



WORKED TO DEBT

OVER-INDEBTEDNESS IN CAMBODIA'S GARMENT SECTOR

A joint briefing paper issued in June 2020

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CAMBODIAN ALLIANCE OF TRADE UNIONS

មជ្ឈមណ្ឌលសម្ព័ន្ធភាពការងារ និង សិទ្ធិមនុស្ស



CENTRAL

CENTER FOR ALLIANCE OF
LABOR AND HUMAN RIGHTS

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LICADHO

CAMBODIAN LEAGUE FOR THE PROMOTION
AND DEFENSE OF HUMAN RIGHTS

CAMBODIAN ALLIANCE OF TRADE UNIONS (CATU)

The Cambodian Alliance of Trade Unions (CATU) is a legally-registered independent trade union federation representing workers in Cambodia's manufacturing sectors since 2011. CATU represents workers in textile, garment, footwear, travel goods and bag producing factories in Cambodia. CATU has assisted tens of thousands of workers in receiving benefits higher than those legally prescribed, moving off short-term contracts and into permanent employment, and improving health and safety conditions in workplaces. CATU has also helped thousands of workers, including those discriminated against for pregnancy or trade union activities, be reinstated with full backpay.

CENTER FOR ALLIANCE OF LABOR AND HUMAN RIGHTS (CENTRAL)

CENTRAL empowers Cambodian working people to demand transparent and accountable governance for labor and human rights through legal aid and other appropriate means. Its vision is that Cambodian people are the masters of the country, living with human dignity and in peace. CENTRAL organizes and supports the Cambodian working people through legal aid and other appropriate means to demand transparent and accountable governance for labor and human rights, in order to contribute to a transparent and accountable governance for fulfillment of workers' & human rights in Cambodia.

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.

TABLE OF CONTENTS

Executive Summary P1

Methodology P3

Findings P3

Recommendations P8

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 groups, such as garment workers, that clearly stand to undermine the human rights of a significant number of Cambodians.

Executive Summary



Garment workers in Cambodia have been devastated by the economic impact of the COVID-19 pandemic. Years of chronically low pay in the sector have forced workers to rely on debt – most of which is provided by microfinance institutions (MFIs) and collateralised by borrowers' land titles – to meet their basic needs. Hundreds of thousands of heavily indebted workers are now out of work, after hundreds of factories suspended their operations, putting them at risk of land loss and other human rights abuses. The garment sector has also been hit by the announcement of the partial withdrawal of the European Union's Everything But Arms (EBA) trade preferences in February 2020. This decision came after the EU, the garment sector's largest export destination, found "serious and systematic" violations of human rights in Cambodia.

Results of this research are from a survey of 162 garment workers (158 women) between March and May 2020. Workers came from three different factories that have partially or fully suspended work. Researchers found that two-thirds of workers were paying off at least one microloan, and that these repayments took up the majority of their pre-suspension incomes. On average, the combined monthly payments for debt and food expenses exceeded workers' salaries, resulting in the vast majority of microloan borrowers eating less food to be able to repay. 96% of respondents who held microloans said their life was either "much worse" (80%) or "slightly worse" (16%) now compared to before taking out their microloan. Just 2% reported their life was "slightly better", and none said it was "much better".

"The credit officer [from Sathapana] told me to get another loan from another place to repay the debt."

MFIs, commercial banks and their investors – many of which are the development agencies or state banks of European governments – are responsible for widespread over-indebtedness in Cambodia. They have continued to fund an aggressive expansion of the microloan sector and loan portfolio sizes, despite warnings from economists and human rights NGOs about the excesses and abuses in the sector. More than 2.6 million Cambodians held more than \$10 billion in microloans at the end of 2019, with borrowers holding an average of \$3,804 – by far the highest average microloan size in the world, and far exceeding GDP per capita or annual incomes.

During the spread of the COVID-19 pandemic, development partners should be implementing debt relief for distressed Cambodian borrowers. Instead, they have sought to expand the already bloated microfinance sector. In January 2020, a press release announced that the UN, USAID and Australia's DFAT had worked together to support a "Women's Livelihood Bond 2", which will send about \$6 million to Cambodian MFIs. In March, Germany's DEG, a subsidiary of the state development bank KfW, announced an \$18 million loan to Hattha Kaksekar Limited (HKL), one of Cambodia's largest MFIs. In April, the World Bank's IFC proposed \$15 million in funding for AMK, another of the largest MFIs in Cambodia, with the goal of "improving access to finance" for women. What Cambodian borrowers need right now is debt relief, not millions of dollars in financing for profitable, foreign-owned MFIs to expand their loan portfolios.

We urge these financial institutions and development agencies to take immediate steps to decrease debt burdens in Cambodia and begin alleviating borrowers' suffering.

"I feel hopeless to get my job back. I'm so worried about my family, and how we will cover expenses like food, accommodation, healthcare and debt to the bank and private lenders."

The claim that microloans primarily help borrowers earn extra income was not supported by this research. The primary reason for taking a microloan was to "build a house", followed closely by "pay off an existing loan" and "other" (most frequently buying assets such as a motorbike or land). The least-common reasons were "doing business", "health expenses" and "agriculture". This raises questions as to what percentage of MFIs do not require that loans are used for income-generation, but instead rely on the security of the borrowers' land titles to ensure that loans are repaid. Sixteen workers who had microloans had already sold land to repay a microloan debt, and 33 more expected to have to sell land in the near future.

Pressured land sales have continued despite the directive issued by the National Bank of Cambodia (NBC) in March encouraging MFIs to enact "case-by-case" resolutions for distressed borrowers. In the past few months, the NBC has

helped several borrowers who submitted official complaints over the unreasonable pressure they faced from MFIs. These actions have secured important relief for those borrowers, but there are hundreds of thousands of borrowers, including many garment workers, who will never submit formal complaints due to a lack of access, awareness, and/or knowledge about the process. We urge the NBC to support garment workers facing economic hardship by applying mandatory, sector-wide regulations, including temporary suspensions of loan repayments and interest accrual, to ensure that no worker falls through the cracks.

Other common coping mechanisms garment workers took to make loan repayments included eating less food, taking additional loans, and migrating in search of work. Many more respondents said they expected to take these actions in the future, putting borrowers at further risk. This human rights crisis will only worsen as MFIs continue to face their own economic pressures.

In addition to microfinance debt, some surveyed garment workers also had loans from private lenders or relatives,

“I am so worried about repaying debts to ACLEDA Bank and other lenders. If I cannot pay, our house and residential land will be confiscated.”

although these were less common than microloans. These “informal” loans were smaller and usually not collateralised, making them more manageable for most borrowers. In addition, the most common reason for taking a loan from a private lender was to “repay existing debt”, suggesting that microloan clients often turn to private lenders in order to keep up with their formal debt repayments. In fact, the most common reason for taking a loan of any kind was to “repay existing debt”, suggesting that Cambodia’s credit market is oversaturated. Microfinance debt appears to increase borrowers’ reliance on unregulated private lenders, not decrease it as claimed by the industry.

The troubling results of this research lead the authors to once again call for immediate debt relief programs from microfinance institutions and international investors who have spent hundreds of millions of dollars and burdened many Cambodians with unmanageable debts. State agencies such as BMZ and KfW from Germany, FMO from the Netherlands, SIDA from Sweden, OeEB from Austria, and others, as well as bilateral partners such as the IFC and ADB, must accept that their substantial investments into microfinance in Cambodia have led to a sector in crisis, and they must act quickly to help the borrowers who are suffering as a direct result of their investments. We also encourage the government to expand their borrower protections and enact enforceable, sector-wide regulations, including the temporary suspension of loan repayments and the return of land titles used as collateral, prioritising hardest-hit borrowers such as garment workers. This is the best way to protect the human rights of all microloan borrowers, especially out-of-work garment workers.

Selling land to repay debts

Sopheha* is a 40-year-old garment worker who works in Phnom Penh. Her salary has helped her raise two children, one now an adult and another just six years old. But her salary was never enough, and so she took a microloan from ACLEDA to sell goods online. Her family fell on hard times when her husband, a construction contractor, was cheated out of money by his employer. So she went to a different MFI, Vision Fund, and told them she wanted a loan to repay ACLEDA. Vision Fund, since sold and renamed WB Finance, agreed.

In April 2020, her garment factory employer suspended its workers due to the COVID-19 pandemic. Left without an income, Sopheha couldn’t afford to repay. At first her loan officer agreed to defer repayments for 6 months. But shortly after agreeing, he called back to say that the “upper levels did not agree”, and insisted she repay the full amount. “If you don’t have money to pay us back, go sell your land,” the credit officer said. Scared because the MFI was holding her house land title as collateral, Sopheha sold a rice field in her home province in order to repay WB Finance. “It hurts,” she said. “It was very difficult.”

*Name changed to protect privacy of interviewee.

Methodology



Researchers interviewed 162 workers (158 women) who were members of the Cambodian Alliance of Trade Unions (CATU) from three different garment factories over the course of March to May 2020. Two of the factories are located in Phnom Penh, while the third is located in Kampong Chhnang province. In light of COVID-19, researchers utilised masks, hand sanitiser, temperature checks and social distancing to protect themselves and interviewees. All interviewees were explained the purpose and methodology of the research and consented to having their answers used by researchers.

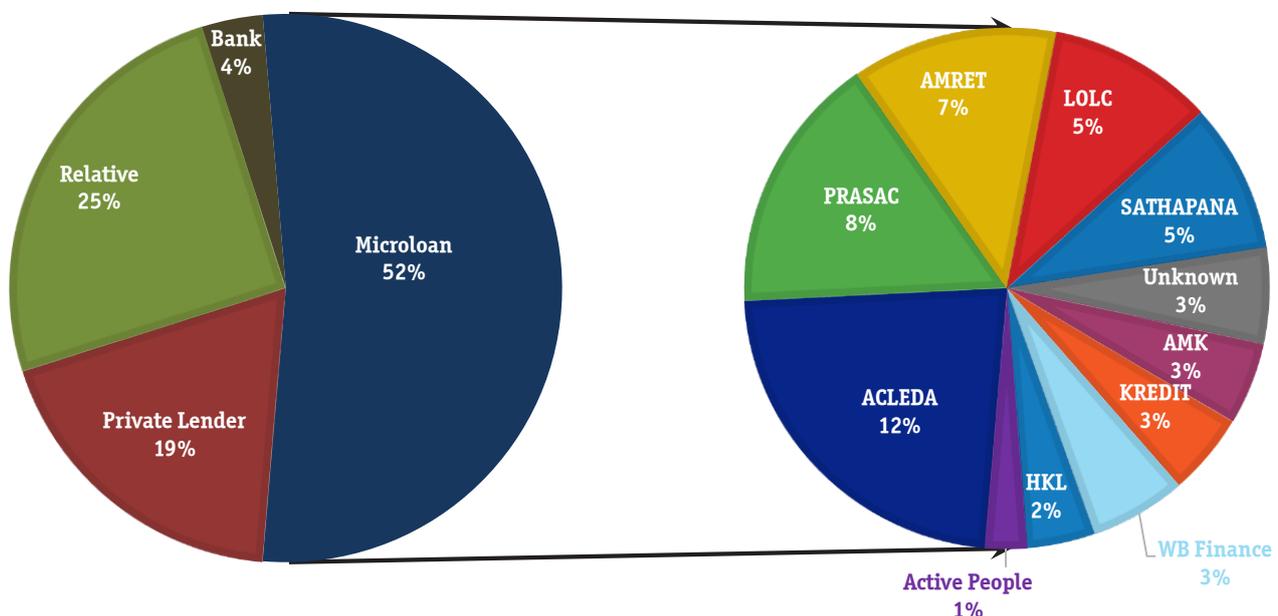
The surveys asked questions about demographics, household budget and debt. Respondents were asked to distinguish between microloans and other forms of debt (such as private lenders or debt from relatives). Workers were selected by local union leaders based on their ability to attend survey sessions and were not screened for debt levels or any other social or economic information prior to the survey. Workers answered surveys individually.

Findings

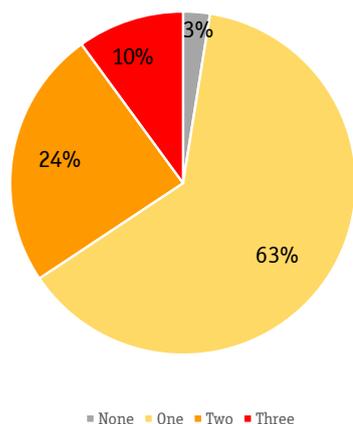


- Of 162 surveyed workers, 158 held at least one loan.
- The most common type of loan was a microloan from an MFI or bank. 106 workers (65% of total) had at least one microloan.
- Of these 106 microloan-holding workers, most had already eaten less food (72%) or taken another loan (51%) to repay their microloan.
- Of these 106 microloan-holding workers, 16 (15%) had already sold land in order to repay their microloan, while double that number planned to sell land in the future.
- 95% of workers said they would be unable to repay their microloans if their factory was suspended
- 96% of workers said that their livelihoods were much worse or slightly worse after taking a loan.
- The most common reason for taking a loan of any kind was to repay another loan.
- Average expenses related to repaying loans and buying food exceeded the average workers' income.
- The average number of dependents for a single worker was about 4.

TYPES OF LOANS HELD BY 158 SURVEYED GARMENT WORKERS
(Number of loans = 227)

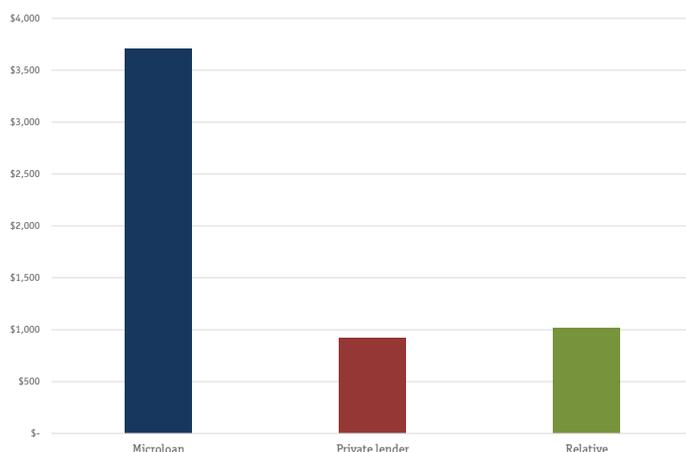


NUMBER OF LOANS REPAID BY EACH WORKER



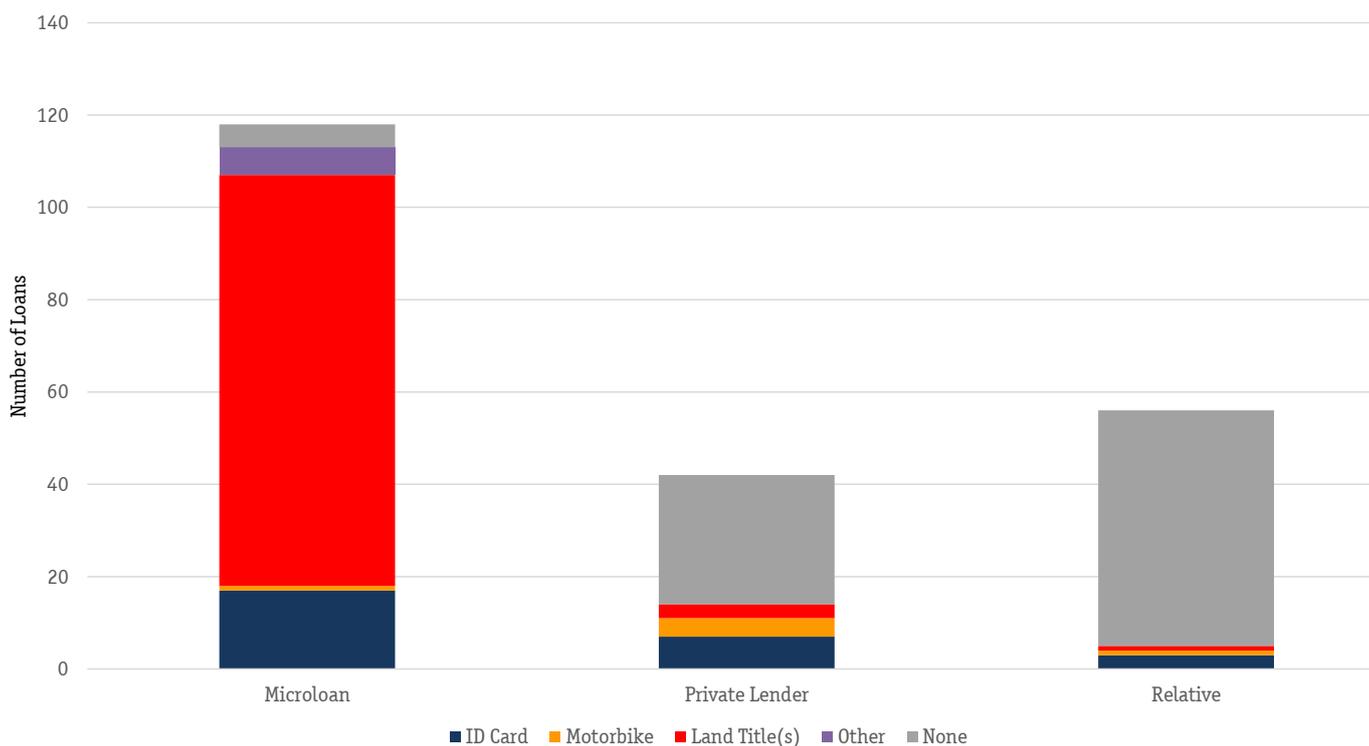
- Most workers held one loan. Multiple borrowing among microloan clients who took additional loans from private lenders was also common.
- Previous research has shown that MFI credit officers sometimes urge clients to take private loans in order to repay MFI debt.

AVERAGE LOAN SIZE



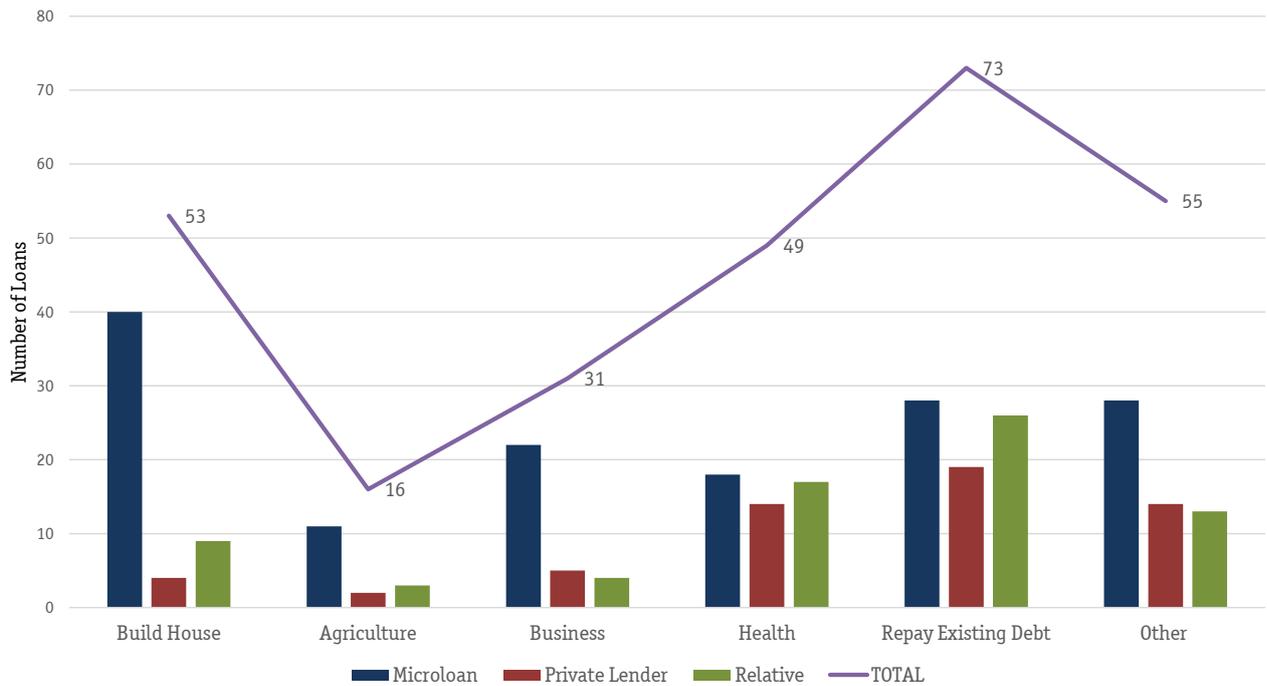
- Loan sizes from private lenders and relatives were several times smaller than microloans on average.
- Borrowers rarely expressed concern over their debts to private lenders or relatives, more often worrying about the larger monthly repayments to banks or MFIs.

TYPES OF COLLATERAL



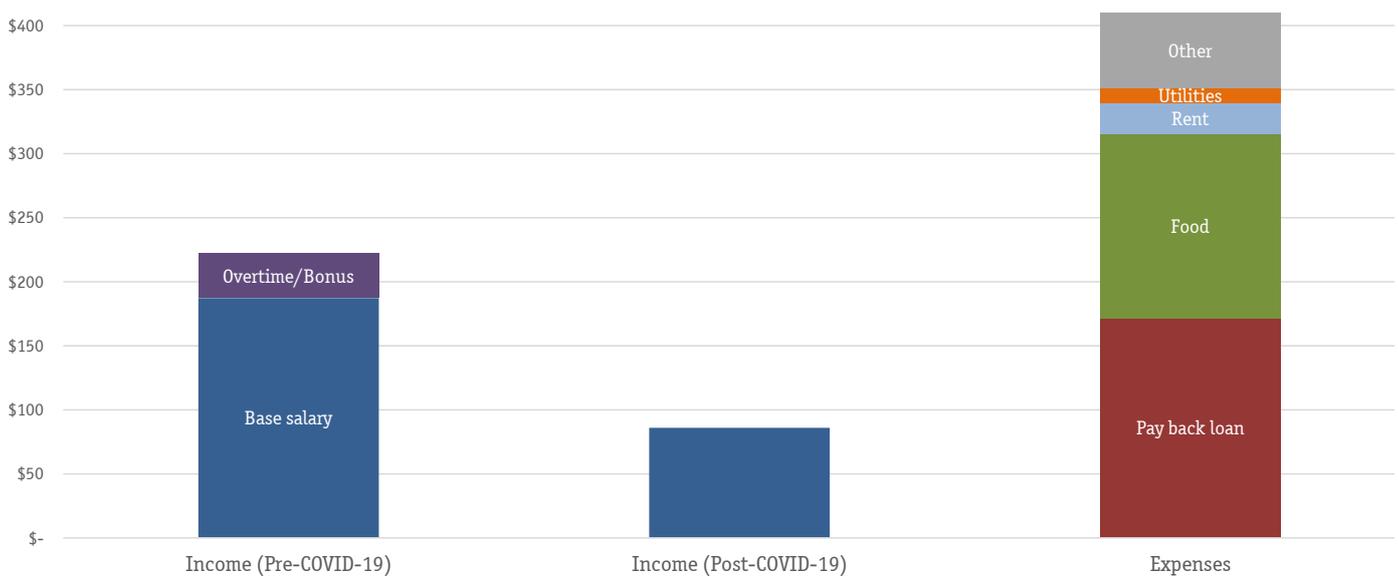
- 79% of all microloans were collateralized by land titles, while most other loans were uncollateralized.
- Previous research has indicated this use of land titles puts an immense amount of pressure on borrowers.
- The designation of "ID Card" as collateral may indicate that the borrower was only required to provide a copy of the ID card. This answer was not explored in further detail during this research.

REASONS FOR TAKING LOAN



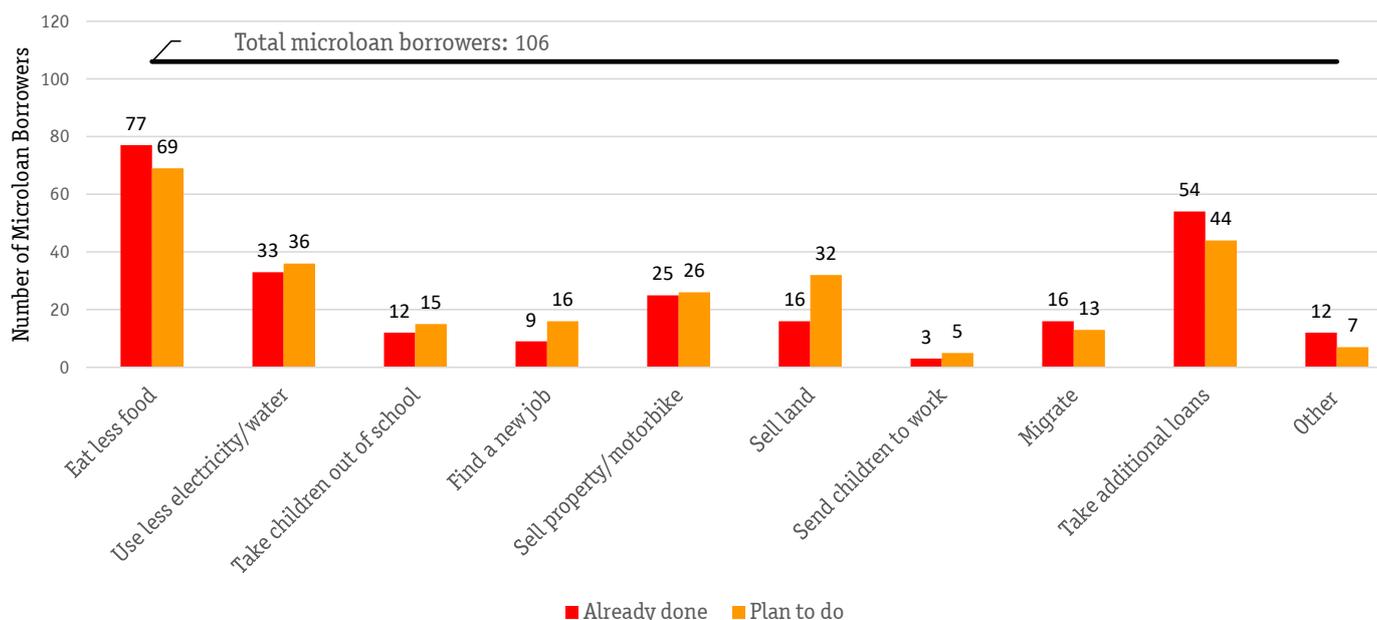
- Multiple answers were accepted for why a borrower took a loan.
- The most common reason for taking a loan of any kind was to repay an existing debt. This indicates widespread over-indebtedness in Cambodia’s garment sector.
- The most common reason for taking a microloan was to “build a house”, followed closely by “repay existing debt” and “other” (most commonly to buy land or a motorbike).
- Healthcare expenses were also a common reason for workers to take loans. Workers must often pay for adequate healthcare out-of-pocket despite being enrolled in the National Social Security Fund (NSSF), the government’s subsidised healthcare scheme.

AVERAGE MONTHLY HOUSEHOLD BUDGET



- The average worker spends more to repay loans and buy food than they make in a month.
- On average, debt repayments make up more than half of workers’ salary.
- The current minimum wage in the garment sector is \$190 per month. The Asia Floor Wage Alliance in 2020 found that a monthly living wage in Cambodia was 2,350,867 riel, or about US\$573.

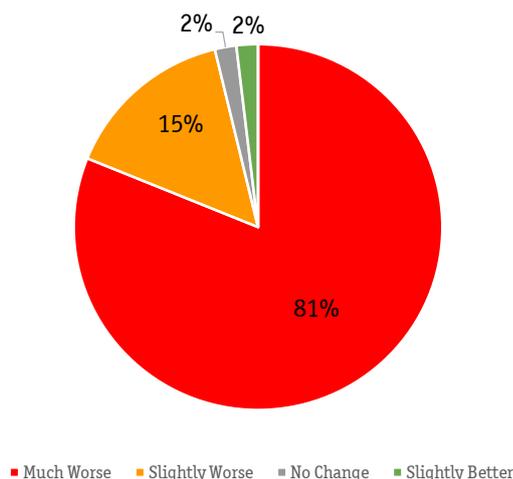
ACTIONS TAKEN TO REPAY MICROLOAN DEBT



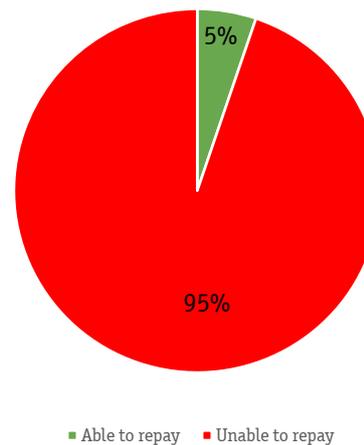
- The majority of microloan borrowers ate less food in order to repay their debts, supporting multiple reports done by both human rights NGOs and microfinance investors in Cambodia.
- 15% of borrowers had already sold land to repay their microloans, while 30% expected to have to sell land in the future to make repayments.
- About 15% of borrowers had migrated in order to repay debts, which in the context of this research most commonly meant internal migration within Cambodia.
- About half of microloan borrowers reported taking additional loans to repay their debt.
- Any number of borrowers selling land, eating less, or taking children from school should be unacceptable to microfinance institutions and investors. Being pressured into selling land, eating less food, taking children out of school, migrating, or selling assets such as a motorbike in order to repay a microloan indicates the microfinance sector has failed to prioritise the health and human rights of borrowers.



LIVELIHOOD CHANGE AFTER TAKING MICROLOAN



ABILITY TO REPAY DEBTS WITH POST-SUSPENSION INCOME FROM FACTORY AND/OR GOVERNMENT



- The vast majority (81%) of microloan borrowers reported that their livelihood got much worse after taking the loan. Another 15% reported their livelihood was “slightly worse”.
- Only 2% reported a “no change” or “slightly better” livelihood, while none reported their livelihood was “much better” after their microloan.
- The most common explanations for these answers was that borrowers were stressed about repaying loans without enough income, and they feared having to sell land to repay the debt. Some also reported they weren’t sleeping or feeling well due to eating less food.
- The vast majority (95%) of borrowers said they would not be able to repay their debts if their factory was suspended, even if they received money from their factory and government.
- The government has promised to pay workers \$40 a month and ordered factories to provide an additional \$30, however this compensation has not been evenly or uniformly implemented.
- This is not enough money for borrowers to meet their crucial expenses and repay debts. This raises worrying questions about what coping mechanisms borrowers will be forced or pressured to take in the future.

Loans to repay loans

Bopha*, a 39-year-old woman from Takeo province, was employed at a garment factory that supplies international brands such as Adidas and New Balance. The factory approved leave for Bopha to return to her home province during the Khmer New Year holiday this year to care for her mother, who was unwell. Two days after Bopha arrived in her hometown, her mother passed away, and the factory approved additional leave in order for her to join her mother’s funeral.

Upon returning to Phnom Penh, Bopha was informed that she had been suspended from work for two months along with over 600 other workers, and was required to quarantine for 14 days. The factory pressured her to resign, but she refused as she knew she would struggle to find a new job and lose the few remaining benefits she has, such as access to healthcare through her NSSF insurance card.

Bopha and her sister are both repaying a loan from ACLEDA, which is collateralised with her sister’s land title. Bopha’s portion of the loan amounts to approximately \$1,400, with monthly repayments of \$106. Bopha and her husband took this loan to repay a previous loan with a different microfinance institution, which had been collateralized with her motorcycle. They also have other loans from other private lenders, which they used to repay existing loans as well as cover daily expenses. In the past, they would sometimes borrow from relatives to make the debt repayments, but now that they are also facing increased financial stress, they are considering taking another loan from a private lender.

Bopha and her husband are both key income earners for the family, supporting their three daughters. The family has reduced their food expenses, and are worried about how they will afford healthcare if they need it. “I’m so worried that I won’t be able to relieve my family’s burden,” she said.

Recommendations



All of the recommendations in this report have already been published by human rights NGOs or labour unions in Cambodia. Though the recommendations are not new, there is a new urgency to their implementation given the effects of COVID-19 on Cambodia's economy, in particular its garment sector. International investors have ignored the warning signs of Cambodia's microfinance sector for too long, and should take action to ensure their

investments do not violate human rights of Cambodian borrowers. The government should expand its borrower protections to ensure that no one is pressured into selling land or other abuses during this economic downturn. Microloan providers in Cambodia should ensure that they do not violate the human rights of their borrowers in order to ensure loan repayments.

For suppliers and the global brands:

1. Set aside an emergency fund to support workers that are suspended.
2. Calculate data on the minimum production loads needed to keep the factory open, as well as on the loss of production capacity and efficiency due to the pandemic and preventive measures.

For the Cambodian government:

1. Ensure that MFIs immediately suspend all loan repayments as well as interest accrual on loans for at least three months.
2. Ensure that MFIs return the millions of land titles currently held as collateral by MFIs to their owners.

For MFIs and banks that offer microloans:

1. Change internal rules to prohibit requiring land titles as collateral for all new microfinance loans.
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.

For international investors and development partners:

1. Cooperate with the Cambodian government and the international development community to establish debt relief programs to ensure MFI clients are not required to sell land in order to repay their debts, with the primary goal of eradicating coerced land sales.
2. Conduct investigation and further, nationwide research into human rights abuses caused by MFIs in Cambodia, and establish regular and robust monitoring mechanisms to evaluate borrowers' situations in Cambodia.

