

Policy Brief: The Effect of Covid-19 on Household Saving and Debt in Cambodia¹

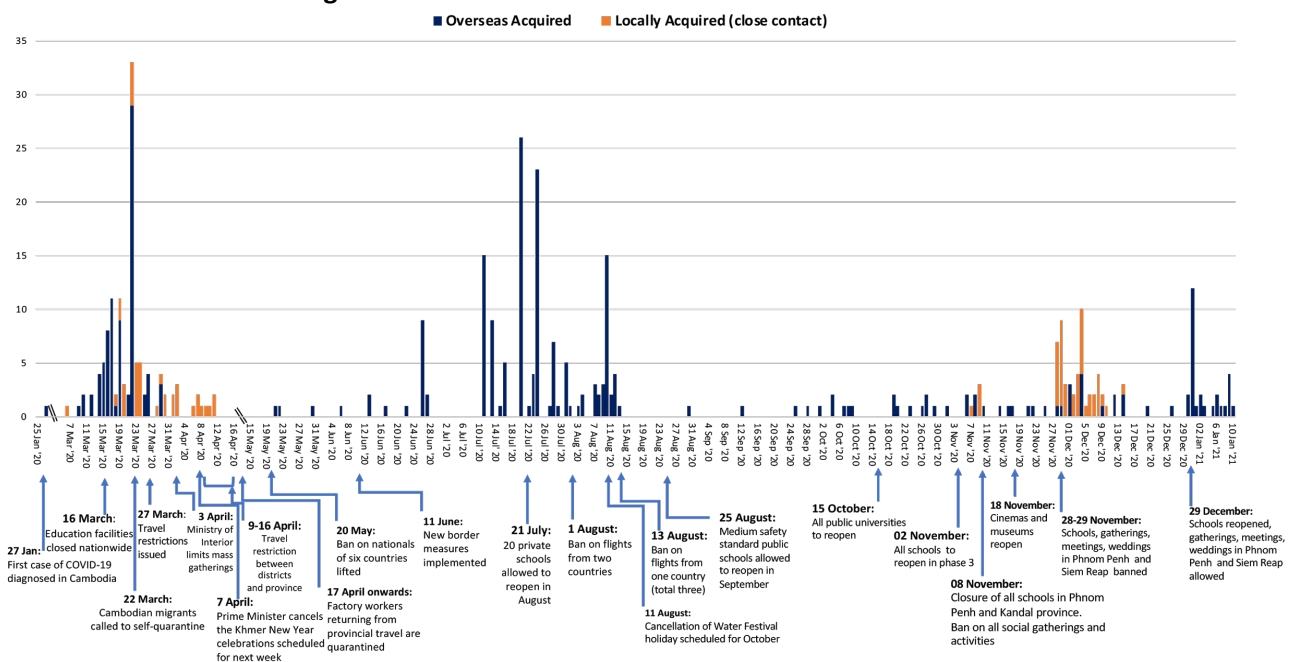
Nith Kosal and Summer-Solstice Thomas

Future Forum

Introduction

In Cambodia, the outbreak of COVID-19² can be classified into three main seasons based on clustered spikes and the non-pharmaceutical intervention from Cambodian government. The first main season is from January to April, second is from June to August and third is October 2020 to January 2021 (Figure 1). The three seasons have impacted households' economy in significantly different ways. Cambodian household savings and debt, and their interactions with the microfinance industry in particular, have drawn increasing and urgent attention within the Kingdom's development sector.³ Almost 2.2 million Cambodians have some form of microfinance loan with an average debt of \$3,320 that is more than double Cambodia's average GDP per person.⁴ With the increased economic stress on households stemming from the Covid-19 pandemic, analyzing shifts in debt and savings is critical to understanding the long-lasting economic impacts of the pandemic on Cambodian families and to inform interventions and policy responses.

Figure 1: Non-Pharmaceutical Intervention in Cambodia



Source: WHO. (2021).⁵

¹ **Acknowledgement:** We would like to thank Ian Ramage, Bradley Jensen Murg, and Michael Renfrew for their useful comment and important inputs.

² This Covid-19 Economic Impact Study for Cambodia has been initiated, designed, and implemented by Angkor Research and Consulting. Analysis and write-up have been conducted in project partnership with Future Forum. This study is supported by the Australian Government through the Department of Foreign Affairs and Trade and The Asia Foundation. The views expressed in this study are of the authors' alone and are not necessarily the views of the Australian Government or The Asia Foundation.

³ In 2019, human rights organisations LICADHO and STT released a report of the debt sector's effect on human rights. See the report [here](#).

⁴ In August of 2020, The Economist released an article on Cambodia's microfinance climate, which can be found [here](#).

⁵ January 11th, 2021, the WHO published an updated [report](#) on the Coronavirus situation in Cambodia.

Angkor Research and Consulting, in partnership with Future Forum, is undertaking a Covid-19 economic impact study⁶, and subsequent policy review, to meet the critical need for ground-level data on the pandemic's effects. The study involves a quarterly, random sampling of Cambodian households to identify the economic impacts of Covid-19, illuminating avenues towards productive solutions. The headline results series will provide policy stakeholders an opportunity to explore key findings from each round of data collection throughout the project. The remainder of this brief will detail the study's headline results pertaining to household savings and debt.

Household Savings

Figure 2 details the percentage of households with savings, while figure 2 displays the average amount of savings. In general, the proportion of households holding savings decreased between January and June, shifting to an increase (2.55%) between June and October (Figure 1). While average household savings decreased from January to June (by \$633, or 60%), June to October saw a marked uptick with an average increase of \$194 (47% of June's savings). Despite this rise, however, total savings in October 2020 are still down by 42%, or an average of \$438, from January 2020 savings (Figure 3). Kampong Speu specifically, saw an immense savings increase between June and October, an almost 200% rise from June's savings, and a 4% rise from January's savings.

Figure 2: Percent of Households with Any Types of Savings

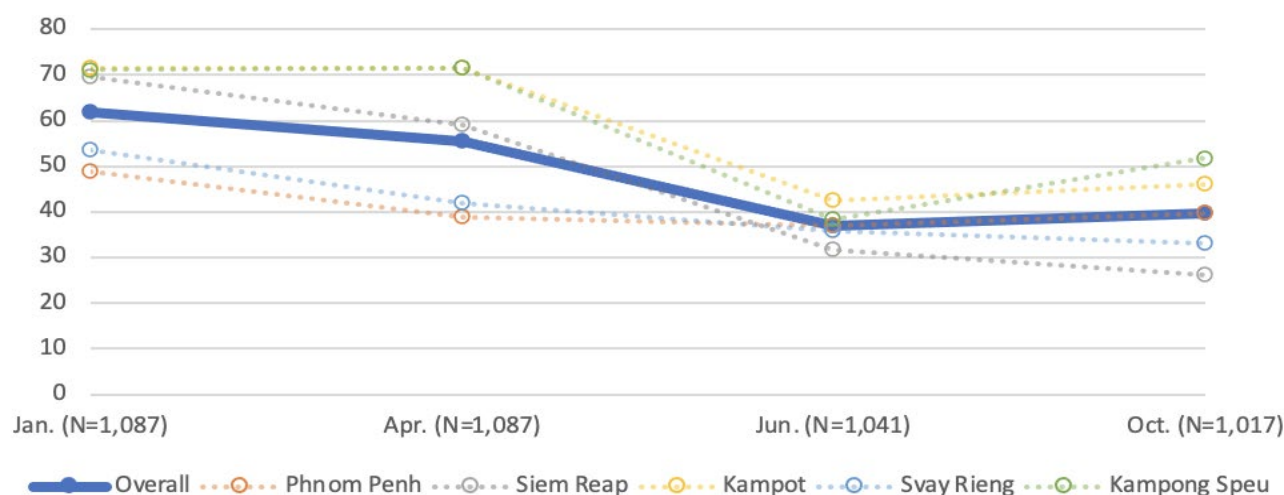
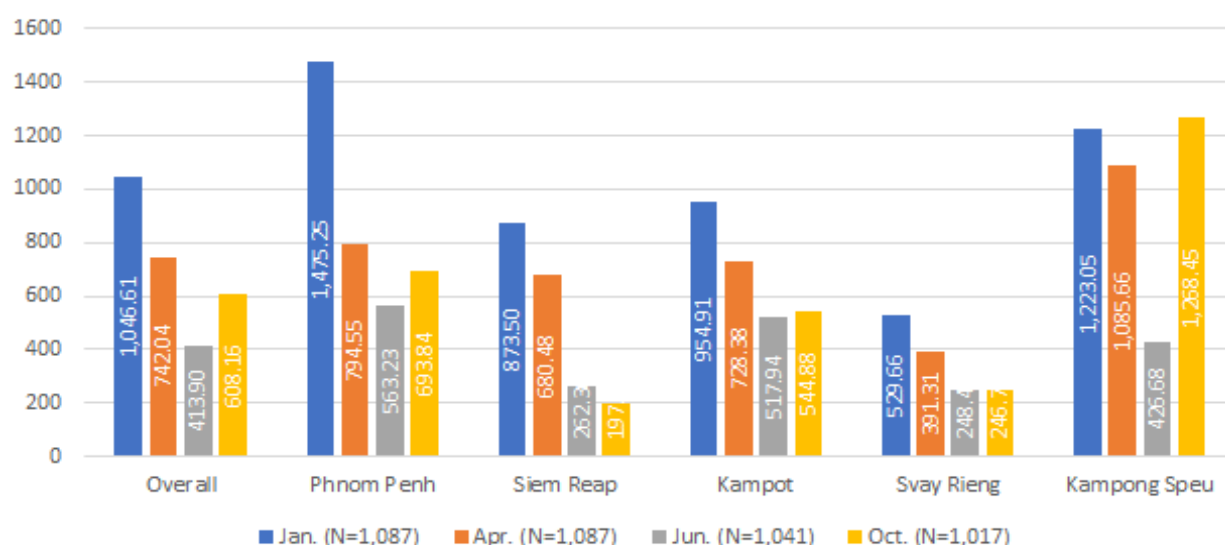


Figure 3: Average Amount of Total Savings in US Dollar



⁶ Utilising a cluster-based sample selection methodology, the sample is clustered at the provincial, district and village level. This survey will be a longitudinal study focused on wage workers, families with micro/small enterprises and farmers in Kampot, Kampong Speu, Svay Rieng, Siem Reap, and Phnom Penh municipality. For further information on the sampling design and approach please contact Ian Ramage on ian@angkorresearch.com

Household Debt

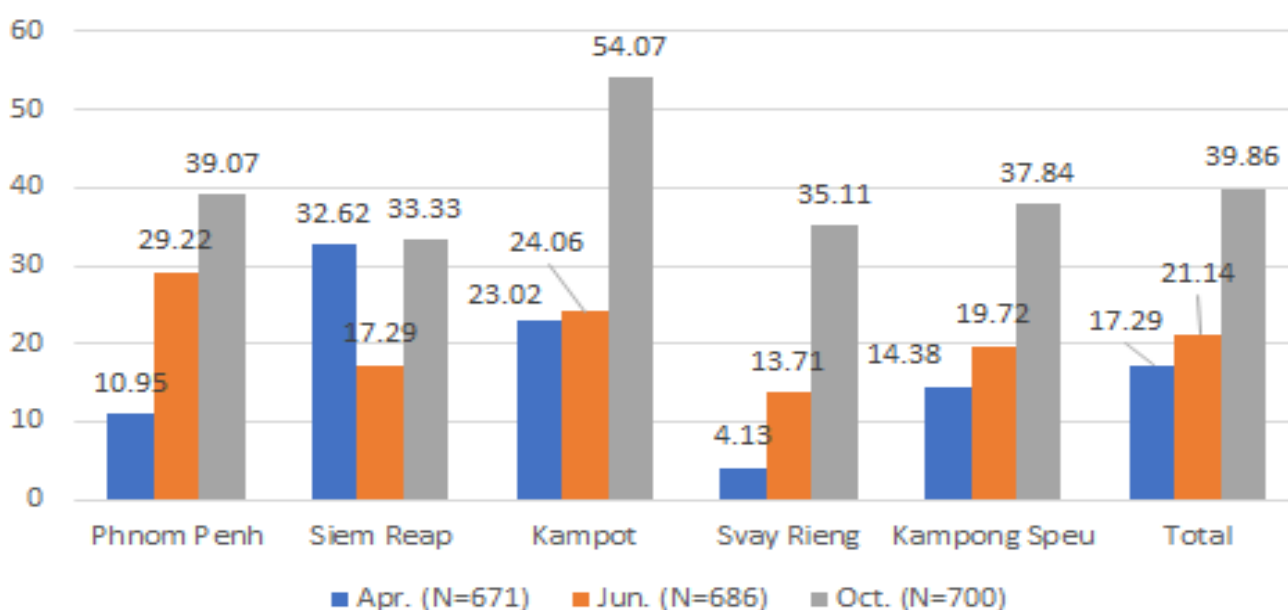
Table 1 reports various aspects of household debt in each province across all three rounds of data collection. Overall the most significant shift in loans during the pandemic has been their source (see Figure 5). From January to June informal loans (from friends and family or money lenders) increased rapidly, but then fell in the third quarter (from June to October) while formal loans (from microfinance institutions and banks) surged. The average proportion of households with debt has increased from 59% in January to almost 69% in October, where 2.33% of that increase was between June and October. While the first two quarters of 2020 saw a 10.4% (or \$734) decrease in average debt, June to October saw an \$142 (or 2.26%) increase in average debt amount. Thus, despite a slight increase in debt between June and October, average household debt amounts in October 2020 are down by 8.4% (\$593) since January 2020. Interestingly, Kampong Speu followed the inverse of this general pattern observed by the four other provinces, experiencing an increase in average loan amounts between January and June (by \$329), yet a significant decrease between June and October (by \$1,309).

Table 1: Percent of Households Having Debt and Average Loan Amount in Each Round

Province	January		April		June		October	
	(N=1087)	(N=650)	(N=1087)	(N=706)	(N=1032)	(N=680)	(N=1016)	(N=682)
Phnom Penh	47.50%	\$10,051.26	48.93%	\$9,052.86	60.96%	\$7,713.65	62.55%	\$8,692.96
Siem Reap	66.00%	\$5,949.76	70.50%	\$5,619.47	69.95%	\$5,409.05	73.37%	\$5,782.81
Kampot	57.14%	\$3,837.07	62.07%	\$3,708.66	67.34%	\$3,520.24	68.18%	\$4,126.55
Svay Rieng	59.50%	\$5,842.64	60.50%	\$5,227.32	64.40%	\$5,128.69	68.95%	\$5,221.01
Kampong Speu	69.12%	\$8,888.29	71.57%	\$9,174.94	72.22%	\$9,217.10	73.63%	\$7,908.50
Total	58.97%	\$7,032.01	61.73%	\$6,678.82	66.67%	\$6,297.72	69.00%	\$6,439.77

Figure 4 presents new loans taken out before and during the pandemic. Overall, around 279 households have taken out a new loan between June and October. With this, from January to October, a total of 538 households have taken out a new loan. Kampot accounts for the highest rise in the number of new loans between June and October, which increased by 54.07%, and followed by Phnom Penh (39.07%), Kampong Speu (37.84%), Svay Rieng (35.11%) and Siem Reap (33.33%).

Figure 4: New Loans Taken Out by Households



The number of households late on loan repayment increased by 4.4% between June and October (Figure 5). Kampot, specifically, saw a significant increase in late loan repayment during this period, from 24% in June to 54% in October. Overall, the percentage of households late in repaying loans increased by 16.77% (Figure 5).

Figure 5: Households with Late in Loan Repayment in Each Round

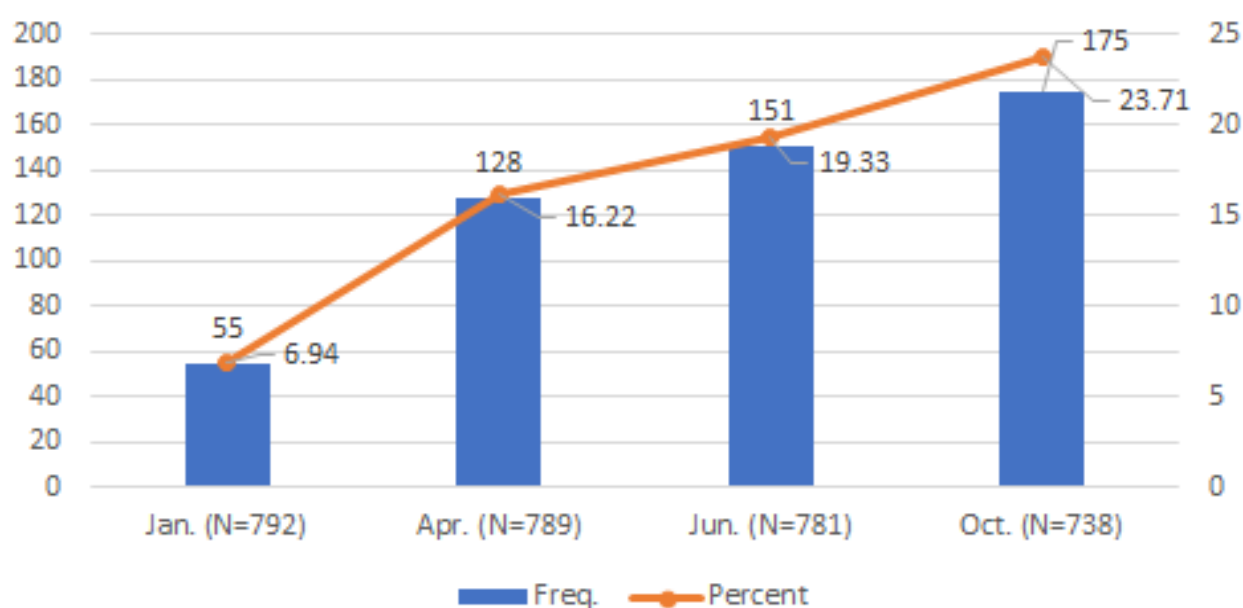


Table 2 illustrates households' declared purpose for taking out new loans. Reasons for loans taken out in the third round of data collection varies significantly from the first and second rounds of data collection. The results show that the first two rounds both saw a spike in new loans taken out to repay existing outstanding debt (21.69%). In addition, new loans were taken out to meet household expenses and food consumption demand (39.96%). However, by October, loans for daily expenses and food dropped by 18.29% and repayment of other loans dropped by 4.44%, when compared to June. Concomitantly, household loans purposed for education expenses have increased significantly from zero percent in June to 3.76% in October. Across the length of the survey, the percent of new loans taken out for business ventures consistently dropped, while the percent taken out for health care consistently increased.

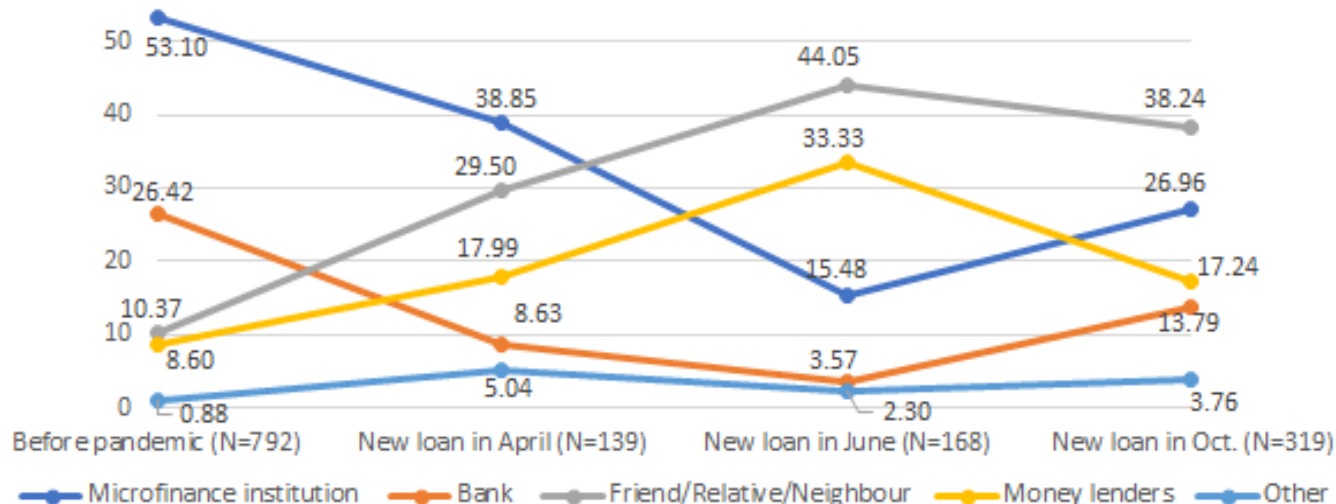
Table 2: The Objective of Households Loan Before and During COVID-19

Purpose of loans	Before pandemic (N=792)	New loan in April (N=139)	New loan in June (N=168)	New loan in October (N=319)
Daily expenses and buy food	3.41%	9.35%	43.37%	25.08%
Repay other loans	7.83%	23.74%	29.52%	25.08%
Health	12.75%	17.27%	17.47%	23.51%
Business	36.24%	32.37%	24.10%	21.32%
Farming costs	4.80%	7.91%	5.42%	11.60%
Build a house/ kitchen	29.04%	20.14%	6.63%	10.03%
Buy motorbike/ car	12.12%	10.07%	3.01%	6.90%
Buy a land or a house	11.11%	3.60%	2.41%	4.08%
Education	1.01%	0.00%	0.00%	3.76%
Other	0.63%	2.88%	0.00%	2.82%
Repair house/add amenities	1.52%	0.00%	1.20%	2.82%
Wedding/ceremony	3.66%	7.19%	1.81%	2.19%

The sources of lending have varied, as detailed in Figure 6. From January to June new loans taken out from formal sources (banks and microfinance institutions) saw a 22.85% and 37.62% decrease, respectively.

Meanwhile new loans from informal sources, i.e., personal networks (friends, neighbors, relatives) and money lenders, increased by 24.73% and 33.68% respectively. By October, this trend had started to inverse, where new loans acquired from personal networks decreased by 5.81%, and from money lenders decreased by 16.09%, while the formal sector saw an increase, by to 11.48% and 10.22% respectively.

Figure 6: Sources of New Loans Taken in Each Round



Summary of Findings

The third round of the COVID-19 Economic Impact Survey has highlighted the shift in households' savings and debt between June and October 2020. The proportion of households with savings increased by 2.55% between June and October, while the average savings amount in dollars of households increased from \$413 in June to \$608 in October - illustrating the beginning of a recovery period as households rebuild their stocks of savings.. Meanwhile, the proportion of households holding debt increased slightly, by 2.33%, between June and October, while the average debt amount has increased by \$142. June to October saw an increase in new loans taken out for education, and a shift to a decrease in the use of loans for daily expenses and loan repayment. Notably, after rising remarkably between January and June, loans from informal sources began to decrease in quarter three (from June-Oct) while formal loans surged to take their place.

Despite this budding recovery in the third round of the survey, it is clear that the pandemic has taken its toll on Cambodian households' economic status. The proportion of households holding savings has decreased by 22.3% between January and October, while the average savings amount decreased by 42%, or an average of \$438. Notably, while roughly two thirds (61.9%) of households had savings in January 2020, by October 2020 about two thirds (63.4%) of surveyed households held zero savings. Additionally, the proportion of households holding debt has increased, by 10.03% between January and October, where 538 households have taken on new loans. Interestingly, average household debts decreased during the pandemic, especially between January and June, from an average of \$7032 in January 2020 and to \$6440 by October.

Finally, Covid-19 has seen a substantial rise in households struggling to meet loan payments. While only 7% of households were late on loan payments in January 2020, 23% were late on payments by October 2020. Regarding loan sources, this period has seen a tendency for new loans to shift towards informal sources. While the source of loan from microfinance institutions and from banks decreased by 26.13% and 12.73% respectively, loans from friends and neighbors have increased by 27.87% between January and October.

Policy Recommendation

In this context, the magnitude and persistence of economic downturn and the shape of the recovery will depend on smart reform in economic and social policies to support households and businesses during the crisis, and the delivery of effective vaccines or treatment.

To support Cambodian households and businesses as they recover from the pandemic's continuing economic downturn, the government should freeze interest accrual on loans.⁷ Such would follow suit countries like Bangladesh, who froze loan interest and waived credit interest, or Timor-Leste, whose government committed to paying 60% of loans' interests⁸. Given the current economic conditions, delay on debt payments should be expected and punishing borrowers with interest accumulation becomes entirely unproductive.

Moreover, concern is growing over the number of Cambodians liquidating their essential assets, like homes or land, as the economic effects of Covid-19 push them towards desperation.⁹ While the National Bank of Cambodia has taken steps to alleviate the economic burden on larger enterprises via loan restructuring,⁸ nothing has been done to ease the similar burden on individual citizens and households. It is critical that, along with freezing interest accrual, the government postpones debt payments for those hit the hardest by the pandemic's effects⁷--especially for debt holders at risk of losing their land. This would be in line with the responses from governments like Thailand, who froze loan repayments for SMEs for 6 months or China, who paused loan repayment until after March 2021.⁸

While the issues within Cambodia's microfinance industry remain complex and numerous, concrete steps to alleviate the burden of debt and loss of savings for Cambodian households are possible, as seen by peer governments in Southeast Asia like Thailand or Timor Leste.⁸

⁷ As [recommended](#) by the Humans Rights Watch.

⁸ The International Monetary Fund has compiled a [worldwide review](#) of countries' economic policy responses to the pandemic.

⁹ In August of 2020, The Economist released an article on Cambodia's microfinance climate, which can be found [here](#).