

សម្ព័ន្ធខ្មែរជំរឿន
និងការការពារសិទ្ធិមនុស្ស
លីកាដូ



LICADHO

CAMBODIAN LEAGUE FOR THE
PROMOTION AND DEFENSE OF
HUMAN RIGHTS



DRIVEN OUT

ONE VILLAGE'S EXPERIENCE WITH
MFIS AND CROSS-BORDER MIGRATION

A briefing paper issued in
May 2020



Driven Out

One village's experience with
MFIs and cross-border migration

A briefing paper issued in May 2020

សម្ព័ន្ធខ្មែរជំរឿន និងការការពារសិទ្ធិមនុស្ស លីកាដូ

LICADHO

CAMBODIAN LEAGUE FOR THE PROMOTION
AND DEFENSE OF HUMAN RIGHTS

CAMBODIAN LEAGUE FOR THE PROMOTION AND DEFENSE OF HUMAN RIGHTS (LICADHO)

LICADHO is a national Cambodian human rights organization. Since its establishment in 1992, LICADHO has been at the forefront of efforts to protect civil, political, economic and social rights in Cambodia and to promote respect for them by the Cambodian government and institutions. Building on its past achievements, LICADHO continues to be an advocate for the Cambodian people and a monitor of the government through wide ranging human rights programs from its main office in Phnom Penh and 13 provincial offices.

MONITORING & PROTECTION



PROMOTION & ADVOCACY

Monitoring of State Violations & Women's and Children's Rights:

Monitors investigate human rights violations perpetrated by the State and violations made against women and children. Victims are provided assistance through interventions with local authorities and court officials.

Medical Assistance & Social Work:

A medical team provides assistance to prisoners and prison officials in urban and rural prisons, victims of human rights violations and families in resettlement sites. Social workers conduct needs assessments of victims and their families and provide short-term material and food.

Prison Monitoring:

Researchers monitor urban and rural prisons to assess prison conditions and ensure that pre-trial detainees have access to legal representation.

Paralegal & Legal Representation:

Victims are provided legal advice by a paralegal team and, in key cases, legal representation by human rights lawyers.

Supporting Unions & Grassroots Groups and Networks:

Assistance to unions, grassroots groups and affected communities to provide protection and legal services, and to enhance their capacity to campaign and advocate for human rights.

Public Advocacy & Outreach:

Human rights cases are compiled into a central electronic database, so that accurate information can be easily accessed and analyzed, and produced into periodic public reports (written, audio and visual) or used for other advocacy.

For more information contact:

Dr. Pung Chhiv Kek, President
LICADHO
#16, Street 99
Phnom Penh, Cambodia
Tel: (855) 23 72 71 02/216 602
Fax: (855) 23 727 102/217 626

E-mail: contact@licadho-cambodia.org

Web: www.licadho-cambodia.org Facebook: www.facebook.com/licadho Twitter: www.twitter.com/licadho

TABLE OF CONTENTS



Executive Summary **P1**

Background **P3**

Methodology **P4**

Findings **P5**

Problems with Migration 5

Migration and MFI Loans 6

Conclusion and recommendations **P7**

Appendix I: Funding to Cambodian MFIs in Thai baht **P8**



Migrant workers return from Thailand.
(Photo supplied)

This research is not intended to be statistically representative of Cambodia or of all MFI clients in the country. It seeks to highlight issues that researchers discovered in target areas, such as debt-driven migration, that clearly stand to undermine the human rights of a significant section of Cambodia's poor.

This is the second in a series of studies from LICADHO about microfinance in Cambodia.

Executive Summary



Cambodia's massive microfinance sector has relied upon and encouraged migration to Thailand in order to sustain the highest average microloan amount in the world. In the past few months, as COVID-19 has spread across the region, more than 80,000 Cambodian migrant workers have returned home from Thailand.¹ Workers face difficulties reintegrating under normal circumstances,² but the stigma associated with their return during the COVID-19 pandemic and the even greater lack of economic opportunity in Cambodia exacerbates these issues. This has laid the groundwork for a human rights crisis, with likely hundreds of thousands of people suddenly left without their primary source of income and unable to pay their microfinance debts – much of which is collateralised by land titles.

“If we have kids in Thailand, then we can get a microfinance loan.”

In September 2019, prior to the pandemic, LICADHO researchers conducted a survey on the relationship between migration and microfinance in a single village³ in Cambodia's northwestern province of Banteay Meanchey, on the border of Thailand. The survey asked open-ended questions and focused specifically on the effects and connections between migration and microfinance debt for the people and families living in the village.

“All the MFIs pressure me to take more loans. I don't want to take another loan.”

The findings of this study establish that microfinance debt was the primary cause of migration for most households surveyed in the target village. This supports previous research done by the United Nations and independent

researchers that also identified debt as a driver of migration and contributor to human trafficking. Most interviewees reported that migrants faced a variety of problems due to their migration, including harassment from authorities and family separation. It further suggests that families of migrants in villages near the Thai border suffer fear and intimidation due to their microfinance debt, much of which is collateralized by land titles. The majority of interviewees reported feeling afraid of losing land or assets as a direct result of their microfinance debt. The vast majority of interviewees expressed negative feelings about microfinance debt, while feelings about migration in general were more mixed.

“All the money my children send me goes to debt. After I pay off my MFI debt, I will not let my children go to Thailand again.”

In some cases microfinance institutions (MFIs) directly encouraged migration by withholding loans unless a family could prove they had at least one member working abroad. In other cases, MFI loans were taken out in order to fund the costs associated with both formal and informal migration.

This connection between migration and microfinance debt is compounded by international MFI funders, including a number of European government agencies. These state institutions loan money in Thai baht to Cambodian MFIs (see Appendix I). These MFIs then lend that money to Cambodian villagers in Thai baht, ensuring that the household needs at least one income from a migrant worker in Thailand to repay their loan.

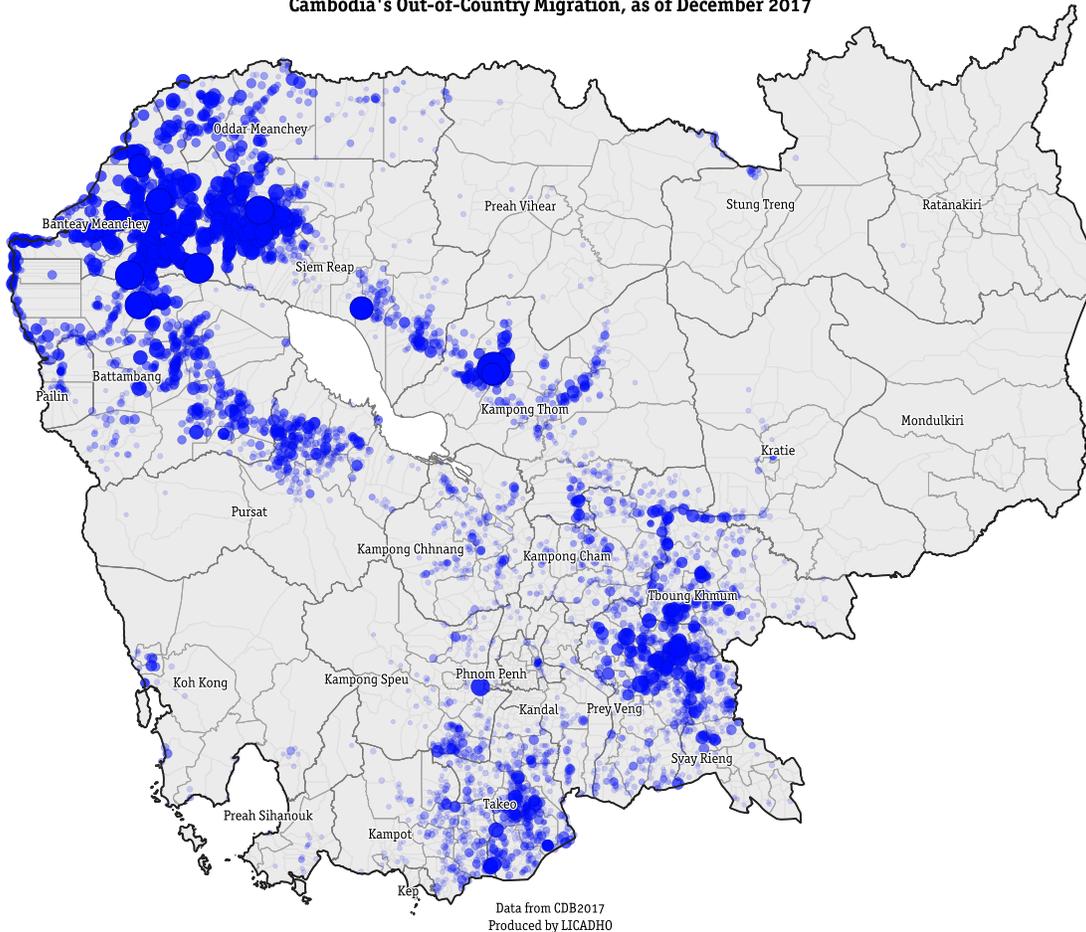
MFIs have encouraged and relied upon migration for years to support their business, and they, along with their international funders, have an ethical responsibility to ensure that this financial strategy does not lead to debt-driven migration, land loss or other human rights abuses.

¹ Figure given in an April 23 Facebook post by the Ministry of Interior, available at: <https://www.facebook.com/194963893892929/posts/2858588754197083/>

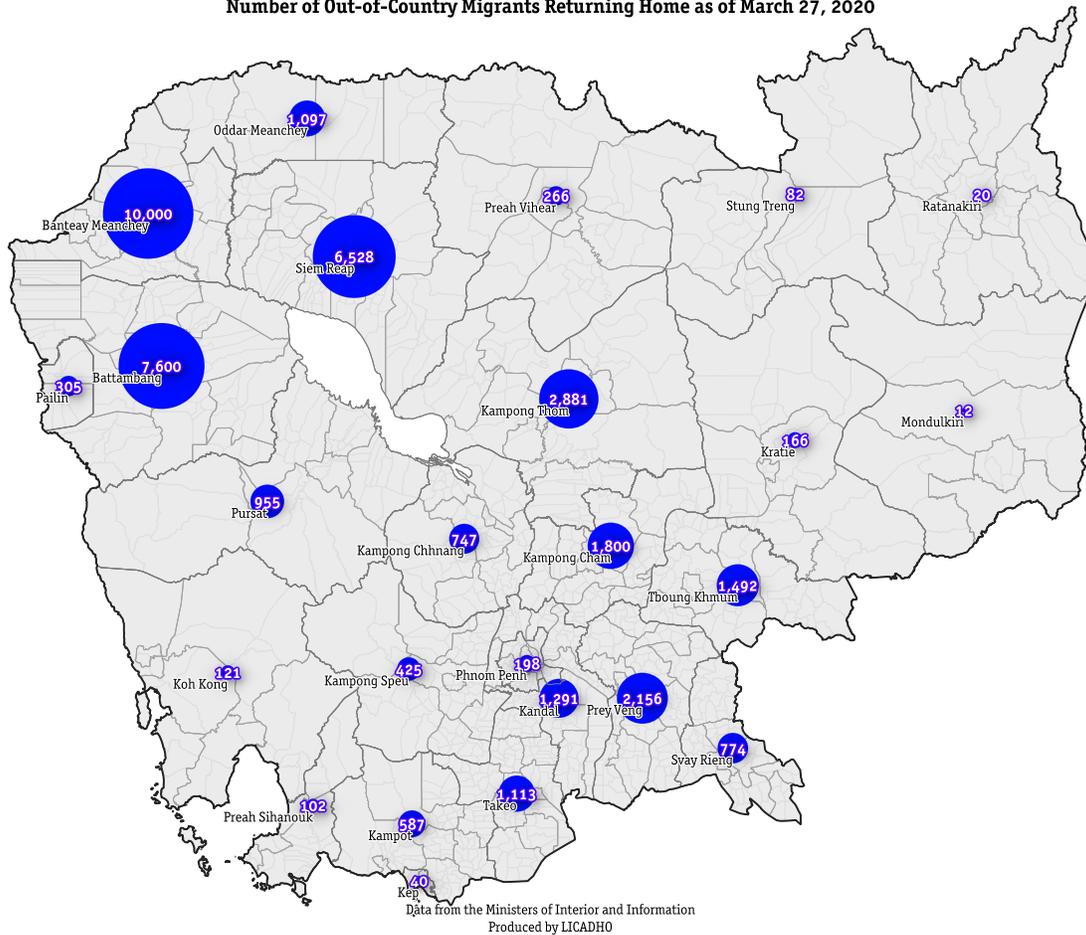
² “Debt and the Migration Experience: Insights from South-East Asia”, International Organization for Migration, 2019, available at: https://publications.iom.int/system/files/pdf/debt_and_the_migration_experience_insights_from_southeast_asia_2.pdf

³ The name of the village, as well as all personally identifying information of interviewees, are withheld to protect the anonymity of the participants.

Cambodia's Out-of-Country Migration, as of December 2017



Number of Out-of-Country Migrants Returning Home as of March 27, 2020



Background



“The MFI credit officer told me, ‘If you do not have enough to pay back for 3 months, we will repossess your house.’ I don’t know how I will pay them back.”

LICADHO and Sahmakum Teang Tnaut (STT) published a joint report in August 2019 on the links between Cambodia’s massive microfinance sector and the human rights abuses that stem from widespread over-indebtedness. Updated data indicates that the crisis has worsened since the report’s release. By the end of 2019, more than 2.6 million Cambodian borrowers held more than \$10 billion in microfinance debt, with an average loan size of \$3,804 – the highest amount in the world, and an increase on the already troubling average of \$3,370 at the end of 2018. This debt, the majority of which is collateralised by land titles, continues to pose a significant threat to land tenure security for indebted families and has led to other serious and systematic human rights abuses across the country, including debt-driven migration.

Migration is widespread in Cambodia, particularly in the northwestern region of the country that borders Thailand. The preliminary results of the 2018 census indicate that 1.23 million Cambodian migrants work abroad, of which more than 1.1 million work in Thailand. However, as the census only records officially documented migrants, the actual number is likely much higher. Even with official numbers, the government itself noted in its most recent census that “[Cambodia’s] growth rate has dropped dramatically due to a decline in fertility and out-migration to other countries, especially the neighbouring countries.”⁴

Past research has drawn direct links between the skyrocketing rates of MFI debt and migration. A 2016 report

from the International Organization of Migration (IOM) found that 40.6% of Cambodian migrants left Cambodia in order to service financial debts.⁵ A 2017 report from the United Nations Office on Drugs and Crime noted that microfinance debt often drove Cambodians further into poverty, saying, “the nexus between microfinance debt, migration and trafficking in persons is not currently well documented or explored...but warrants further attention and analysis.”⁶

“The MFI debt is not aid, it is for the profit of the MFI itself. MFIs don’t help reduce the number of migrants because some people who borrow need to migrate to pay it back.”

Voluntary migration is not a human rights violation. However, the complex relationships between migration, poverty and debt – and in Cambodia, MFI debt in particular – makes debt-driven migration a particularly risky form of migration and puts migrants at greater risk of abuse. A 2019 report from the IOM notes that it is the very nature of microfinance in Cambodia – specifically the widespread use of land as collateral – that can lead directly to human rights abuses. “The potential to lose a home or land can create tremendous pressures for repayment and lead would-be migrants to make risky choices, and can create an urgency that is unique to this form of borrowing,”⁷ the report notes. IOM researchers also observed that some migration recruitment agencies directed clients to specific MFIs to obtain loans in order to migrate⁸ – a two-way relationship similar to that observed by researchers, in which MFIs told clients they would need to provide proof of at least one migrant in their family before receiving a loan.

⁴ “General Population Census of the Kingdom of Cambodia 2019”, National Institute of Statistics, p. 8, 2019, available at: https://www.nis.gov.kh/nis/Census2019/Provisional%20Population%20Census%202019_English_FINAL.pdf

⁵ “Assessment Report: Profile of Returned Cambodian Migrant Workers”, International Organization for Migration (IOM) Cambodia, p. 14, 2016, available at: <https://www.iom.int/sites/default/files/country/docs/IOM-AssessmentReportReturnedMigrants2016.pdf>

⁶ “Trafficking in Persons from Cambodia, Lao PDR and Myanmar to Thailand”, United Nations Office on Drugs and Crime, p.18, August 2017, available at: https://www.unodc.org/documents/southeastasiaandpacific/Publications/2017/Trafficking_in_persons_to_Thailand_report.pdf

⁷ “Debt and the Migration Experience: Insights from South-East Asia”, International Organization for Migration (IOM), p. 7, 2019, available at: https://publications.iom.int/system/files/pdf/debt_and_the_migration_experience_insights_from_southeast_asia_2.pdf

⁸ Ibid, p. 24.

Methodology



Using official data, researchers identified 93 villages across the country that had the highest rates of migration (more than 40% of adults) and microfinance debt. Nearly all of these villages (80 of 93) were located in northwestern provinces near the Cambodia-Thailand border. Researchers selected one target village to survey in Banteay Meanchey province. The aim of the research was to conduct a survey with a large percentage of a single village's population, in order to explore connections between microfinance debt and migration in that village. There is no reason to believe the selected village differs significantly from other villages with regards to levels of microfinance debt and migration.

Researchers approached every house in the target village (approximately 60 houses), a process verified with satellite imagery and field observations, and were able to conduct surveys at 30 households. In nearly all cases, researchers interviewed the remaining family members of migrants, not the migrants themselves, and asked open-ended questions

about their experience with migration and microfinance debt. Of the remaining houses that were not surveyed: eight were empty; seven reported having no migrants in their family; and 15 were unable to conduct interviews due to other factors, most commonly not having anyone above the age of 18 at home.

At the 30 households where families were willing to speak with researchers, researchers obtained consent from participants, established basic demographic information and then posed a series of open-ended questions regarding microfinance, debt, and migration. The survey was designed in an open-ended manner in order to allow interviewees to express both positive and negative effects of migration and MFI debt. Multiple answers were accepted for all questions. Some respondents chose not to answer some questions or sections of the survey. Interviews usually lasted between 20 and 40 minutes.



The empty house of a family that migrated to Thailand.

Findings

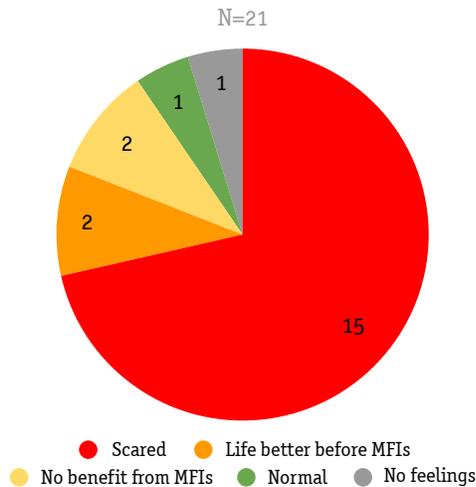


All of the households interviewed (30 out of 30) had at least one family member who had migrated to Thailand. The 30 respondents reported a total of 92 migrant family members, with some reporting that up to 7 relatives had migrated.

The majority of households interviewed had previously taken or currently held a loan from an MFI (23 out of 30). This debt was the primary reason for the migration in their family. When asked about their feelings toward their MFI debt, the majority of interviewees reported feeling scared.

These fears most often revolved around feeling pressure to pay back MFIs and feeling afraid they would have to sell land to repay MFIs, or, less commonly, fearing for the safety and security of migrant workers who had migrated to pay off the MFI debt. Two out of the thirty families reported selling land to pay back MFI debt. Many reported they were currently planning to sell land, but noted the price of land in the border area was very low due to a lack of jobs.

Feelings about personal MFI debt



MFI debt was also the primary reason given for why a family member had migrated. Many of those who had taken loans with MFIs had borrowed money from multiple sources; either from multiple MFIs or one MFI and private money lender simultaneously.

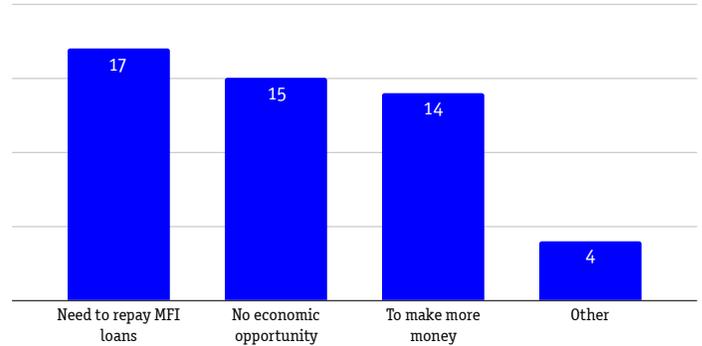
Underage migration was also a significant issue. At least 5 of the migrants reported by family members were under the age of 18 at the time of their migration – two 14-year-old girls, one 15-year-old boy, one 16-year-old girl, and one 16-year-old boy. This number is likely higher, as many interviewees declined to tell researchers the age of the migrants when they first migrated or said that they could not remember.

PROBLEMS WITH MIGRATION

Many interviewees reported both positive and negative impacts of migration on them and their households. Positive

Why did your family member migrate?

Multiple answers accepted, N=26

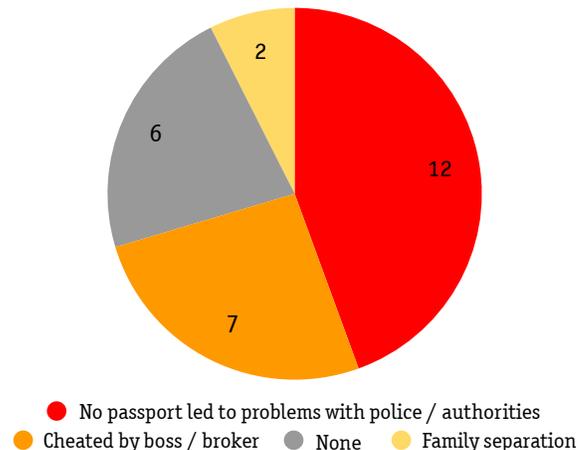


effects were always related to the higher salaries that could be earned by migrants. This was often seen as a positive because it enabled families to pay back their MFI debts, rather than because it could improve living conditions. Negative effects included a difficult living situation for both migrants and those family members left behind in Cambodia. In particular, several families noted that small children were unable to go with parents who migrated to Thailand, leaving grandparents to look after many children. Anxiety around family separation was common, as was regret that parents and children were separated for so long. Only a handful of respondents gave answers with exclusively positive or negative impacts of migration, indicating that most households experienced both positive and negative effects due to migration.

Interviewees were asked about problems with migration experienced by migrants. Six respondents reported no problems with migration, while 20 reported one or more problem.

Problems faced by migrants

Multiple answers accepted, N=26



MIGRATION AND MFI LOANS

Households reported a range of primary reasons for taking out MFI loans. Reasons were split relatively evenly between people who took MFI debt in order to buy land or improve existing farmland; pay fees associated with migrating to Thailand; pay for medical bills; and build a house. Other less common reasons included a child's wedding or general business activities.

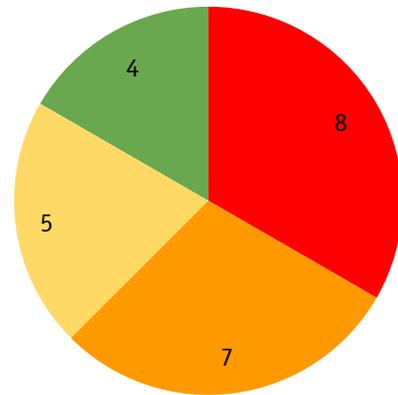
“I work the fields every day, but it is like I’m working for them [the MFI]. After we borrow, we have no money remaining.”

The majority of respondents (17 out of 21) reported one or more problems with MFIs, while other interviewees chose not to respond. The most common problem was a feeling of intimidation or pressure after being forced to put up land titles as collateral for a loan. Other respondents reported feeling pressure to send family members to work abroad because MFI officers had explicitly said that they could only receive loans if they had family members in Thailand.

Many also noted that credit officers had pressured them, sometimes by specifically referencing the possibility of forcing the sale of the borrowers' collateral as pressure to ensure repayment. Other credit officers encouraged borrowers to migrate or required verification of at least one migrant family member prior to giving loans, while others told borrowers them to lie about the reason for the loan or take out additional loans.

Problems with MFIs

Multiple answers accepted, N=21



● Fears over land as collateral ● Led directly to migration
● Credit officer behaviour ● None

One interviewee reported that a credit officer from Prasac threatened to force a land sale if the borrower could not repay. Another said that a credit officer from Sathapana instructed them to lie about the written reason for taking the loan, because the real reason was to pay a different MFI, Amret. These cases of individual malfeasance by MFI credit officers support previous research done by LICADHO and STT, once again showing that despite institution-level policies prohibiting improper behaviour by credit officers, the on-the-ground implementation of these policies remains lacking.

“The benefits of MFIs are short, but the fear is long.”



A migrant family returns to Cambodia from Thailand during the COVID-19 pandemic. (Photo by CENTRAL)

Conclusion and recommendations



The results of this research support previous research findings that microfinance debt was a significant motivating factor for many Cambodians who migrated to Thailand, including risky informal migration that puts migrants at greater risk of suffering abuse. Widespread feelings of fear and intimidation are at odds with microfinance's stated goal of improving the lives of their borrowers. MFIs sometimes required and/or incentivised migration prior to giving loans, and in some cases explicitly encouraged families to send workers abroad in order to increase their income. The giving of loans in a foreign

currency ensures migration is necessary, and is financially supported by foreign development partners. This practice contributes to further migration, and in some cases leads to family separation and trafficking, including underage migration.

With many migrants now forced to return home despite facing the same lack of economic prospects that led them to first migrate, and now overburdened by microfinance debt, we call on MFIs, their funders and the government to take immediate steps to protect MFI borrowers, including:

1. Reasses the offering and support of loans in Thai baht to Cambodian borrowers, and fully investigate whether these microfinance loans have contributed to unsafe migration or other human rights abuses.
2. Suspend all microfinance debt repayments and interest accrual for at least 3 months, with the possibility of extension, for all borrowers due to the economic impact of COVID-19.
3. Return all land titles currently held by MFIs to their owners, to ensure that no coerced land sales occur due to the economic impact of COVID-19.
4. Establish debt relief programs, including debt forgiveness programs, that will help ease the burden on recently returned migrants.

Appendix I: Funding to Cambodian MFIs in Thai baht



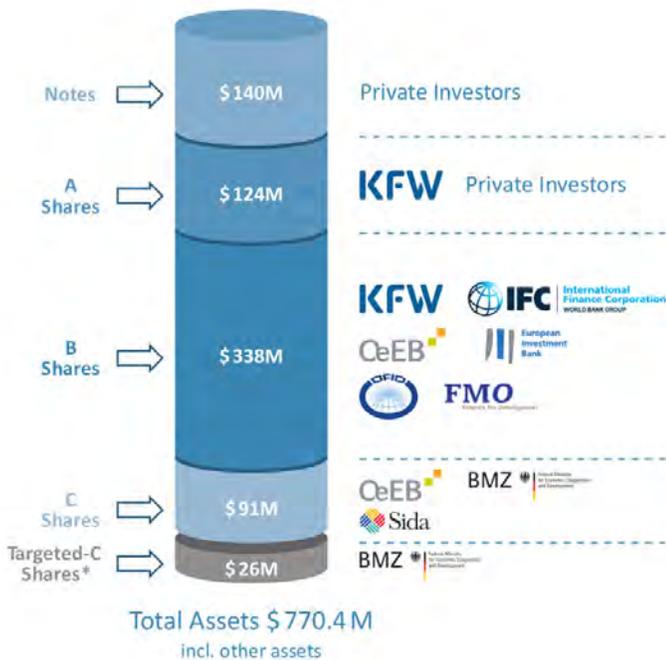
The Microfinance Enhancement Facility (MEF) was established in 2009 by the Germany state-bank KfW Entwicklungsbank (KfW) and the International Finance Corporation (IFC), a member of the World Bank Group. In its own words, the fund “aims to support economic development and prosperity globally through the provision of additional development finance to micro-enterprises, via qualified financial institutions.” The fund is managed by four private investment firms: BlueOrchard Finance AG, Incofin Investment Management, responsAbility Investments AG and Symbiotics SA. Its investors include

development agencies and banks of Sweden (SIDA), Austria (OeEB), the Netherlands (FMO), and Germany (BMZ), as well as the IFC, the European Investment Bank, and the OPEC Fund for International Development.

According to its factsheet, the MEF has invested \$61.8 million in Cambodian MFIs. They report \$30.4 million USD worth of investment in Thai baht currency to three Cambodian microfinance institutions: \$16 million in THB to Hattha Kaksekar, \$3.3 million in THB to LOLC, and \$11.1 million in THB to Prasac.⁹

Investor Structure

Total Assets as of 31 December 2019



Notes	A Shares
Private investors	KfW
	Private investors
B Shares	C Shares
KfW	German Federal Ministry for Economic Cooperation (BMZ)
International Finance Corporation (IFC)	Swedish International Development Cooperation Agency (SIDA)
Development Bank of Austria (OeEB)	Development Bank of Austria (OeEB)
European Investment Bank (EIB)	
OPEC Fund for International Development (OFID)	Targeted-C Shares
FMO	German Federal Ministry for Economic Cooperation (BMZ)

MICROFINANCE INVESTMENT PORTFOLIO as of 31 December 2019

Country	Region	Name of MFI	Investment Advisor	Currency of investment	Portfolio Equiv. USD M	New Investments in Q4 2019 USD M	First Disb.	Last Maturity
Albania	EPCAF	IPSC/OPB/ BESA/Albanian	SY	EUR	5.1		09/11/2018	09/11/2021
Burkina Faso	SSA	First Finance Burkina Faso	IA	EUR	30.6	56.1	21/07/2018	28/11/2022
Cambodia	EAP	Amret Co Limited	IA	USD	11.8		05/04/2017	05/03/2021
		First Finance Cambodia	SY	USD	52.0		25/04/2019	25/04/2022
		Hattha Kaksekar	BO	THB	16.0		12/04/2018	10/05/2022
		Kredit Microfinance	IA	USD	3.0		18/06/2018	18/06/2020
		LOLC Cambodia	IN	THB	3.3		09/08/2018	09/08/2021
		LOLC Cambodia	IN	USD	12.0	52.0	03/04/2017	26/11/2021
		Prasac Microfinance Institution Ltd	BO	THB	11.1		30/10/2018	25/04/2022
		Prasac Microfinance Institution Ltd	BO	USD	3.7		24/02/2017	24/02/2020
		Sotrasana Limited	IN	USD	5.0		15/12/2017	15/12/2020
		China	EAP	China Foundation for Poverty Alleviation	SY	EUR	5.1	
		Grandland	IA	CHF	5.0		11/10/2018	12/10/2021
		Microcredit Finance	IA	CHF	5.0		05/12/2017	07/12/2020

⁹ MEF Quarterly Factsheet, available at: http://www.mef-fund.com/downloads/factsheets/2020/MEF_Factsheet_201912.pdf

