

MICROCREDIT INTEREST RATE REGULATION: THE CASE OF CAMBODIA

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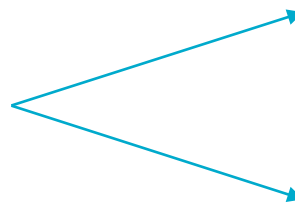
- **Why this research on microcredit interest rates regulation?**

Microcredit interest rates: one of the most controverted topics in microfinance literature

→ **Research question:** *How can microcredit interest rate regulation modes influence microfinance's double bottom line ?*

- **Case study in Cambodia** through a 2month-research internship at Cambodia Microfinance Association (CMA) in the first half of 2018 (in collaboration with ADA)

Why Cambodia?



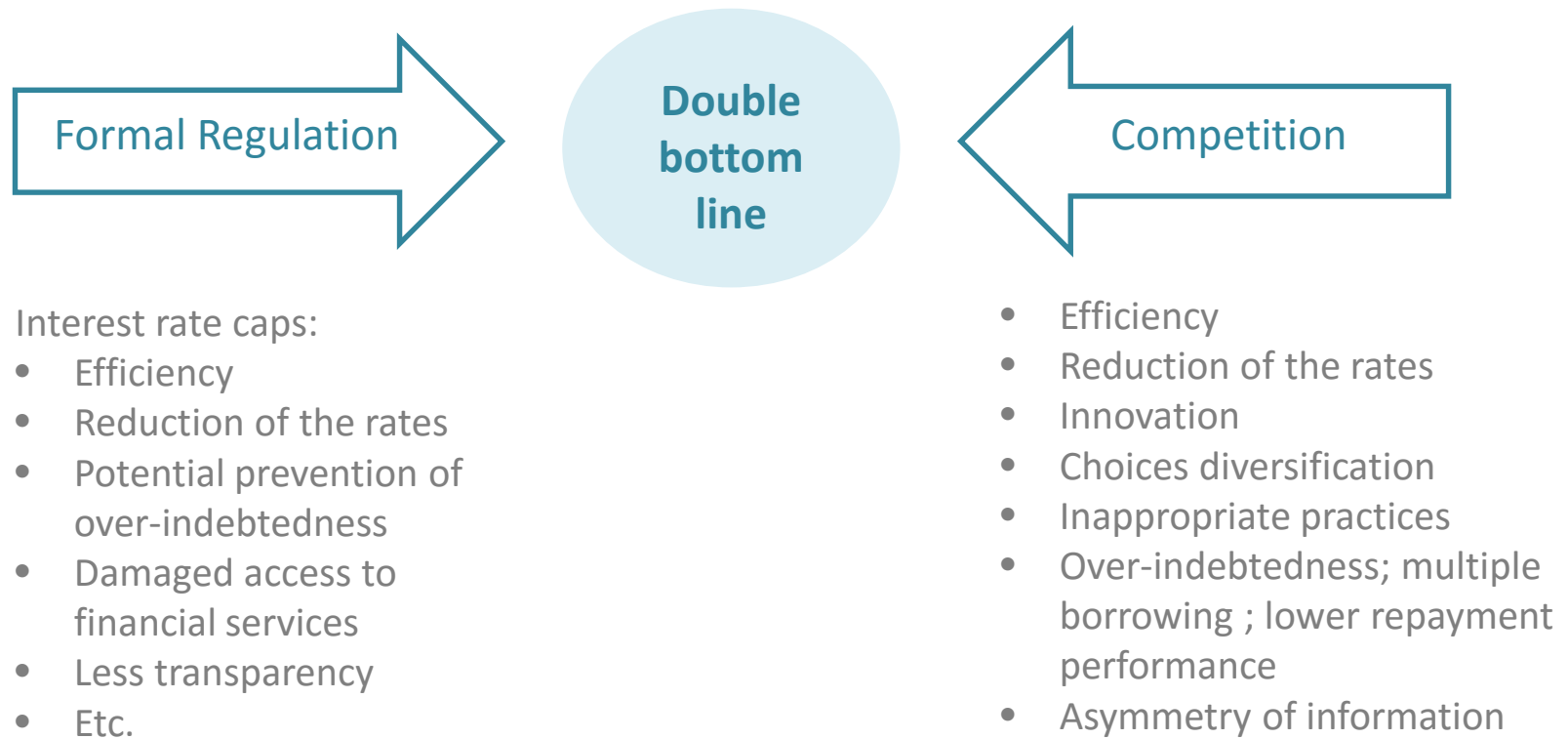
Very intense competition

Harsh interest rate regulation

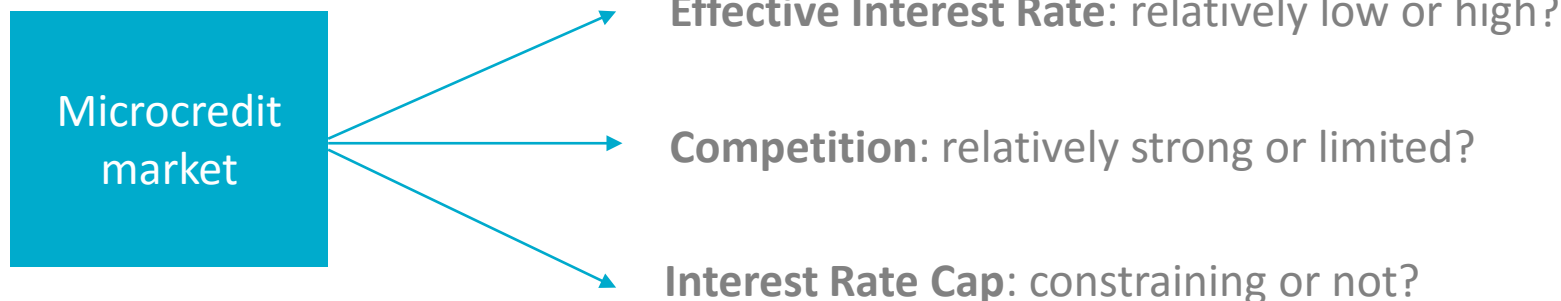
- **Cambodia in a few financial figures**
 - High poverty ($20\% < 0,93\$/\text{jour}$); 90% in country side
 - GDP around 22 billion USD (low income country, World Bank)
 - Dollarization; Inflation 3%; Bank lending rate $\simeq 12\%$; MFIs $\simeq 23\text{-}24\%$ (USD)
 - Interest rate cap 18% (nominal rates) since April 2017
- **Cambodian Microfinance Market**
 - Loan portfolio 4 billion USD ; 2 million clients
 - 96 members of the CMA (professional association) – Intense competition



Lending Interest Rate: hot topic for academics and on the field → Major impact on clients and on the double bottom line of microfinance institutions



Definition of a theoretical framework to understand the integrated impact of formal regulation and competition on microfinance's double bottom line



Effective interest rate	Competition	Interest rate cap	
		Constraining	Non-constraining/No cap
Low	Strong	Situation A	Situation B
	Limited	Situation C	Situation D
High	Strong	Situation E	Situation F
	Limited	Situation G	Situation H

- Case Study carried out on the Cambodian microfinance market
- **16 semi-directed Interviews (45-60 minutes) with various targets:** MFIs managers; clients; regulators and main actors of the sector
- **Topics:** Interest rates on the market; regulation (cap); competition; financial education; clients protection; governance; future perspectives
- **Analysis of the data:** Thematic analysis

Two steps results:

- First step: positioning Cambodia on the theoretical framework

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Two steps results:

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Interest rate criterion

- Trends in nominal rates
- Trends in real yield
- Low sectorial costs (and inflation)

Competition criterion

- Number of competitors
- Interviews
- Trends in nominal rates
- Concentration indicator

Ceiling criterion

- Interviews
- The cap under-estimates sectorial costs

- Second step: testing the assumptions of « situation A » in Cambodia

Assumptions	
Financial aspect of the double bottom line	Incentives for efficiency
	Reduction of financial revenues/profitability
	Lower repayment
	MFIs are forced to take additional risks
Social aspect of the double bottom line	Diversity of choices for the clients
	Incentives for innovation
	Low interest rates
	Exclusion of the poorest/costliest clients
	Emergence/strengthening of moneylenders
	Loss of transparency
	Slowing down of market growth
	Risk of lower quality and suitability of the loans and risk of over-indebteness
	Development of unprofessional/unethical competitive practices

- Second step: testing the assumptions of « situation A » in Cambodia

Assumptions		Status
Financial aspect of the double bottom line	Incentives for efficiency	V
	Reduction of financial revenues/profitability	V
	Lower repayment	X
	MFIs are forced to take additional risks	V
Social aspect of the double bottom line	Diversity of choices for the clients	V
	Incentives for innovation	V
	Low interest rates	V
	Exclusion of the poorest/costliest clients	V
	Emergence/strengthening of moneylenders	?
	Loss of transparency	X
	Slowing down of market growth	X
	Risk of lower quality and suitability of the loans and risk of over-indebteness	V
	Development of unprofessional/unethical competitive practices	V

- **Contribution:** Proposition of a scheme to understand the impact of combined regulation modes on microfinance's double bottom line
- **General results:**
 - Strengthening of the financial aspect of the double bottom line → Are caps the solution?
 - No regulation mode should be used on its own → **An appropriate combination** of formal regulation and FAIR competition but also additional tools to favor the double bottom line
- **Application and limits:** Relevant for the situation tested but other cases to approach to validate the framework



Thank you for your attention

