarding the research objectives, questionnaires, and techniques of conducting in-depth interviews. The lead researcher also provided a practical training to the research team through in-depth interviews demonstration in the field. The questionnaires were tested and then adjusted to the local dialects in order to better capture the research objectives. Moreoever, the research team was strongly encouraged to follow emerging themes that we found interesting. All interviews were transcribed, translated, and analysed for themes and sub-themes. Illustrative quotes and case studies were chosen to highlight common themes and experiences. In addition, this report includes a discussion of several more extreme cases—chosen to highlight atypical but nonetheless important experiences. Where cases and/or quotes represent more atypical or extreme experiences, they are noted as such. To keep our participants' confidentiality and anonymity, all reported names and names of financial institutions are pseudonyms.

(Photo 1: Conducting interview Phnom Preuk district, Battambang 2020. Photo by No Asim).

(Photo 2: Ferry station, Kampong Chhnang 2020. Photo by Phasy RES).

IV. FINDINGS

Section 1: The Social and Economic Impacts of COVID-19 on Borrowers

COVID-19 has affected borrowers in varied ways depending on their livelihoods. Some people lost their jobs completely, while others experienced income reductions or temporary furloughs due to staff restructuring and/or supply chain disruption. This section highlights how borrowers' incomes have been affected by COVID-19 in the four main sectors studied: garment manufacturing, tourism, cross-border migration, and agriculture. For the agricultural sector, this report focuses on farmers engaged with export-oriented production (in particular, with rice, corn, and cassava).

1.1 Garment Manufacturing

According to estimates by the World Bank in 2020, Cambodia's garment and footwear sector has provided 941,000 jobs, most of them to women from nearby rural areas. In total, the sector is the largest formal employer in the economy, and according to the World Bank it provided approximately 17% of the real GDP growth in 2019.[40] Since the start of COVID-19, nearly 100,000 garment workers have lost their jobs[41], comprising about 10% of total sector employment. It was estimated that from January to October 2020, garment related exports decreased by 9 %.[42]

COVID-19 has disrupted this sector in significant ways. However, even prior to COVID-19, the sector faced considerable instability due to the withdrawal of the Everything But Arms (EBA) trade scheme, a preferential trade arrangement offered to developing countries by the European Union (EU).[43] These instabilities were already impacting the sector in ways that the microfinance institutions were concerned about. For instance, several branch managers we spoke with expressed concerns regarding EBA withdrawal, as their clients are either factory workers or doing business directly with workers. As one branch manager said, "We are also facing the EBA issue as well, we are not sure which factories will stay and which ones will leave."[44] Due to this unpredictability and instability in the garment sector caused by a combined factor of EBA withdrawal and COVID-19, the interviews with financial actors and borrowers revealed that during COVID-19, a few

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[40] World Bank, 2020

[41] IndustriAll Global Union 2020.

[42] SoK 2020.

[43] EBA grants unilateral duty free, quota free access for all exports, except arms and ammunition (see more via this link: https://ec.europa.eu/trade/policy/countries-and-regions/countries/cambodia/.
EBA withdrawal is in response to systematic violations of key principals of the International Covenant on Civil and Political Rights (ICCPR) linked to political participation, freedom of expression and freedom of association in Cambodia. The withdraw of the EBA withdrawal procedure has begun in February 2019, and around February 2020, EBA withdrawal has been partially imposed.

[44] FI ID:11.

major financial institutions had suspended granting loans to garment factory workers or had stopped including the wages from the sector in the repayment capability assessment. Still, many workers in the garment sector either have their own loans or help to repay the loans of family members in rural areas.

Our interviews with garment sector workers were mostly from provinces around Phnom Penh. The vast majority of workers interviewed for this project regularly send remittances home, and in most cases debt repayment is a primary use of remittances. In some cases, garment workers send money back for their own debts, however they also routinely support the debt repayment of loans held by their parents.

The speed with which COVID-19 impacted the global economy resulted in severe impacts for factory workers, including the loss of overtime work, temporary furloughs, permanent layoffs, and even factory closures. Among the 23 interviews we conducted with garment manufacturing workers, 2 workers were dismissed[45], while the majority experienced a loss of overtime work or at least one month of factory closure.

The loss of overtime work was particularly problematic for workers with outstanding loans, as it reduced their income by approximately one-third (see Figure 4). Interviewees shared similar experiences of losing a large portion of their income:

"Since COVID-19 has started, I do not have extra hours of work. Now I leave work at 4 pm every day. So, I am earning a basic wage of 193 USD instead of 290 USD per month."
- Footwear factory worker, age 47

"Since COVID-19, my salary has been reduced by between 80-90 USD per month." [46]
- Garment factory worker, age 19

"Before when I worked extra hours, I received more than 300 USD per month. However, now I receive 200 USD because the factory does not have extra work hours." [47]
- Bag factory worker, age 21

The loss of income leaves many juggling expenses for rent, food, personal expenses, supporting family members back home, and debt repayments (see Figure 4). A 25-year-old bag factory worker said her basic salary is 193 USD, but sometimes during the start of COVID-19, she received less than 100 USD per month, as her wage was deducted when the factory closed for 7, 10, or 14 days. Yet her expenses remained the same. "I still have to pay for the rent 35 US dollars, electricity 17,000 Riel (6.12 USD), and water 20,000 Riel (5 USD)."[48] On top of that, she was financially supporting her elderly parents and her children back home,

[45] It is worth noting that there are only two dismissed workers in this research study because most of dismissed workers have already returned to their hometown scattered all over Cambodia. This suggests that our sample may underestimate the negative impacts of COVID-19 on garment sector workers as a group.

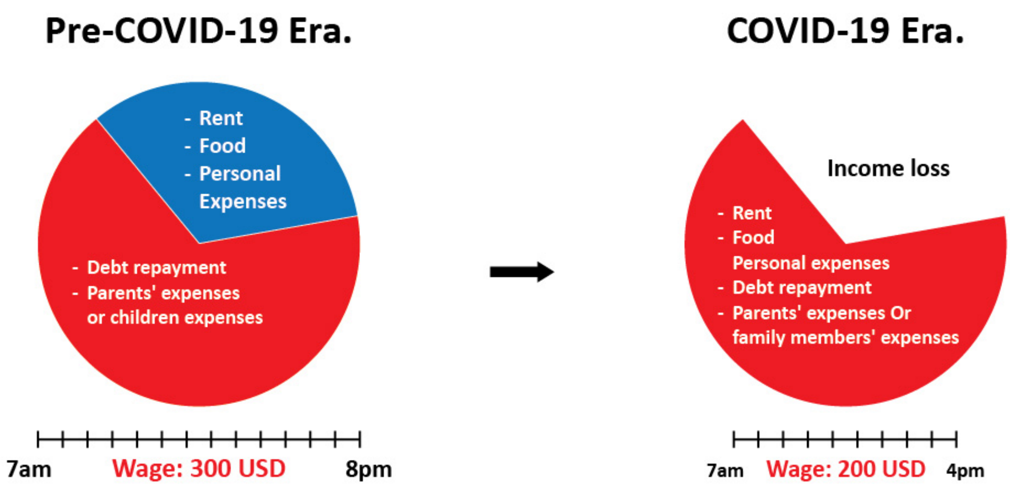
[46] Participant ID:50.

[47] Participant ID:59.

[48] Participant.

and was obligated to repay microfinance debts of 110 USD monthly. Moreover, during COVID-19 her husband was stranded in Malaysia for a short period of time, and his employer withheld his annual payment. In April 2020, her husband returned home. Utilising his sewing skills, her husband joined her in Phnom Penh. However, she said it took her husband a few months to get work, as a number of factories rejected him due to his gender. Finally, in August 2020 one factory accepted him to work if he agreed to work on an as-needed basis, usually one or two days per week. With no other options, he accepted the job and earns 7 USD per day he works. As this case suggests, these cuts to overtime and a lack of complementary income often meant that garment workers had to choose between covering their basic expenses and paying down debts.

Figure 4: Income Loss of Garment Manufacturing



Source: Author's concept. Graphic designed by Gcreatives

n= 23[49]

These challenges have persisted despite government efforts to support those working in the garment sector. In February 2020, the Ministry of Labour and Vocational Training (MOLVT) issued a guidance stating that workers in textile, garment, footwear, and bag-related employment whose contracts are suspended are eligible to apply for financial compensation. Initially, the policy stated that factories would be required to compensate workers 40% of their minimum wage, and the government would further compensate them an additional 20% of their wage if they attended soft skills training.[50][51] However, later on, MOLVT shifted to

[49] The calculation of this graph is draw from 23 interviews with garment manufacturing workers.

[50] MOLVT Announcement 2020.

[51] It is beyond the scope of this research to inquire further as to what has happened with the prior policy.

a policy that categorised suspended workers who are eligible for government financial support into three groups: 1) Workers who are suspended from one week to ten days receive 15 US dollars; 2) Workers who are suspended from eleven days to twenty days receive 30 US dollars; 3) Workers who are suspended from 21 to 30 days receive 40 US dollars. The latter policy's compensation scheme is consistent with our data. We spoke to several people who benefited from these programmes. For instance, a 25-year-old bag factory worker returned to her hometown to help her parents farm after her factory was closed for a month. She says, "When the factory closed down for a month, the factory gave me 30 US dollars, and the government gave me 40 US dollars."[52] [53] These forms of financial support are only designated for workers whose contracts are suspended, while those whose contracts end are given no compensation. Two dismissed workers we spoke with said they neither received financial supports from the factory nor from the government. Both said that they were dismissed as a result of their contracts coming to an end. Anecdotally, this suggests that since COVID-19, factories have increasingly shifted to hire workers on a short-term contract basis, with either three- or six-month periods. This gives employers more power to dismiss workers without bearing any financial consequences. Similarly, when factories close down temporarily or permanently, workers whose contracts come to an end get no compensation. This practice and its consequences are well described elsewhere.[54]

1.2 Tourism

Unlike the garment sector, Cambodia's tourism sector had enjoyed a lengthy period of sustained and stable growth until COVID-19. Prior to the beginning of the COVID-19 pandemic, tourism provided approximately 620,000 direct jobs and contributed 18.7 percent to real GPD growth in 2019.[55] Our findings show that, since people who depend on the tourism sector have historically enjoyed relatively stable income, many use microfinance and formal loans to invest in real estate, such as land and housing.

The tourism sector appears to be the most severely impacted by COVID-19 in the immediate and middle term, as the international tourism sector is not likely to recover fully until vaccines are globally available. In March 2020, Cambodia decided to suspend visa-upon-arrival entry for international tourists, and to date there is no sign of easing the border restrictions stopping international tourists from entering Cambodia. Following the "November 3"[56] and "November 28"[57] community transmission events, Cambodia made it even harder for foreigners to enter Cambodia by changing their mandated quarantine from two weeks of self-quarantine to state-monitored quarantine for all entering travelers.

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[52] Participant ID:46.

[53] 40 US dollars is consistent with the latter policy of the financial support provided by the government as she is suspended for 30 days. However, the 30 USD that she receives from the factory, as to how the calculation of 30 USD is derived from is unclear, and it is beyond the scope of this research to inquire further.

[54] See Human Rights Watch 2015; OXFAM 2019.

[55] World Bank 2020.

[56] The November 3 event marks the transmission of the Hungarian trade minister who visited Cambodia, later tested positive for COVID-19 during his next visit toThailand.

[57] November 28 event marks the first detected local transmission. The event starts with a wife of a high-ranking officer tested positive for COVID-19. Following by the temporary closing down of a famous AEON mall, after learning that the patient has visited the mall a week earlier.

(Photo 3: Pub Street-above, Alleyway-belllow Siem Reap city, Siem Reap 2020. Photo by Phasy RES).

The rapid and dramatic drop in international arrivals has transformed Siem Reap town (see Photo 3), which in recent years had attracted millions of international tourists each year. Since tourism is the main engine of economic activity in the province, both the city and its surrounding areas have been hit hard by the pandemic.

In the tourism sector, there are those who are self-employed and those who are employed by businesses, such as hotels and bars. With the absence of international tourists, both groups are severely affected. Most of those self-employed who directly depend on tourists are tuk-tuk drivers and souvenir sellers. Tuk-tuk drivers and souvenir sellers with whom we spoke described their income loss in extreme terms, saying that they had lost the vast majority of their income. Many articulated the loss to be as high as 90%. While this estimate should not necessarily be taken as an accurate calculation of loss as the actual loss could be higher or lower than 90% (see Table 1), it highlights how severe these individuals perceive their losses have been. Those employed by businesses experienced economic impacts in different ways. Some lost 100% of their income from the sector, while others are being paid a certain percentage (from 40% to 70%) of their pre-Covid-19 salary. Across interview respondents with a range of experiences, similar levels of loss were described.

Table. 1: Income Loss in Tourism

ID	Pre-COVID-19	COVID-19	Age	Gender	Livelihood	Loan Amount (USD)	Loan Restructure
25	30-40 USD/day	2.5USD/day	30	Male	Tuk Tuk driver	6000	Yes
116	100 USD worth of merchandise/ day	Enough for food /day	40	Female	Souvenir vendor	9000	Did not request
2	350 USD/month	Unemployed	22	Female	Restaurant chef	2500	Fear to approach FIs
16	1300 USD/ month	10 USD/day	34	Male	Tour guide/ hotel staff	3000	Yes

Source: Author's preparation

Unlike those working in the garment sector, the government financial support for laid off workers who were employed by registered businesses in the tourism sector is 40 USD per month, and for the duration of two months.[58] However, none of the respondents we spoke with who had been employed in the formal sector (e.g., tour guides or those working at hotels) had received financial support from either companies or the government. These extreme changes in income, sustained over months, meant that those working in the tourism sector were deeply impacted by COVID-19. For those with outstanding loans and without savings or rich financial kinship circles, repayment was often impossible.

1.3 Cross-border Migrant Workers

There are an estimated 1.2 million Cambodian workers abroad, remitting 2 billion USD annually.[59] The most popular migration destination country is Thailand, followed by South Korea. Prior to COVID-19, cross-border migrant workers often faced several issues, including getting access to documents, unpaid employment, and arbitrary treatment by destination countries. Cross-border migrant workers often rely on formal loans to help finance the costs of migration and/or obtaining documents.[60] In addition, migrants often borrow from financial institutions to pay for the costs of housing, investments, and basic needs.[61] In late 2020, a survey among migrant households and returnees (N=1054) conducted by a joint UN agency found that 30.5 percent of the interviewed households were indebted to either banks or microfinance institutions, with median household loan sizes of 1,500 US dollars.[62] A range of research studies have also argued that over-indebtedness to financial institutions drives unwanted migration.[63] Drawing from our interviews with migrant households and returnees (n = 32), we found that cross-border migrants both with and without outstanding loans plan to or have already re-migrated through irregular channels despite the border closure. We encountered a few people who took out a loan to improve their house, or buy a piece of land, after they perceived that their income from cross-border migration to be stable. Regardless of the reason for the initial loans or migration, migrant-sending households typically rely on remittances to repay debts.[64] Thus, it is crucial that FIs provide supporting mechanisms for debt distressed households so that they do not need to migrate in distress in search for employment. One central concern is that when households migrate in distress, they are more vulnerable for exploitation because distressed households might accept any employment that is offered to them.

[58] The Asia Foundation 2020.
[59] Mom 2020.
[60] IOM 2019; Bylander 2020.
[61] Bylander 2014.
[62] IOM & UNFPA 2020.
[63] A 2016 IOM survey noted that 41% of recently returned migrants from 10 provinces noted financial debt as the main cause of their initial migration (Dickson and Koeing 2016). See also Bylander 2014; Bylander 2015; MFC and Good Return 2017; Green and Estes 2018; IOM 2019; LICADHO 2020.
[64] OECD 2017; IOM 2019.

As of June 2020, IOM reported that more than 115,000 Cambodian migrants have returned from Thailand.[65] Through talking with the migrant family members and migrant returnees, we found that migrant workers face a range of impacts depending on the type of migration they engage in. Here, we describe the experiences of three different groups of migrants: seasonal workers who do short-term work in neighbouring border provinces in Thailand, regular migrants who migrated through the formal MOU process via a recruitment agency, and migrants who crossed the border initially through irregular channels, some of whom have gained documentation through Thailand's national verification process.

The first group are seasonal migrants, who generally reside along the Cambodian-Thai border and supplement their livelihoods with work in Thailand. This group is severely affected by the border closure, as it disrupts their seasonal routine migration. These migrants work for daily wages in Thailand when there is seasonal work and engage in livelihood activities in Cambodia for the remainder of the year. They cross the border to work in fruit orchards or other industrial crops, such as cassava and sugar cane. On the Cambodian side, they farm or work on other people's farms. Overall, workers prefer to work in Thailand as it offers a higher wage, and more regular work. For instance, one seasonal migrant we spoke with, Ms. Peap,[66] usually migrates to Thailand seasonally. From May to September, she peels rambutan for a canned rambutan factory in Chanthaburi. Over five months, she and her husband usually are able to save up to 50,000 baht (1,560 USD). From October to December, she, and her husband usually cross the border daily to work in the longan ochards, and the couple can make 800 baht (25 USD) per day from picking fruits. However, due to the border closure caused by COVID-19, this routine migration has been disrupted. This disruption leaves their family's economic situation in a difficult place, in terms of balancing microfinance debt repayment and living expenses. While the government's financial support through the ID poor registration allows the family to meet the debt repayment obligation, the family is struggling to put food on the table. Ms. Peap's story exemplifies the challenges of seasonal and daily cross-border migrant workers, whose livelihoods have been negatively impacted by the border closure. In many cases, if they receive the financial support from the government, the money is used to repay the microfinance debt.

In addition, COVID-19 has increased competition among seasonal migrant workers looking for work on the Cambodian side of the border. Since the border closure in late March, many seasonal migrants who once migrated to Thailand during the harvesting and growing seasons are now competing for local daily wages work. This has created a surplus labour supply in the Cambodia's northwest region, and as a result average wages are now lower than during the pre-COVID-19 era. As a 45-year-old seasonal

[65] IOM & UNFPA 2020.
[66] Participant ID:65.

migrant worker shared, "Before COVID-19 if we were weeding in the fields, we could get 25,000 Riel (6.25 USD) per day. Now we could only get 20,000 Riel (5 USD) per day, and there is only limited work, as many people are looking for jobs."[67] This understanding of inflow of workers to the area to look for work has been confirmed by a land-owning cassava farmer who annually recruits workers on their farms. "It has only been this way this year. Before, there were not nearly as many people looking for work. It used to be very difficult to find workers."[68]

(Photo 4: Document for seasonal migration – border pass-blue and daily pass- Phnom Preuk district, Battambang 2020. Photo by Phasy RES)

[67] Participant ID:69.
[68] Participant ID:72.

Regular migrants—those who migrated through a registered recruitment agency—also have distinct COVID-19-related challenges. These individuals have all migrated through official channels, under the supervision of agencies that offer them placements with particular employers. Most migrant family members or returnees whom we interviewed said either family members or they themselves migrated to work in factories, including those involved in food production (poultry and fish) and manufacturing (garments, gloves, car parts, screws). These migrants have short-term contracts that can be renewed for up to four years of employment. After that, workers must negotiate with the employer. These workers have greater protections than the previously mentioned groups, as they have official contracts and have migrated through official channels. In theory, they should be better protected during the COVID-19 crisis when compared to the other two groups. However, the reality is more complicated. Some interviewees received compensation when the factories closed temporarily, while others did not. Two case studies illustrate these differentiated protections.

E-Thear[69] who herself used to migrate for work in the construction sector, and is now a mother of a migrant worker, described that her daughter had migrated through regular channels to work at a glove factory in the southern part of Thailand. According to E-Thear, her daughter's work has not been severely impacted by COVID-19. Her daughter's work was suspended for two weeks in April, but her daughter received the same wage without any deductions. Additionally, her daughter also received extra pay of 4,000 baht per month, financial support labelled as 'COVID money' which E-Thear understands has been given by the Thai government. With her daughter's monthly remittances, E-Thear has not struggled to repay her family's microfinance debts.

However, regular status does not always result in better protections.

Socheata's[70] husband migrated through a registered legal recruiter to work in a canned fish factory. Socheata said the factory owner only calls her husband to work when they have an order. If the factory does not get orders, her husband has no work to do. Since COVID-19 has started, he is averaging only three days of work per week. This makes it difficult for him to support himself in Thailand, and impossible for him to remit money home to repay their microfinance debt.[71]

The different treatment between E-Thear's daughter and Socheata's husband reflects the gaps of labour protection implementation for regular migrant workers in Thailand. There is no guarantee that regular status translates to sufficient labour protection.[72]

[69] Participant ID:21.
[70] Participant ID:107.
[71] The research teams did not inquire about the recruitment related debts.
[72] See Bylander 2019; ILO and IOM 2017 (the risks and rewards study).

The last group, long-term migrants in interior provinces of Thailand, also face COVID-19-related challenges, and many were let go from their jobs and forced to return home. This has been particularly challenging for migrants working in the construction sector-a key sector of work in rural areas of Siem Reap where we conducted interviews. In this community, there is a long history of migration to Thailand and strong migrant networks.[73] While most of these migrants initially went to Thailand through irregular channels, many have gained legal status through the nationality verification process[74] that took place from late 2017 to mid-2018. However, while these workers often have legal status in Thailand, many lost their employment when the Thai government decided to close many construction sites during COVID-19. Some migrants have returned home, while others have remained in Thailand, unemployed, out of fear that they may not be able to re-migrate after their return. Debt plays a key role in shaping these decisions. As a sister of a migrant workers said, "They [her siblings] do not dare to return home because they have to work in order to repay the bank/MFI. Some said if they return, they cannot re-migrate. So, they would not be able to repay. They are determined to remain in Thailand."[75]

To be clear, not all long-term migrants have been negatively impacted by COVID-19. Those working in smaller provinces, with smaller crews at local construction sites have been able to continue working. However, families who are separated have found it difficult to reunite in several cases. During the time of our interviews, many were waiting for the border to re-open so that they could re-migrate through a formal channel, while other household members had already left using informal channels. During a follow up visit, a few interviewed returnees had re-migrated to Thailand despite the fact that border remained officially closed.

1.4 Rice/Corn/Cassava Farmers

Although the export of rice, corn, and cassava has not been hindered by the border closure, export agriculture generates its own risks. Farmers we spoke with noted that prior to the start of the COVID-19 pandemic they often experienced environmental challenges, including insufficient rainwater or flooding. In both cases, crops were threatened. These challenges were also relevant during our fieldwork, at which time those who were living around the Tonle Sap plains were experiencing low water levels, while other provinces were experiencing flooding (see Photo 5). This erratic climate has imposed challenges for farmers trying to predict when they should plant and harvest their crops. Another issue that farmers raise is the infestation of pests and introduction of new pests. However, this issue seems to be manageable by farmers due to the availability of different variety of pesticide and insecticide. These products increase the cost of farming, which makes it difficult for farmers to profit.

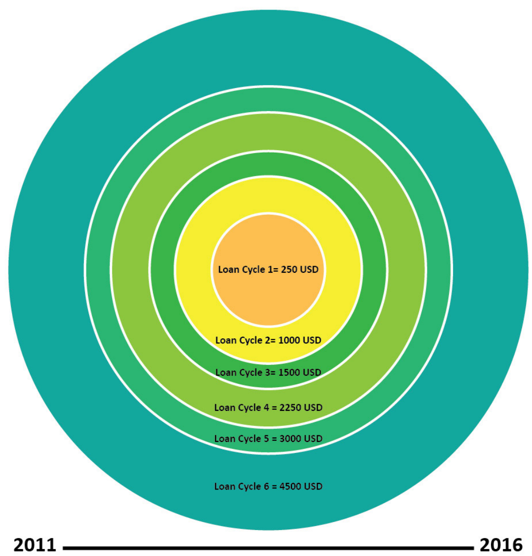
[73] See Bylander 2015.
[74] The process is an effort to regularized undocumented migrant workers from three nations – Cambodia, Myanmar, and Laos.
[75] Participant ID:3.

(Photo 5: A group of young men trying to catch fish during a flood in Bavel district, Battambang 2020. Photo by Phasy RES).

Many farmers rely on loans for agricultural inputs. When farmers cannot sell their products at the expected price or the yield is lower than expected, it can create financial challenges requiring them to choose between having sufficient food to eat for the whole year and repaying household debt. For those struggling for multiple years, debts can accumulate and loan sizes can increase from one cycle to another (see Figure 5). Two case studies below are used to illustrate the risks that associated with farming activities.

Bopha[76] was newly married in 2010. In that year, she and her husband took out their first microfinance loan of 250 USD, with the purpose of improving their house. Then the couple saw that their neighbor was able to make a good income from mung bean farming around the Tonle Sap plain. The newly married couple was very excited and decided to rent four hectares of land to farm mung beans. The rent for the land cost them 500 USD per hectare per year. The couple decided to borrow 1,500 USD from a financial institution for agricultural inputs. However, the mung bean farm did not generate sufficient income for them to live off, due to a variety of factors including a pest infestation, storms, and low water levels. The loan size increased from cycle to cycle, as the couple needed money to repay the previous loan as well as to support themselves. In 2016, the couple decided to quit farming, but by then the debt had grown to 4,500 USD, all at only one financial institution (see Figure 5). Since then, Bopha's family has depended on her husband doing day labour at local construction sites, where he earns a daily wage between 10 to 12.5 USD. At the time of the interview, the outstanding loan was still around 2,800 USD. After the failed attempt to transform their family's life through mung beans farming, the couple made a promise to themselves that they would never take out a big loan from any financial institution again. Apart from the crop failure, the couple utilized an informal loan, with an interest rate of 30% per month, to repay their formal loan at their financial institution. At the end of each cycle, they would take an informal loan to repay their financial institution, and then would get a new loan at that financial institution, using much of that new loan to repay their informal loan, and using any remaining for agricultural inputs and household consumption. The easiest way to visualise the increase of her household loan size is to imagine it as a roll of straw which accumulates more and more debt as new loan is rolled out from cycle to cycle (see Figure 5).

Figure 5: Bopha's Loan Cycle from One Financial Institution



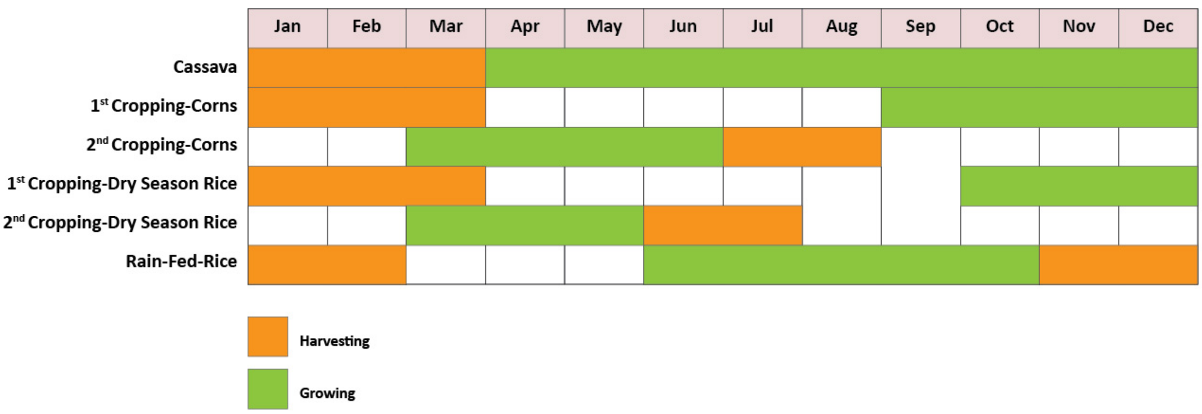
Source: Author's concept. Graphic designed by Gcreatives

[76] Participant ID:84.

Similarly, when Pu Theurn and Ming Mao started borrowing in 2014, their first loan was to buy a tractor to plough their 15 hectares of land. After a few years (he could not recall exactly when) his corn and cassava production failed due to drought. This began a three-year period of inadequate rainfall, at which point the household began to struggle to repay their debts. After sustained losses, the couple decided to sell the tractor. Even after selling their tractor, they could not repay all the debt, so they decided to sell 10 hectares of their land to repay. At the time of the interview, the middle-aged couple was chopping cassava roots, which were not fully ready to harvest yet, but were harvested a few months early because the couple needed the money to repay the microfinance debt. Our research team asked him about the key risks he perceived in agriculture, using the Khmer term ***phey****, literally translated as "to be fearful of". He responded jokingly, "The main* ***phey*** *(fear) is the repayment due date because I have to repay one after another." After finishing the sentence, he laughed gently. This story reflects a reality for many borrowers who are struggling to repay - the feeling of* ***phey*** *(fear). To date, the couple are still struggling to make their monthly repayments.*[77]

These case studies highlight the risks associated with farm-related investments, and the potential for loans taken for agriculture to produce debt stress. Such points have been well documented by research in the Cambodian context. Indeed, the most recent over-indebtedness report commissioned by the financial sector notes that nearly half of borrowers (49%) experienced lower crop yields than expected and a similar percentage (47%) noted a large decline in the sale of crop prices.[78] Perhaps this is why the report also notes that borrowers who used loans for investments in agriculture were more likely to need to use a coping strategy in order to make timely repayments.[79]

Figure 6: Rice/Corn/Cassava Crop Calendar- Cambodia



Source: Author's concept. Graphic designed by Gcreatives

[77] Participant ID:77.
[78] MFC and Good Return 2017.
[79] MFC and Good Return 2017.

While COVID-19 has not dramatically impacted agriculture directly, it has increased farmers' vulnerabilities by making it difficult for them to find daily wage labour during the off-season due to (as noted earlier) the inability to migrate to a neighbouring country, and labour supply surplus in the domestic sector. Most farmers engage in what can be called *cyclical borrowing practices*, where they borrow during the growing seasons and repay the principal during the harvesting seasons (see Figure 6). Thus, people who engage in cash crop agriculture are also engaged in other income generating activities in order to cover their daily expenses, and this is especially true for those who own two hectares of land or less. Since Cambodian farmers are mainly engaged in lower value-added cash crop, such as corn, cassava, and rice, the income from two hectares of land is not sufficient for a household of four.

To survive, family members need to engage in other income generating activities in the local community, or seasonally migrate to nearby cities or countries during the off-farming season. For example, often

(Photo 6: Chopping premature cassava root Phnom Preuk district, Battambang 2020. Photo by Phasy RES)

those who live close to the border migrate to find wage labour in Thailand during the off-farming season. However, when the border is closed, these opportunities are not available. This lost income was typically used to cover daily expenses and repay monthly interest on loans. As a 31-year-old tenant farmer shared, “When there wasn’t the COVID outbreak, I got some daily wage work, and my husband migrated to Thailand daily. Then, we could repay the interest amount. It is difficult during COVID.”[80] Similarly, an MFI branch manager noted during his visit to clients’ houses, before COVID-19, his clients were able to get off-farming season work either in the construction sites in Cambodia or migrate seasonally to Thailand. However, since COVID-19 has started, he said his clients or their children could not find any work.[81] Without opportunities to diversify their incomes, households are particularly vulnerable, and this is even more true when they are also indebted to formal institutions.

(Photo 7: Rice, Cassava, Corn, Mung bean, Kampong Chhnang and Battambang 2020. Photo by Phasy RES)

[80] Participant ID:64.

[81] FI ID:11.

1.5 Sector-related Livelihood Vulnerabilities Prior to COVID-19

Each of the four sectors we examined have distinct pre-existing insecurities. Prior to COVID-19, garment sector workers were experiencing instability and unpredictability due to the EBA withdrawal and short-term contract employment practices. In the agriculture sector, farmers were subject to erratic climatic events and price fluctuation, making it difficult for them to earn a stable and sufficient incomes. Migrant workers have been marginalised and exploited for decades, and while in the past few years they have they received a greater degree of labour protection, many remain marginalised and vulnerable to exploitation. While the tourism sector has been more stable overall, many drivers, guides and employees have undiversified livelihoods outside the sector, making them especially vulnerable to the kind of sector-wide disruption COVID-19 has produced.

Across these sectors, many households use loans: for investment, for everyday expenses, for home improvements, for healthcare costs[82], and for education expenses. The combination of the high levels of household debt across the country, the unprecedented and severe impact of the global pandemic, and pre-existing livelihood vulnerabilities has produced immense economic insecurity. Many households are struggling, both to make ends meet and to repay loans. Moreover, COVID-19 has limited the ways that households can respond to these challenges, as many prior forms of diversification and coping are no longer possible. In the following section, we explore how households are coping with income loss: by shifting resources and/or taking on new livelihoods, and by engaging in a range of other coping strategies.

Section 2: Livelihood Responses to Income Loss

In Section 1, this report has shown how households associated with garment factories, cross-border migration, tourism sector and export agriculture experience income losses resulting from the COVID-19 crisis. It also explained how COVID-19 limits households' capacity to diversify income generating activities, making it harder for households to cope with their pre-existing livelihood insecurities. This section aims to capture livelihood responses to income loss, answering the question, "What do people do when they lose their income"? Drawing on the data, there are two main responses to income loss: 1) Shifting livelihoods in the case of diversification, 2) Seeking daily work or beginning a new livelihood activity in the case of non-diversification. These coping strategies remain true whether households have outstanding loans or not, although debt-stressed households often have greater income needs, as they must spend not only on maintaining their household, but also to repay existing debts. The following section describes other forms of coping that households engage with, alongside livelihood-based responses.

[82] Ir Por et al 2019.

2.1 Shifting Livelihoods: Responses by Households with Diverse Livelihoods

Livelihood diversification is crucial to effectively cope with economic shocks, such as in the event of COVID-19. For households who had diversified streams of income prior to COVID, the most typical response to income loss was to shift resources to a livelihood that was less severely affected by COVID-19. For example, one garment sector worker, **Sreyneang**[83] had been working in the same factory for three years. She was dismissed around May 2020, and received no compensation, due to the fact she was on a short-term contract.[84] However, prior to COVID, she had used savings from her factory work to buy two stalls at a nearby market, which she set up as a salon. This had cost her 6,000 USD. Previously she worked weekdays at the factory, and weekends and evenings at her salon. Since she lost her job at the factory, she has decided to fully focus on her salon. At the time of our interview, her business seemed to be doing well and she had regular customers.

Many others we spoke to shared similar stories of shifting resources. For instance, **Somphos**[85] and her husband used to primarily work as servers at weddings, earning 10 to 15 US dollars per wedding. However, since the outbreak of COVID, there have been fewer weddings, and they have been unable to earn their usual income. As a result, they have shifted their energies to work that once provided just small amounts of secondary income for them: basket weaving (for **Somphos**) and construction work (for her husband). These have now become their primary sources of income. **Somphos** can weave two baskets per day, and each basket is sold for around 1.25 US dollars. However, this is a lower price than was typical pre-COVID, and there are problems with her supply of raw materials. Somphos shared that many people in her village have begun to weave baskets as the primary source of income, and now there is a shortage of vines in the area. This has prompted villagers to rent cars to collect vines in nearby provinces, increasing the cost of producing the baskets.

In both **Sreyneang** and **Somphos**'s case, the household had multiple ways of earning money and could quickly shift their time and resources toward a livelihood that was still possible to engage with during COVID-19. For some borrowers, like Sreyneang, these ventures have proved fairly successful. For others, like Somphos, these shifts have provided only a basic safety net.

83 Participant ID:47.
84 Her contract is renewed every six months.
85 Participant ID:130.

2.2. New Livelihoods: Responses by Households with Singular Income Streams

For those without a secondary livelihood to fall back on, the most commonly strategy was either to seek daily wages in the construction or agricultural sector, or to begin new livelihood activities. The latter was typically perceived as a high-risk strategy, leading most of those we spoke with to seek out temporary day labour—an easier and less risky option.

Historically, the construction and agricultural sectors have had the capacity to provide some temporary or seasonal work for those who have lost their income. However, to get any work during this time of job shortages, strong networks are required. Additionally, in most cases the work that is available in these sectors is physically intensive, irregular, and less well paid. In addition, day labour is not regulated, leading to possibilities of wage theft. This appears to be a growing concern during COVID times. In fact, our research encountered several cases of workers in the construction sector not being paid for their labour. As a woman who owns small souvenir shop says, “Before, my husband was a tour guide, but since there were no tourists, he has gone to work in the construction sector temporarily. But he was cheated by the manager.”[86] These concerns were also raised by MFI staff. Several loan officers and branch managers whose clients mainly depend on working in construction raised similar concerns and explained that this year, many of their clients have been cheated (left unpaid) by their construction managers or sub-contractors. According interviews with households and FI representatives, the risk of not getting paid was much lower prior to COVID-19.

Daily agricultural work is seasonal and mostly available during the harvesting seasons. Corn and cassava are more labour intensive, so harvesting tends to provide a good amount of work to low-income households. Usually, corn is harvested twice per year, while cassava is harvested once per year (see Figure 6). The nature of this daily wage work provides a quick way to compensate income losses, and it does not require a different set of skills. At the time of the interviews, interviewees who could not re-migrate to Thailand planned to migrate to the western part of Cambodia to seek seasonal agricultural work.

When the work in the construction and agricultural sectors are not available or do not provide sufficient income, households resort to doing whatever they can within their means in order to compensate for this income loss. For instance, most of our interviewees who are low-income households and residing along the Cambodian-Thai border collect snails, tamarind leaves, or unpicked corn.[87] As a 40-year-old

[86] Participant ID:118.
[87] Participant ID:65.

seasonal migrant worker says, "Every day my husband goes collecting unpicked corn." Another migrant returnee adds that her family members collect snails in the forest and get three to four kilograms per day, while one kilogram is sold for 75 cents (see Photo 8).[88]

(Photo 8: forest snails collected by migrant households Phnom Preuk district, Battambang 2020. Photo by Phasy RES)

Some interviewees began entirely new livelihoods in the wake of COVID-19. In most cases, these drew on existing skills, such as selling, sewing, or raising livestock. New income generating activities that we learned about in this study include: engaging in agricultural activities (raising fish, frogs and chickens), selling products gearing toward the local population, and starting small businesses. Here, we present three case studies to illustrate how households impacted by COVID shift into new livelihood activities in an effort to make ends meet.

[88] Participant ID:69.

Thira[89] is 29 years old. He is married and has one daughter who is two years old. At the time of our interview, his wife was also pregnant and expecting to deliver a baby girl in a few months. Prior to COVID-19, he worked as a tuk tuk driver during the night and delivered drinking water during the day. Since the start of the pandemic, he has been unable to earn much as a driver, pushing his household into financial hardship. In order to compensate for the income loss from driving a tuk tuk, he has decided to buy 100 hens to raise. However, almost all of his newly bought hens caught diseases and died. In response to the loss, Thira bought twenty more hens.

Neat[90] is around her early 30s. She is married and has two daughters. She runs a stall at the local night market where she sells baskets and other handicraft products. Neat shared that before COVID, she only sold handicraft products geared toward international tourists. Since there is no hope that international tourist arrivals will resume any time soon, she has replaced her stall with new products aimed at local clients. In the first few weeks of these efforts, the new business was going well, however at the time of the interview she said there are more sellers making similar adjustments, drawing business away from her.

Neary[91] is 32 years old. She is married and has two children. She worked on and off in the garment sector for more than ten years while also doing rice farming. Most recently she was working for a factory on a short-term contract basis, and in late March 2020 she was told that her contract would not be renewed. She received neither compensation nor financial support aside from her salary and the seniority payment. In July 2020, her manager called her to return to work, but she rejected the offer for fear of being dismissed again due to COVID-related instabilities. Her husband moves between daily labour construction sites and work on their rice farm. After Neary was let go from her job, the couple decided to return to their hometown and opened a tailor shop. In doing so, they drew on the skills Neary had learned by taking a sewing course in the evenings in Phnom Penh.

[89] Participant ID: 25.
[90] Participant ID:121.
[91] Participant ID:80.

These cases also highlight the role financial institutions play in supporting the shift to new livelihoods. Each of the three individuals described here were current microfinance borrowers, and each held sizeable loans that they were finding difficult to repay given their income losses. However, in each case, borrowers sought out financial institutions for support in navigating their livelihood change. For instance, **Neat**, the night market seller, was indebted to two financial institutions, for a total of approximately 7,000 USD. In order to switch her inventory, she topped up her current loan, using the new funds to buy new products for local markets. For **Neary**, opening her tailoring shop required a considerable loan to use to open the shop. Prior to opening the shop, she used a family loan from her aunt to pay off her existing MFI debts (approx. 850 USD) and then applied for a new loan in the amount of 3,000 USD. While her first application was rejected, on her second attempt at a new institution this loan was approved. In both cases, new loans from financial institutions enabled a livelihood switch. It is not yet clear how to interpret these moves: if new livelihood ventures prove successful, and these debts are able to be repaid without hardship, this suggests that new loans to borrowers experiencing income shocks can help them transition into new livelihoods. Conversely, if these new livelihoods are unprofitable or also insecure, these new loans may end up heightening the vulnerability of borrowers by increasing their debt burden. In times of such limited opportunity and dramatic upheaval, there is reason to be concerned about the possibility for the latter situation. During the follow-up visit, **Neary**- a dismissed garment worker- s earning 5 USD per day on an average, which she said was just enough to cover food. Thus, the family saves the husband's income from daily wages at the local construction sites to repay the monthly MFI debt.

In the third case, **Thira** received relief for some of his debt burdens from financial institutions. Thira held formal loans prior to COVID and asked for loan restructuring. He was granted a lower monthly repayment rate, lessening his monthly debt burden and allowing him to direct more of his resources into his new venture. We discuss more cases of loan restructuring and their implications in Section 4.

Section 3: Repayment Strategies of Debt Distressed Households

While nearly all households we spoke with sought to shift or introduce new livelihoods, they also engaged with a range of additional strategies to cope with debt repayment. Typically, these were necessary when indebted households were in transition to new income activities or when the new income activities were not sufficiently profitable.

Based on our interviews, we identify three main strategies that households used when faced with a combination of debt stress and income loss: 1) Reduce household food consumption and/or deplete savings; 2) Credit circulation; 3) Last resort strategies, including the sale of land, and other least desirable options. Here, we also discuss negotiation with financial institutions, which was also understood as a strategy of last resort by borrowers. This was especially true among low-income households. In Table 2 (below) we describe these strategies in more detail, ranked in the way that borrowers most typically described their desirability.

Table 2: Common Repayment Strategies of Debt Distressed Households

Ranking	Strategies
Primary strategies	• reduction of household food consumption • depletion of savings/sale of personal assets and livestock • circulate credit among kinship circles – no interest
Secondary strategies	• rotate credit from informal/formal lenders – incurs interest
Last resort strategies	• negotiate with financial institutions • sale of productive assets such as land • withdraw children from school • distress migration • child labour

Source: Author's preparation

We should note that our findings reconfirm findings by recent over-indebtedness reports both in the range of coping strategies that borrowers engage with in times of debt stress, and the differences in how various kinds of coping strategies are perceived.[92] As Table 1 suggests, households generally prefer to first reduce household consumption, borrow (interest-free) from friends and family members, and sell personal assets and livestock, before moving to less desirable strategies such as taking on more formal/informal debt (with interest), selling productive assets, migrating, taking children out of school, or asking children to work. Similar patterns were noted by both the 2013 and 2017 over-indebtedness studies implemented by the sector. What is new is that our study also notes that borrowers see negotiation with financial institutions as a last resort—something to be done when all else has failed, rather than earlier on in the process. This has important implications for how financial institution communicate existing supporting mechanisms to debt distress households, and the effectiveness of existing mechanisms in response to debt stress.

[92] See Liv 2013; MFC and Good Return 2017.

While these coping strategies may support borrowers being able to make ends meet in the short-term, they can all have negative consequences in the medium- to long-term. Depleting savings and selling livestock, for instance, may exacerbate future vulnerability, as households have limited resources in moments of future crisis. Similarly, forced reduction of food consumption due to decreasing revenue can cause immediate malnutrition, especially in the case of low-income households who barely meet minimum nutritional standards intake per person per day in normal times and can severely impact the well-being of household members.[93] Borrowing money from friends and family can strain household relations and deplete the savings of middle-class and near-poor households, heightening their vulnerability. Less desirable coping strategies also have negative consequences. Taking out additional loans ultimately exacerbates debt stress, and selling assets, distress migrating, and taking children out of school can lead to long-term negative consequences. The goal of all actors should be to avoid these outcomes. In the following sections, we describe in greater detail the typical ways that those we interviewed coped with income loss and debt repayment.

3.1. Reduction of Household Food Consumption & Saving Depletion

Many indebted households worked to repay their debts normally, despite income loss. Often, the first way that households sought to make this work was to reduce household food consumption.[94] Those we interviewed regularly mentioned this, and it was especially true among low-income households. Interview respondents across a range of sectors shared similar experiences:

"My children transfer the money to repay the FI, I use it repay the debt even though I don't have enough money for meals. But it's okay, even if we don't have enough for a meal." [95]
– Family member of migrant workers

"There is no difficulty in repayment so far. We have been making sure that we have enough money to repay the loan every month. Even though sometimes we do not eat well. We don't want to have a bad name… of course it is difficult but that's the way it goes." [96]
– Seasonal migrant worker

"I could repay normally, but I had to take a big part of my family's income to repay the loan, so I have little money left to cover other needs in the family." [97]
-Bag factory worker

[93] See Seng 2018 for debt related consumption reduction and malnutrition.
[94] See Seng 2018.
[95] Participant ID:94.
[96] Participant ID:66.
[97] Participant ID:54.

Another common way that households repaid debts during this time was through drawing down their savings or selling livestock or other valuable assets. For instance, one souvenir seller whose husband is a tuk-tuk driver shared that to repay their loan, they sold some of her gold jewelry and used some of their savings. They owe 200 USD per month, and shared that over the first three months of COVID they sold approximately 5ji of gold (worth approximately 800USD) in order to finance their living costs and debt repayment.[98] Another young woman working in the agricultural sector shared she had sold four cows in order to meet the monthly MFI debt repayment.[99] A souvenir seller who owned multiple shops and is indebted to a bank for about 120,000 USD sold her car for 33,000 USD, which she just bought two months before the COVID-19 outbreak for 43,000 USD, in order to ensure smooth repayment. The money from the car sale will allow the couple to repay the debt for eleven months, as she needs to repay the bank around 3,000 USD per month.[100]

3.2. Credit Circulation – *Bangvil Luy*

Debt-stressed borrowers also routinely relied on traditional forms of credit circulation, known in Khmer as *Bangvil Luy*. Credit circulation is when indebted households borrow in order to repay loans, either through formal or informal channels. Such practices have been documented across a diverse range of lending contexts.[101]

Throughout the fieldwork, the practice of *Bangvil Luy* came up routinely both with struggling borrowers and FI representatives. Indeed, one of the first things that distressed households did was to seek out interest-free loans, usually only available through immediate relatives such as parents, children, or siblings. Often, these loans were considerable in size and while in some cases they were used for general household spending, they were also routinely used to make repayments to financial institutions.

As one migrant worker explained, since COVID-19 started, she has borrowed money from her mother, ranging from 50,000 THB [1,562.5 USD] to 60,000 THB [1,875 USD], in order to repay the FI debt and to support her daily expenses.[102] A wife of a migrant worker who owns a grocery store at shared home, she has also called her immediate relatives to borrow money.[103] A factory worker said, "When the factory was closed down for a month, I borrowed money [600 USD] from my aunt and uncle to cover my parents' spending and to repay the bank."[104] A tuk tuk driver who is holding around 9,000 USD in FI debt told us that he has borrowed 1,000 USD from his sibling and 1,000 USD from his mother-in-law in order to repay the FI loan.[105]

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98 Participant ID:116.
99 Participant ID:102.
100 Participant ID:123.
101 See Rankin 2002.
102 Participant ID:96.
103 Participant ID:107.
104 Participant ID:46.
105 Participant ID:24.

Where households had exhausted the resources in their own kinship circle, and/or where primary coping strategies were no longer possible, debt-stressed households often took out new loans with interest to repay their existing debts. This secondary (and less desirable) form of credit circulation took place through both informal and formal lenders, pushing households deeper into debt. As one tuk tuk driver shared, since COVID-19 has started he has borrowed from his mother, parents-in-law, and two private money lenders.[106] Similarly, a 65-year-old rice farmer told us that since her daughter and son-in-law could not remit enough to repay her MFI loan, she has taken out 50,000 THB from three different villagers with the interest rate of 5% monthly interest.[107]

Credit circulation, particularly with interest-based loans, is understood as undesirable by borrowers. There is a clear recognition that taking on more debt only exacerbates financial challenges in the short-term. However, short-term credit circulation is not only common, it is also widely seen as less problematic than selling land or key productive assets. Over the past decade, some financial institutions have also supported the use of credit circulation through the practice of offering early repayment options with loan refinancing to struggling borrowers. In such cases, borrowers repay loans early, and then are given new, larger loans from the same provider within a short time period. As the most recent over-indebtedness report notes, these practices are widespread across the sector.[108]

3.3 Last Resort Strategies

When primary and secondary coping strategies fail, borrowers are left with what we term 'last resort' strategies: the least desirable alternatives. These include migrating for work abroad, taking children out of school and/or asking them to work, selling their collateralised land, and default. Several of those we spoke with noted these possibilities. For instance, one garment factory worker whose income is affected by COVID-19 says, "If I don't have money to repay the bank, I heard my father say that he might sell the [collateralised] farm to repay the bank."[109] A tuk tuk driver we spoke with was considering selling his tuk tuk if his financial hardship continues.[110] A cassava/corn farmer shared that he was considering selling a piece of land to pay for his wife's healthcare costs and FI debt if the border closure continued.[111]

Even prior to COVID-19, the fact that borrowers sometimes have to engage in these last resort strategies has been well-documented.[112] Similarly, a few of our respondents noted that their levels of debt stress prior to COVID-19 had compelled these undesirable outcomes as well. For instance, one of our respondents noted that several years ago she had to quit school to migrate to work in the garment sector due to a household loan. She said, "I stopped studying at grade 10 because at that time my family did not have enough money to pay for both me to go to school and to repay the MFI debt."[113]

[106] Participant ID:13.
[107] Participant ID:1
[108] MFC and Good Return 2017.
[109] Participant ID:50.
[110] Participant ID:24.
[111] Participant ID:74.
[112] Bylander 2015a; Bylander 2015b; MFC and Good Return 2017; Green and Estes 2018; Natarajan et al 2020; Green and Bylander forthcoming.
[113] Participant ID:59.

Branch managers are aware of these cases. As one FI manager shared, "We already told them that if they borrow too much and cannot repay, the impacts are on their kids. Their kids wouldn't be able to study. Migration will take place. It's a message that we give to our clients."[114]

Our study did not identify many cases where borrowers had to engage in these last resort strategies, perhaps in part because those who have done so are harder to identify. However, it is also likely that recent loan restructuring policies (described in the following section in more detail) have so far limited the number of borrowers needing to take these actions.

One surprising finding in our research was that borrowers also considered reaching out to financial institutions to be strategies of last resort. While a handful of debt-stressed borrowers proactively reached out to financial providers before engaging in primary or secondary coping strategies, this was relatively rare. Rather, borrowers we spoke with described being afraid of sharing their struggles to repay with loan officers, either because they are ashamed or because they fear affecting their credit history. This included people aware of the loan restructuring policies and the potential of requesting loan restructuring. A 41-year-old grocery store owner shared, "In fact, I want to tell all the financial institutions that although I repay on time each month, I truly am in an extremely difficult situation. However, I am afraid that the financial institution won't allow me to borrow again if I make any problems."[115] This fear is not groundless. As another participant says, "The officer told me that if we can not repay regularly on the due date, they won't lend me the money next time."[116] A chef who is being dismissed says, "I knew some people who have requested for the postponement, but their request was rejected. When I saw that, I did not have any confidence to submit the request. I was scared to get the same answer. That would make me feel shameful."[117] Another one also adds, "I have never gone to ask them because everyone told me not to be bothered, because those are not public entities, they are private."[118]

These concerns meant that those who did reach out to financial institutions often did so as a last resort as well—after exhausting other options, some of which may have increased their short and medium term-vulnerability (like taking on new loans). In the context of repayment struggle, borrowers often did not feel comfortable approaching loan officers until it was far past the point where they needed support, because they are worried it can affect their credit history and therefore their future access to credit. This is where FIs can step in and encourage struggling borrowers to come forward to talk to FI officers, and to clearly communicate to their struggling clients that doing so does not affect their credit history or future access to credit. In the following section we describe the kinds of support financial institutions have offered during COVID-19, and who receives it.

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[114] FI ID:8.
[115] Participant ID:107.
[116] Participant ID:98.
[117] Participant ID:2.
[118] Participant ID:20.

Section 4: Financial Institutions' Responses to COVID-19 Crisis

4.1 Mechanisms Pre-COVID-19

According to FI representatives we spoke with, prior to COVID-19, financial actors were limited to a handful of strategies for providing relief to debt-distressed households. First, they could provide internal refinancing (i.e., reloan), a practice where an additional loan was granted to borrowers in order to repay the old loan provided by the same financial providers. However, while this was a common means of responding to borrower debt stress, it has been criticised for increasing the level of household indebtedness, and is generally viewed as a problematic practice from a consumer protection standpoint. In 2017, the official data from Credit Bureau of Cambodia (CBC) showed that 50 percent of loans disbursed were for refinancing, "with 25 percent refinanced earlier than maturity and 30 percent refinanced at over 130 percent of the original loan amount."[119] The concerns about the use of refinancing were raised in the lending guidelines, initiated and monitored by Cambodian Microfinance Association (CMA), and by the National Bank of Cambodia (NBC) in a regulation (prakas)[120] on credit risk grading (Article 35).

In addition, in exceptional cases, FIs could write off the loan completely or provide an emergency/relief loan (see Table 3). Write-offs were used when officers could no longer contact borrowers and loan guarantors, while the emergency/relief loan was typically used in cases of personal accidents, sicknesses, or natural disaster, and were very rarely used compared to internal refinancing.

Table 3: Mechanisms for Debt Distressed Households

Implementation Regularity	Pre-COVID-19	COVID-19	Projected Mechanisms
Common	• internal refinance/reloan	• internal refinance/reloan • grace period • emergency/relief loan	• internal refinance/reloan
Uncommon	• write-off • emergency/relief loan*	• holiday payment • period extension • write-off	• grace period • emergency/relief loan • write-off • holiday payment • period extension

Source: Author's preparation

****Emergency loan is normally for personal accidents, sickness, and natural disasters***

[119] Incofin 2018.

[120] Prakas on Credit Risk Grading and Impairment Provisioning - number B7-017-344 Prokor issued in 2017.

4.2 Mechanisms During COVID-19

In response to the COVID-19 crisis, new practices of loan restructuring emerged. In Khmer, these are now referred to as *Kareapcham Inatean Loeung Vinh* or *Inatean Saloueng Vinh* (see also Photo 9: in Khmer Script- “What is loan restructure?”).

(Photo 9: in Khmer Script- “What is Loan Restructure?” retrieved from Facebook June 2020)

This new form of loan restructuring directly follows a request by the government for leniency on debt-stressed borrowers impacted by COVID-19. In March 2020, Cambodia’s prime minister called on financial institutions to be lenient toward borrowers and to not confiscate collateral from debt distressed households. Following the prime minister’s request, on 27 March 2020, the National Bank of Cambodia (NBC) issued a circular requesting the banks and microfinance institutions to carry out a loan restructuring policy in order to ease their clients’ income loss caused by the COVID-19 crisis.

To date, according to Cambodian Microfinance Association (CMA), there are 1.3 billion USD worth of total loans being restructured, or around 16 percent of total outstanding loans in 2020. As of December 2020, a total of 271,117 borrowers have been granted some form of loan restructuring, or around 12 percent the total number of borrowing households. In November 2020, the CMA and Association of Banks in Cambodia (ABC) jointly called on the NBC to extend the loan restructure policy into 2021, as the economic impact of COVID-19 crisis remains, and also in response to a flood crisis.[121] The NBC already granted the request, so the loan restructuring policy will continue until mid- 2021.[122]

NBC suggested nine options in its circular for the financial institutions: 1) Reductions in the principal amount or the amount to be paid at maturity; 2) Reductions of the interest rate to a rate lower than in the original loan agreement; 3) Extension of time for the loan principal or interest repayment, or interest capitalisation; 4) Extension of maturity; 5) Addition of and/or change of joint borrower or guarantor (if any); 6) Change in loan type from an installment loan to a bullet loan; 7) Waiver of or reduction of collateral requirement; 8) Reduction of contract condition; 9) Provision of a grace period, which could last for six months counting from the effective date of the new contract.

While the NBC has suggested nine options and loan restructuring has been officially implemented, it is not clearly defined and there are few directions from the NBC on what it should involve, or who should receive what option. Absent this guidance, financial institutions have had to select their own responses to the COVID-19 crisis. As a result, the implementation of the loan restructure policy varies from institution to institution. However, the financial institutions with which we spoke with noted that they offer three main forms of restructuring available for COVID-affected borrowers:

a) **Payment Holiday:** Borrowers granted a payment holiday are not required to repay loans at all for a specified period of time. The interest payments associated for that period of time are added to the left-over principal amount, and a new repayment schedule will be issued at the end of the payment holiday.
b) **Period Extension:** With a period extension, borrowers' loan periods are extended so that the monthly payment is reduced to a level within the borrowers' capacity to repay.
c) **Grace Period:** Borrowers granted a grace period have the option to repay only interest payments for a specified period of time. This allows them to minimise monthly payments and not pay down the principal for the duration of the grace period.

Based on all interviews with financial institution officers (N =34), we learned that all restructuring options (grace periods, payment holidays and period extensions) require approval from headquarters. In contrast, refinancing does not require approval from headquarters, according to the majority of FI

[121] White 2020.
[122] The effectiveness of the loan restructuring policy until mid-2021 resulting from the request made by CMA and ABC (see Sok 2020).

officers we spoke with, refinancing allows the financial institution to generate some income as well. This might explain why some borrowers we spoke with (explored in detail in the following sections) noted that they were first given the option of reloaning, rather than loan restructuring. Moreover, the research findings also show that apart from these loan restructuring options and refinancing, financial institutions are also being lenient about late repayments by reducing or waiving the penalties for repayments less than 30 days late. It is worth noting that all these new forms of relief maintain that borrowers must repay their loans in full, thus there is no loan forgiveness. While financial institutions can continue to write off loans, as far as we are aware, they are not doing so systematically in response to COVID-19. Reasons for why FIs do not write off loans could vary: perhaps they are unwilling to do so, or perhaps they lack the ability to do due diligence to ensure only qualified borrowers can access write-offs. However, this research raises the serious need for write-offs to be implemented in a consistent and systematic fashion, and it is unclear why such a system has not already been established, even prior to the COVID-19 crisis.

4.3 The Loan Restructuring Process

Drawing on the interviews we conducted with FI officers (N= 34), all reported that loan restructuring is granted to any household affected by COVID-19, and the approval is needed from the FI's headquarters. Here we attempt to explain the loan restructuring process through the information that we gathered from 34 FI officers that we interviewed.

To determine whether a household qualifies or not, FI representatives stated that they conduct income impact assessments which seek to identify whether borrower incomes have been impacted due to COVID-19. The process starts with loan officers surveying the affected households. After affected households are identified, a form for a restructured loan during COVID-19 is filled out by loan officers. Loan officers submit the request to branch managers. Branch managers visit the houses directly or assign senior or chief loan officers to visit the households on their behalf. After the branch review, the requests are sent to the MFI headquarters for approval. The process takes anywhere between four days and one month, depending on how many cases headquarters receives. At headquarters, credit risk management teams review the request and approve or reject it.

However, our consultation with microfinance senior managers presented a different process. In that process, they said, anyone who has the capacity and knowledge can approve the loan restructuring application, even at the FI branch level, and not only at the headquarter level. It would be useful to understand why this practice can differ from the established rules. Is it because of the low appetite at the local level to take responsibility and assume risk for the decision, or perhaps the insufficient capacity to assess the loan restructuring cases, or a combination of all factors, or something else entirely? Understanding this process can help address the urgent question of how this process can be eased for borrowers.

We did not find any clear criteria on which types of borrowers are eligible for the various restructuring options, and based on our interviews, it appears that these decisions are made on a case-by-case basis. When asked which loan restructuring options their financial institutions commonly grant, almost all the FI representatives interviewed responded with grace periods (which is when the borrower only repays the interest, see Table 4). The result of the grace period option is that it increases the total cost of the loan in the long run. This understanding is also reflected in the interviews conducted with borrowers, as majority of our respondents viewed the grace period option as a ‘loss’, or in Khmer, *khart.*

Table 4: Loan Restructuring per FI representative

Position	Province	Location	Payment Holiday	Period Extension	Grace Period	Total LR*	Total borrowers
BM	Kandal	urban	0	0	28	28	934
LO	Kandal	urban	0	0	20	20	200
LO	Kandal	urban	0	0	8	8	263
BM	Kandal	rural	0	0	0	2	2068
LO	Kandal	rural	0	0	20	20	375
LO	Kandal	rural	0	0	0	0	354
BM	Battambang	urban	0	0	100	0	1770
LO	Battambang	urban	0	0	30	30	328
LO	Battambang	urban	0	0	20	20	172
BM	Battambang	rural	0	0	40	40	2100
LO	Battambang	rural	0	0	6	6	350
LO	Battambang	rural	0	0	3	3	335
BM	Battambang	rural	0	0	20	20	770
BM	Battambang	rural	NI*	NI	Most	100	1260
BM	BMC	urban	0	0	30	0	1200
LO	BMC	urban	0	0	5	5	282
LO	BMC	urban	0	0	0	0	135
BM	Siem Reap	urban	0	0	250	250	2100
LO	Siem Reap	urban	NI	NI	NI	70	367
LO	Siem Reap	urban	NI	NI	Most	60	320
BM	Siem Reap	urban	50	0	350	400	1200
BM	Siem Reap	urban	100	0	900	0	3400
BM	Siem Reap	rural	0	0	58	58	2414
LO	Siem Reap	rural	0	0	20	20	482
BM	Siem Reap	rural	0	0	20	0	1200
BM	Siem Reap	rural	24	12	205	0	1500
LO	Siem Reap	rural	0	0	22	22	110
BM	Kampong Chhnang	urban	0	0	10	10	1280
LO	Kampong Chhnang	urban	0	0	10	10	272
BM	Kampong Chhnang	rural	0	0	5	0	NI

Source: Author's preparation
*Total number of borrowers that each officer
*LR- Loan Restructure
*NI- Not Identify
*BM- branch manager
*LO- loan manager

Moreover, in some cases branch managers and loan officers seem to prefer loan refinancing more than loan restructuring, based on their claim that loan restructuring can affect clients' credit history. As a branch manager said, "When I make recommendations to the clients, I have to explain it to them. Which option would they like? If they want to restructure, they can restructure. If they want to refinance, they can refinance. If they refinance, their credit history is not as affected as it is if they restructure."[123] This suggests that loan officers may be deterring borrowers away from restructuring and towards refinancing by suggesting that it will impact their credit history negatively—something that has not been clearly established, and which goes against best practices in COVID-19 response in the sector (described in more detail later).[124]

4.4 Loan Restructuring Among our Respondents

Among the 119 borrowers we spoke with, only 23 were given loan restructuring (16 were given grace period, 6 were granted a payment holiday, and in one case the financial institution allowed a borrower to repay flexibly according to their ability to repay.) In addition, 11 borrowers approached the FIs and were verbally rejected: six because of sector ineligibility and five because loan restructuring was generally unavailable in their areas. In addition, seven borrowers were offered loan restructuring (grace period) but rejected the offer because they were concerned about the financial loss (*khart*) it would create. Among those remaining, thirty-one borrowers were not aware of the loan restructuring policy at all, and the rest either had the ability to repay or were too scared to approach the FI for fear of impacting their credit history and/or being ashamed. The finding that thirty-one borrowers were not aware of the loan restructuring policy is consistent with a survey (N = 997) conducted with registered and non-registered medium, small, and micro enterprises of tourism-related businesses in July 2020 in four zones in Cambodia, which found that 60 percent of the sample respondents were not aware of the bank/MFI debt restructuring policy.[125]

Our interviews with borrowers highlighted many of the points made by financial institutions. Most of those granted loan restructuring went through a process *initiated by loan officers*: they were approached by loan officers and told they could apply. In only a few cases did individuals ask for, and then receive, loan restructuring on their own. Thus, while on paper it appears that borrowers 'apply' for loan restructuring, with the exception of borrowers in Siem Reap city, our data suggests that loan officers, not borrowers, are largely determining who has the option to apply for restructuring. We discuss these challenges further in the following section.

[123] FI ID:2.
[124] CGAP 2020.
[125] The Asia Foundation 2020.

Loan officers shared that the most common restructuring option granted was a grace period, and this was also true in our data. In fact, most of the borrowers that we spoke to were only aware of the option of a grace period. Payment holidays and period extensions were not described as options in most cases, and only a few households in Siem Reap city received these options. For the small number of households who received a payment holiday, there were inconsistencies between how borrowers and lenders understood this option. A borrower who had received a payment holiday explained that when they returned to their normal repayment schedules, the FI would capitalise the accumulated interest amount. However, this understanding is inconsistent with what the research team was told by a branch manager, which is that there will be no interest charge on the accumulated interest. It is unclear which of these is correct, however best practices for COVID-19 financial responses note the importance of not charging interest on interest.[126]

Our interviews with borrowers also clash with the claim that loan restructuring is available to any affected households. Several borrowers we spoke with who saw themselves as impacted were not able to obtain loan restructuring. It is about 10% of the interviewed borrowers were denied loan restructuring by their loan officers (LOs). The reasons given by the LOs to interviewed borrowers were that the policy is unavailable in their areas or that they were not eligible due to their sector of activity (farming). The data from 23 cases who received loan restructuring also shows that among them, only five cases were of those who engage in farming activities. We describe the experiences of those whose applications are rejected in the following section.

We could not discern a clear trend in who was granted loan restructuring because different financial institutions have different criteria for who can receive loan restructuring. There are institutions who grant the request to anyone whose income or family members' income have been severely affected by COVID-19. There are financial institutions who only grant the request if borrowers fall into one of the four identified sectors, namely garment, tourism, transportation, and construction. However, it is likely also because loan officers' control much of the application process—rendering the decision about who qualifies is subjective.

Although the majority of FI officers claim that loan restructuring is beneficial for their clients, that is unclear. For example, among 23 borrowers who received a loan restructure, most of them received the option of just repaying the interest amount, which can increase their loan cost in the long run. This raises the question of whether the costs and risks of loan restructuring are being appropriately distributed between financial providers and their clients. This leads us to the next section, where after learning from our interviews, we identify opportunities, limits, and challenges of loan restructuring.

[126] Rhyne et al 2020.

Section 5: The Opportunities, Limits, and Challenges of Loan Restructuring

The borrowers we spoke with who had received loan restructuring had varying perspectives on it, ranging from gratitude to frustration. Some suggested the sector had not done enough, and others rejected loan restructuring despite debt stress. Moreover, our data suggests three key challenges are present in the way loan restructuring has been implemented: 1) There has been limited outreach to debt distressed households, resulting in a process where loan officers effectively determine who applies for loan restructuring rather than a borrower-led application process; 2) Not all impacted households can receive debt restructuring, as debt restructuring has not been available across geographic regions and to all kinds of impacted households; 3) The impact of loan restructuring on client credit histories is unclear, leading to disparate and ambiguous practices and interpretations.

5.1 Perceptions of Borrowers on Receiving Loan Restructuring

Our research identified a range of perspectives on loan restructuring among those receiving it. For example, a daily migrant couple shared that they were very grateful for the loan restructure. They are in their late 50s and had taken out a loan from a financial institution of 750 USD to contribute to the total cost of building a small house made of metal sheeting. They were dependent on cross-border work for repayment of their debts, and when the border closed it became difficult for them to earn enough to make regular repayments. Because they hold an ID Poor card type 1, they receive 40 USD from the government financial assistance programme for poor households each month. After the border closed, they could not earn enough to repay, so they called their financial provider. It is not identified in the research how they learned about the LR process. Through a phone call, the officer explained to them that the institution had begun granting grace periods to those whose incomes were impacted by COVID-19. Hearing this information, the couple requested a grace period of three months, but received a six-month grace period in May. Their monthly payment went from 40 US dollars per month to only 10 US dollars. While the couple is grateful for the loan restructure, they raised concerns regarding the continuation of COVID-19 and the increasing cost of the loan in the long run.[127]

A 21-year-old bag factory worker helps her parents repaying a 6,000 USD microfinance debt. Her parents asked her to call their loan officer to explain her situation and to request a payment holiday. She managed to negotiate with a loan officer, and her request to not repay for two months (April and May) was granted. She is grateful for the two-month payment holiday, as it offered relief from her financial

[127] Participant ID:67.

burden of debt stress during her one-month unemployment in May. At the time of the interview in August, she is re-employed and repaying the loan normally, but she is living in fear of not knowing where she will find money to repay the microfinance loan if she gets fired. She says, “I am scared that I might be fired.” During a later follow up call, she felt a bit more secure with her financial situation as she started doing additional overtime work.

Other borrowers severely affected by COVID-19 were more critical, pointing out that it is not helpful that they need to continue paying the loans’ interest. Instead, they feel they are losing money they can’t spare in a time of crisis. For instance, **Pu Cheurn** is a tuk tuk driver residing in a shared house with his in-laws in Siem Reap. He is 41 years old. He is married with four children, ranging in age from one to eight years old. His in-laws had taken an FI loan of 6,000 US dollars, which his wife had planned to use to start a business. However, **Pu Cheurn** was expecting to use his tuk tuk earnings to repay the debt in the period before her business was profitable. Before COVID-19, he worked from 7 am to 11 pm and earned a profit of 10 USD to 12 USD per day. Since COVID-19, there are no customers. He works for the same number of hours but earns on average only 2.5 USD to 5 USD per day. This made it challenging to repay the loan. After the loan restructuring was announced, he saw a social media post describing the process and inquired about it from his bank. Then a few days later, in March 2020, he was granted a grace period on his loan. The monthly repayment went down from 150 USD to 50 USD. However, with his current wages, even this was challenging to repay. He said the option did not feel like a choice, and he wishes that his financial provider had an option of payment holiday. Through a follow up call in October 2020, his loan restructure (grace period) was extended for another six months.[128]

Adding to this, a souvenir seller also expresses her opinion on the restructure policy of only repaying the interest, saying, “The officer said I could request a new repayment table. I could choose to repay either six months or twelve months. At that time, I chose six months, hoping that the tourists would return. However, it has been quieter these days.” She continues, “I am not happy about it. It is such a loss (*khart)*.”[129] The feeling of *khart* from loan restructure (a loss incurred from just repaying the interest amount) is shared among a number of FI representatives. As one branch manager says, “Clients do not want to prolong this restructure because they feel they lose money and time. When we continue to provide such policies, despite the struggles, many clients would rather choose to repay normally so that the principal amount is reduced.”[130]

Those who were offered grace periods but rejected the option reported similar concerns. For example, a 33-year-old garment factory worker noted, “I asked the bank to stop the repayment for five months. But I was told, in that case, the interest amount would still accumulate. Learning about that, I chose to

[128] Participant ID:32.
[129] Participant ID:119.
[130] FI ID:17.

repay normally."[131] Loan officers shared that this was a common borrower response. As one loan officer noted "In fact, based on experiences during March and April, we saw that while people have faced a crisis, those who can pay, would still pay. Because they thought that just repaying the interest would also not be very helpful."[132]

Finally, in a few cases loan restructuring was accepted but borrowers still did not expect to be able to make grace period payments. In these cases, borrowers feared having to resort to undesirable coping strategies. For instance, one borrower we spoke with who is the mother of a migrant worker shared that even with a grace period option (just repaying the interest rate), she still feared losing her land. For some borrowers, nothing short of immediate loan forgiveness would be enough to stave off such coping strategies. To our knowledge, such loan forgiveness is not being considered by the sector, even in extreme cases.

5.2 Limited Outreach

Based on our discussions with providers, all FI officers told us that it was intentional and strategic choices for loan officers not to share information about loan restructuring policy with all their clients, because their concern is that doing so would allow 'non-affected households' to take the advantage of the situation. For example, one branch manager shared, "Hmmm, we do not make it public, we do not provide it to all our clients because we think that there are some disadvantages if we do that. It could come about that some people who still have the ability to repay might request for their loan to be restructured, after seeing others doing so. When such a situation arises, it can be chaos that we cannot control. Thus, the information should just be given to affected people."[133]

The discussion with FI officers (N=34) are consistent with the interviews conducted with borrowers. Among the 74 percent (n= 88 cases) who are aware of the RL policy, roughly 91 percent (n = 80 cases) of them became aware of it through government announcement, personal network, or a social media post from other borrowers or a third party (see Photo 7). Only 9 percent (n= 8 cases) were directly informed about this policy by their loan officers.

This means that financial institutions control the process of loan restructuring by determining who has access to information and applications. In the words of a FI management officer, credit officers/ loan officers/credit counselors are the 'driving agents of support', by identifying the most vulnerable

[131] Participant ID:43.
[132] FI ID:9.
[133] FI ID:14.

households whose income has been affected by COVID-19. This prompts us to ask how loan officers identify these 'affected' households? Most frequently, loan officers shared that late payments were the primary criterion for identifying debt-stressed households in need of restructuring. As one loan officer explained: "Well for those who are unable to repay, they would repay late. When they are late, we, LO, would go to meet with them and check. They will give us reasons [for the late repayment]. Then we can suggest solutions."[134]

While some MFI representatives suggested that loan officers controlling the process would prevent consumer fraud (i.e., those who do not need restructuring asking for it), having loan-officers control the initiation of restructuring raises concerns, as determining who is 'affected' is not a straightforward task. In many cases, loan officers may not know the details of borrower income sources, how they have changed over time, or what their existing needs are. Moreover, when loan officers control the application process, there is a risk that personal relationships, subjective bias, and/or stereotypes about who is deserving of relief dictate access to loan restructuring.

Additionally, drawing on borrower experiences, we identify at least two challenges with this approach. First, based on the way that debt-distressed households respond to debt stress, it is clear that waiting for late repayment as a sign of distress is often too late. This concern was also raised by one FI representative out of the thirty-four interviewed. Many borrowers make sacrifices, even unacceptable ones that enhance their vulnerability, before they miss a payment. Waiting for borrowers to miss a payment means that the window for protecting clients all but disappears. Second, putting the onus on loan officers to discern who is needy or deserving of loan restructuring, and without the proper tools, training, and assessment methods in place, is likely to result in subjective bias and inadequate assessments. Putting the burden on loan officers also discourages borrowers from being active participants in the lending process, and advocating for their needs. In doing so, it may also distort FIs understanding of their loan portfolios.

5.3 Impacted Households Not Served by Restructuring

Among the 11 rejected cases, it becomes clear that FI restructuring policies fail to address the fragmentation of those whose name are on the loan application and those who actually repay the loan. Although those repaying the debts are impacted severely by COVID-19, their cases are rejected because their so-called 'borrowers' livelihoods are tied to farming activities, which are considered to be less impacted by COVID-19, or because they reside in a geographical area where loan restructuring is unavailable. Three cases of rejected loan restructuring illustrate these points.

[134] FI ID:9.

Sopheak is a 29-year-old tuk tuk driver who migrated to Siem Reap two years ago. He has two children. The loan was taken at his hometown under his parents' name. He still has 6,000 USD remaining debt to repay. He has to repay around 250 USD per month. Earlier in the COVID-19 outbreak, he called his credit officer to inquire about the possibility of just repaying the interest amount, and was told that it was too early, so the branch did not have such policy yet. They asked him to call later. In May 2020 he recalled to check, then he was told the policy is not available in his parents' area. The branch suggested that he repay the remaining loan, so they could issue a new loan for him that suits his ability to repay. If he did not have the money to repay, they said they could arrange a new loan application for a few hundred dollars. He rejected the offer, and borrowed from his siblings in order to repay the current loan. When we spoke, he was thinking of selling his tuk tuk if the situation continued.[135] As he shared: "I am thinking of selling my tuk tuk but nobody will buy it, unless I sell it at a cheap price. I don't know what to do." [136] This example illustrates how FIs prioritise reloaning or internal refinancing over restructuring.

Mealea migrated to Siem Reap and has been in a souvenir business for six years. She told our research team that since February, her income has dropped 90 percent. At the time of our interview, she rented a shop for 300 USD per month. She has been selling at the new shop for more than a month. Last month she managed to cover the rent. This month, she is not sure, since for two weeks she could not sell anything. Apart from the 300 USD per month for renting the shop, she needs to repay 350 USD per month to the financial institution. The loan was taken in a rural district of another province under her mother's name. Since she is struggling to earn money, the family verbally requested to repay just interest, but the financial institution staff told her family that they did not have such policies in her parents' district. The FI allowed the family to repay late for 10 to 20 days, but charged 1 USD per day for the late repayment. In order to repay normally, she is currently indebted to multiple private lenders.[137]

[135] Participant ID:24.
[136] Participant ID:24.
[137] Participant ID:125.

Kanya is in her mid-20s and lives in Siem Reap. She earns an average of 350 USD per month working for an audit company. She and three younger siblings help repay their parents' debt back home, located in a rural part of Siem Reap province. Her younger siblings are working in a hotel and restaurant. Since COVID-19 started, all three younger siblings lost their jobs. The burden has been placed on her shoulders, as she says, "My average salary is (…laughing[138]….) 350 USD. I repay to the financial institution around 300 USD. My rental room is about 60 USD. Thus, my salary could not even cover the loan repayment and the rent." The eldest daughter learned about the loan restructure policy through the government announcement, at her work place, and through social media. To ease her burden, she asked her parents to request the financial institution to repay just the interest amount for a period of time until her younger siblings could get jobs. The request was rejected, and at first her parents were told that the household did not fit into the loan restructuring criteria because her parents are farmers, and the stated purpose of loan is to open a small business. Later, the branch told them it is difficult to process the documents, so the manager suggested that they borrow money to repay the financial institution. A few days after this repayment, the branch would issue a new loan with new repayment schedules which suits their ability. The household did not want to participate in this risky scheme and decided to repay normally. The burden has fall on Kanya's shoulders. To repay normally, cover the rent and her living expenses, she has to borrow money from friends, including her boss. Her economic situation will remain difficult until her younger siblings manage to get jobs.[139]

[138] Laughing here reflects a general way that many Cambodians cope with difficult situations.

[139] Participant ID:6.

As these cases suggest, at least some borrowers are not granted restructuring despite being clearly impacted by COVID-19. In our research this was a particular challenge for people like those described above: those engaging in proxy borrowing, where loans being primarily used and repaid by one person are officially taken out in the name of another. Proxy borrowing is common across Cambodia, and even in cases in non-proxy borrowing (i.e., where the borrower uses and expects to repay the loan) many loans are repaid through multiple streams of income from a range of family members.

While proxy borrowing can take many forms, in our data it was most common for parents to have taken out loans on behalf of their adult children. The practice is related to dynamics of formal land ownership. Since microloan is more and more moving toward land collateralised, parents need to borrow on behalf of their adult children because land titles are often in the name of parents and not their adult children. In the above cases, the actual loans are held by parents who are mostly engaged in farming activities, while the non-farming works of children are used to repay the actual loans. As a result, the way loans are held, used and repaid may look different on paper than is true in practice. Loan officers are usually well aware of these distinctions, even if they are not documented.

This research found many proxy borrowers do receive loan restructures and proxy borrowing becomes challenging when loan restructuring is tied to sector of work, area, or borrower characteristics, as those borrowing are often not responsible for repayment. For instance, in the case of **Kanya**, despite all her debt repayment contributors' income being severely affected by COVID-19, her parents' request was rejected based on the fact that her parents' livelihood was not affected. Similarly, in **Mealea**'s case, loan restructuring was not available in the district where her parents lived, presumably because FIs expected fewer borrowers to be impacted by key sectors. Yet **Mealea**—who lived in Siem Reap and was deeply impacted by COVID—was the primary person responsible for repayment. In cases such as these, borrower needs do not line up with FI practices. Many cases of loan restructuring denial were instances of proxy borrowing.

In the cases of restructuring denials that we learned about, it was typical that borrowers took rejections at face value and did not try to negotiate, explain, or make further requests. Rather, those we spoke with most frequently reported calling their credit officers or credit counselors to ask about the availability of loan restructuring. If they were told that they are not eligible, or the policy is not available in their area or their parents' areas, they rarely asked for additional details, appealed, or negotiated further. This suggests an important power dynamic at play in borrower-lender relations. In fact, we only encountered two cases where borrowers advocated for their situation by trying to negotiate with financial institutions. We share these cases (which were atypical across our data) here: **Kanika**[140] owns a clothes shop, and she tells the story of her older sister who is married to a teacher. The couple have a large loan from a bank taken to open a school and a day care center. Since their school was closed, the couple has been struggling to repay. The couple managed to negotiate with the bank to not repay for three months during the months of March, April, and May. Afterward, they also managed to negotiate with the bank to just repay the principal amount until their school reopened, and then they would repay the accumulated interest amount.

In a different case, **Savun**, a seasonal and daily migrant worker, has not received a negotiated deal from the FI. The household receives financial support from the government through the ad-hoc financial transfer programme. At the time we spoke, the family was indebted to two financial institutions. One institution approved a loan restructure to just repay interest for six months. Since COVID-19 started, the family can repay the monthly debt with the money that they received from the government, as they also struggle to put food on the table. Fearing that the border would remain closed longer, the family called the branch manager a few times to request an extension of their loan restructure. However, at the time of the interview, their request was rejected. She laughingly said, "If they [financial providers] did not extend the duration [of just repaying the interest amount] for me, we would either have to migrate 'illegally' or sell our land."[141]

These two cases illustrate that even in cases where borrowers can demonstrate a committed repayment history, and genuine economic hardship, negotiations with financial institutions are not always successful. It also depends on the amount of social and political capital that borrowers have to yield a successful negotiation. Nonetheless, when households can effectively advocate for themselves and communicate their needs with financial institutions, it strengthens the sector's awareness of borrower situations, and can lead to better outcomes. Unfortunately, the latter example also highlights that borrowers who are unable to receive effective debt relief are at risk of increased vulnerability and unwanted outcomes.

[140] Participant ID:131.
[141] Participant ID:65.

5.4 The Unclear Impact of Restructuring on Credit Histories

It is unclear how loan restructuring will impact microfinance clients in terms of their credit history and access to future loans. Although the top management MFI representatives and executives clearly assured the research team that loan restructuring would not affect clients' credit scores, our discussions with loan officers raised questions about how this is being communicated across the sector.

Among FI representatives we spoke with, about half reported either they do not know or are not clear how restructuring will affect clients' histories, or that they are very certain that loan restructure will negatively impact clients' credit histories. Four quotations below from three different FIs employees show very different understanding of how the loan restructure affects the client credit history.

> *It won't affect their credit score; it is just that there will be a reference stating a particular name lost income [during COVID-19] but it won't affect their credit score. In fact, these loan restructures help them. If they do not have the ability to repay, and they do not request for their loan to be restructured, then their credit can be affected.*[142]

> *For my branch, if I check CBC and see that they [loan applicants] are under loan restructure [with other institutions], this means that they do not have the ability to repay, so I don't give them loan.*[143]

> *In the CBC system it will show the status like restructured, PAR 30, PAR 60, and PAR 90…. But I am not sure how it is going to affect borrowers' credit history. I am not clear on this.*[144]

> *Well, we actually don't really recommend them to restructure their loans because it could affect their credit history. Therefore, we mostly encourage them to top-up their loans.*[145]

The lack of clarity on whether or not restructuring will impact credit scores or future lending make it difficult for borrowers to make informed decisions about whether to ask for, take up, or avoid restructuring. In some cases, a borrower who truly needs loan restructuring may be deterred from taking this opportunity because they are worried about the impact on their future access to credit. Conversely, it is possible that some borrowers may have a stain on their credit history that they were not made aware of. Because neither the CBC nor FIs have not established a clear policy on how restructuring will impact future credit provision, there is disagreement, speculation and a lack of clarity among both staff and borrowers.

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[142] FI ID:30.
[143] FI ID:34.
[144] FI ID:14.
[145] FI ID:13.

V. POSSIBLE RESPONSES FROM DIFFERENT ACTORS

This report has identified structural issues that fall within the scope of our sample interviews but are possibly representative of larger trends and dynamics. Therefore, they would require collaboration from different actors to ensure consumer protection during this moment of crisis. The description below details suggestions for how various factors might contribute to the recovery of the economy, help struggling borrowers not falling in the depths of over-indebtedness, and protect low-income households. These suggestions are informed by the consumer protection principles, as identified by the SMART Campaign and supported by the Cambodian Microfinance Association, as well as CGAP's General Principles for FSPs in response to the COVID-19 crisis. Because the latter are specific to the COVID-19 context, we draw particular attention to them here.

Specifically there are five general principles described by CGAP as important ways to support consumer protection in the financial sector during COVID that our research suggests need further attention in the Cambodian context: 1) Put low-income consumer needs front and center; 2) Communicate proactively; 3) Monitor the market through complaints data, social media and direct surveys; 4) Offer relief broadly and easily; 5) Ensure that clients in pandemic related moratoria or rescheduling are not penalized in credit reporting.[146] Our recommendations relate closely to these best practices. Some of our recommendations may already be moving forward as we expect that actors across the sector are also aware of, and interested in implementing these best practices.

To the financial institutions:

New loan restructuring policies have enabled financial institutions to establish rapid responses to COVID-impacted households nationwide. Since the policy is newly established, gaps between policy and implementation are inevitable. Research from this study reveals several key gaps that FIs should account for in future policy revisions.

First, all options of loan restructuring should be made available to all affected households. While this is currently the case on paper, it is not the case in practice. It is critical that financial institution managers ensure that field staff make the mechanism available to all households who are affected by COVID-19

[146] Rhyne et al 2020.

crisis, and ensure the thorough, smooth, and fair implementation of the policies. When the loan restructuring is not available to affected households who need it, it can lead to coping strategies such as high-risk migration, consumption reduction, taking children out of school (or children deciding to drop out on their own), and the sale of productive assets, including land. These coping strategies can further exacerbate the economic vulnerability of low-income households. It is crucial that all affected households who need support receive the response automatically per request, regardless of whether their livelihoods were directly affected by the crisis. This also includes offering loan restructuring to households where repayment is coming from an affected individual even if the borrower was not directly impacted (i.e., proxy borrowers). Loan restructuring is a crucial element of consumer protection in times of crisis. Indeed, we would suggest that loan restructuring should be made available to debt-stressed households even after the COVID-19 crisis ends. Currently there are few incentives to ensure that financial institutions do not make loans leading to debt stress. Institutionalising a requirement for lenders to offer loan restructuring in cases of demonstrated external shock could incentivise financial actors to lend more responsibly.

Second, future restructuring should allow processes to be driven by both loan officers and borrowers. This would have to involve field staff, who would need to verbally explain to borrowers about the existing mechanisms for households to navigate debt stress. This information can be given as early as at the time of loan application, and/or be more widely publicised by financial actors, the government, and other relevant actors. In shifting from a loan-officer driven model to a borrower-driven model, we hope that risks might be identified earlier, and thus addressed before they risk contributing to the increased vulnerability of borrowers through the use of unacceptable coping strategies.

Third, enhancing grievances mechanisms for borrowers is also crucial. Prakas number B7017299 prokor[147] serves as guidelines for financial institution to establish consumer complaint mechanisms. According to this prakas, consumers must first lodge a complaint to their financial providers, only if consumers are dissatisfied with their financial providers' decision, then they 'may' request the intervention from the NBC. On top of that, the NBC launched a nationwide complaint and resolutions hotline, and there are five lines at the NBC headquarter in Phnom Penh and 21 lines at provincial branches. To date, the hotline teams has received 720 complaint cases.[148] This research does not have enough information to understand how the FIs' complaint mechanisms and the NBC hotlines operate. However, none of the debt distressed households in this research suggested they were aware of either the FI's complaint mechanisms or the NBC hotlines. Financial institutions can contribute to enhancing grievances mechanisms by disseminating their complaint mechanisms and NBC complaint hotlines to their clients

[147] Prakas number B7017299 prokor on resolution of consumer complaints issued by NBC in 2017.
[148] NBC 2020.

as early as at the time of loan application. Such activity contributes to the improvement of grievances mechanisms access for indebted households. Getting access to grievance mechanisms will enable indebted households to report unfair treatment by the financial institutions. In return, it can contribute to building a culture of accountability.

Fourth, financial institutions and the NBC should clearly communicate that restructuring will not impact credit histories/future access to credit. We have been told that there are rigorous efforts to ensure that loan restructuring will not affect clients' credit scores and future access to credit. This information should be disseminated both to staff and borrowers as a uniform policy supported by the CBC.

Finally, an independent entity should be established for the implementation and assessment of financial education. Such a budget to cover the financial education should be largely contributed by the financial institutions under its social corporate responsibilities (see more detail on suggested curriculum in the 'to development actor' section below).

To relevant ministries and institutions/Royal Government of Cambodia:

First, government actors should consider enacting regulation that enshrines the current Client Protection Principles (CPPs) into law and allows for sanctions to be levied against institutions who do not abide by the CPPs. To date, CMA and NBC have been actively engaged in implementing and monitoring the CPPs. However, currently CPPs are not legally binding and adherence is self-regulated. As industry insiders have shown, this self-regulation has proven to be ineffective in protecting borrowers[149], and can lead to credit crises.[150] Greater regulation appears to already be a goal of the NBC, which expressed the desirability of expanding consumer protection principles into existing regulation in its financial sector strategic development plan 2016-2025.[151] In late 2019, the Cambodian government approved and issued a Consumer Protection law number ns/rkm/1119/016. However, the law does not cover financial services of non-bank providers. As Point 14 of Article 4 states, "service refers to any rights, benefits, priorities, facilitation provided or offered under the following types of contracts, except non-bank financial services." Thus, this report urges the government to explore different ways to make CPPs as a mandate for all financial providers. There should also be a clear guideline of how CPPs will be implemented or enforced. Adding to the mandates of CPPs, the CPPs should also grant borrowers' constitutional rights to bring financial providers to court for illegal acts regardless of the providers formal or informal status.

[149] Rozas 2020.
[150] See Afonso, Forcella, and Guérin 2016.
[151] NBC 2016.

Second, the NBC could consider the creation of a publicly accessible clearinghouse of data on local lending to help borrowers make decisions among financial providers. This is an example of how one of the client protection principles – transparency - can be implemented. For example, the NBC could support an online platform in both Khmer and English listing all the financial institutions registered with the NBC. Reporting to the clearinghouse would be compulsory and information might include data such as the average or range of interest rates, average or range of service charges, loan terms and conditions, and stated commitments to consumer protection principles. This information can be accessible by the public. This can increase the transparent practices in the financial sector, and borrowers can choose financial providers best suited to their needs. The clearinghouse could enhance the consumer rights through knowing and assessing between service providers. The platform can also be an opportunity for smaller financial providers to publicise their names.

Finally, relevant public institutions should consider establishing personal bankruptcy laws that grant debt relief in warranted cases especially to low-income households. A clear and accessible personal bankruptcy law can contribute to strong consumer protection practices as it disincentivises risky lending practices. Building on the 2007 bankruptcy law or know in Khmer as the law of *Khsay Thun*, first, the government could issue guidelines to clearly distinguish the implementation of the bankruptcy law for businesses and the personal bankruptcy law for individuals. Second, the process could be simplified and more widely publicized, especially to the most vulnerable households. Currently, the existed bankruptcy law is poorly accessible to the public due to its “complex, insufficient, and uncertain” procedures.[152]

To development actors:

At the macro level, existing reports have repeatedly called for action from development actors who are also microfinance shareholders or funding partners to enforce consumer protections through applying loan conditions, or monitoring investment on-the-ground that is independent of the FIs.[153] While other for example, Human Rights Watch utilises the United Nations Guiding Principles on Business and Human Rights, and International Finance Corporation (IFC)’s Sustainability Frameworks to repeatedly urge the World Bank Group’s IFC to pressure its clients to act in accordance with the above frameworks

[152] Ly Tayseng 2020.
[153] See LICHADO 2019; CGAP 2020.

by setting up "robust systems for transparency, accountability, and remedy of any harm the project might cause."[154] Adding to these calls for actions, this report will focus our recommendation at the micro level. In Cambodia, development actors are already engaged directly with microfinance borrowers in a range of ways and may be able to contribute to borrower protection through targeted programming.

Firstly, development actors should fund innovative financial education that goes beyond traditional financial literacy and recognises the need for education focused directly on client protection. While research has shown that a lack of financial literacy (as typically defined) does not increase the risks of over-indebtedness,[155] it is clear that microfinance clients would benefit from borrower-centered financial education to helps them navigate the ever-expanding financial products and services offered by financial institutions. Such financial education could focus on skills such as avoiding debt, the commitments and responsibilities of financial institutions (including the CPPs), skills to negotiate with financial institutions, and borrower rights. It is critical that these programs are offered by actors outside the financial sector, as MFI-enacted financial literacy programs have been shown to use such trainings to achieve their own goals in ways that may not always serve borrowers.[156]

As a complement to the clearinghouse, development actors could establish an independent credit consumer feedback mechanism which allows users to share their experiences about their financial providers. One possibility that we propose is a digital platform in the local language. Such a platform should address the issues of reviews' quality and reliability, and how to incentivise platform users, knowing that they are probably not digitally connected. This has the potential to act as a mechanism for transparency and accountability.

[154] Human Rights Watch 2020.

[155] The most recent over-indebtedness report found that financially literate borrowers were actually more likely to have overdue loans, suggesting that financial literacy is not protective against debt stress (MFC and Good Return 2017). Other studies in the region have come to similarly contradictory findings (Frolich et al 2015; ILO 2015). More broadly, some meta-analyses suggest that debt behavior simply does not respond to financial education (Kaiser and Menkhoff 2017; Miller et al 2014).

[156] See Bylander and Res 2020.

Appendix 1: list of respondents

Participant ID	Gender	Age	Livelihood	Amount of Loan Taken (USD)	Relation debtors	Loan Restructure
1	Female	66	Rice Farmer	15000	Proxy	Yes
2	Female	22	Chef	2500	Self	Not Aware
3	Female	48	Household care taker	ND[157]	Sister	Not Aware
12	Male	41	Tuk Tuk driver	1600	Self	Yes
13	Male	29	Tuk Tuk driver	5000	Self	Yes
16	Male	34	Tour guide	3000	Self	Yes- repay interest amount only
20	Female	31	Regular migrant worker	3750	Self	Not Available
21	Female	40	Rice farmer	4000	Self	Still can repay
24						
25	Male	30	Tuk Tuk driver	6000	Self	FI reject
27	Female	22	Assistant teacher	Not identified	n/a	n/a
26	Male	25	Tour guide	7500	Co-debtor	Reject FI
28	Female	21	Sale assistant	30,000	Co-debtor	Still can repay
35	Female	40	Food vendor	2400	Self	Reject FI
43	Female	33	Factory worker	2000	Self	Reject FI
44	Female	18	Garment factory Worker	20,000	Daughter	Not aware
45	Female	47	Footwear factory worker	2000	Self	No request
46	Female	25	Bag factory worker	2000	Self	No request
47	Female	27	Dismissed Garment worker	1000 (None)	Self	n/a
50	Female	19	Garment factory worker	4000	Daughter	FI rejected
54	Female	28	Bag factory worker	1500	Self	Not aware
59	Female	21	Bag factory worker	10,000	Daughter	Yes
62	Mixed	22/24	Land own-tenant farmers	21250	Self	Still can repay
63	Male	ND	Land own farmer	20,000	Self	Still can repay
64	Mixed	31/35	Land-own tenant farmers	5000	Self	Not Available

[157] ND = Not Identify

Participant ID	Gender	Age	Livelihood	Amount of Loan Taken (USD)	Relation debtors	Loan Restructure
65	Female	40	Seasonal Migrant worker	1000	Self	Still can repay
66	Female	28	Seasonal migrant worker	625	Self	Still can repay
67	Male	59	Seasonal migrant worker	750	Self	Yes
68	Mixed	57/64	Tenant farmer	3125	Self	Not Aware
69	Female	45	Seasonal migrant worker	5000	Self	Yes- repay the interest rate only
72	Female	37	Land-own-tenant farmer	6250	Self	Not Affected[158]
77	Male	ND	Land-own farmer	ND	Self	Not aware
80	Female	32	Dismissed Garment Worker	3000	Self	New Loan
84	Female	31	Former tenant farmer	4500	Self	Not aware
94	Female	ND	Rice Farmer	5000	Self	No request
96	Female	25	Migrant worker	20000	Self	FI rejected
98	Mixed	ND	Rice farmer	5000	Self	Not available
99	Male	63	Rice farmer	2500	Self	Still can repay
101	Female	61	Rice farmer	7000	Migrant	Still can repay
102	Female	27	Construction worker	5000	Self	Not available
103	Female	61	Rice Farmer	1000	Self	Still can repay
104	Female	55	Rice farmer	6000	Self	Not available
106	Male	65	Rice farmer	2500	Self	Still can repay
107	Female	41	Grocery shop owner	7500	Self	Not available
116	Female	40	Souvenir seller	9,000	Self	No request
117	Female	50	Souvenir seller	750	Self	Yes
118	Female	30	Souvenir seller	5000	Self	Yes
119	Female	ND	Souvenir seller	8000	Self	Yes
121	Female	ND	Souvenir seller	ND	Self	Yes
130	Female	22	Service worker	None borrower	n/a	n/a
131	Female	Late 20s	Clothes seller	ND	Sister	Yes

[158] The household has already repaid interest amount for one year in advance.

Appendix 2: references

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