NBC Working Paper[1]

Microfinance Sector's Contribution to Economic Recovery in the Context of Post-Covid-19

Phal Vandy, Vong Pheakyny, Heang Kosal

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Abstract

The COVID-19 pandemic has prompted the strategic response from microfinance institutions (MFIs) in adapting and responding as customer needs change and operations are limited. This is critical for MFIs' business sustainability as well as social responsibility in their ability to assist their clients during economic shocks. The findings have demonstrated that the pandemic has affected both microfinance clients and institutions. Even though the level of impact varied across clients, the typical result was difficulty in income generation, which led them to have challenges in loan repayment. However, there are clients who remain resistant to the pandemic and can maintain income generation. Meanwhile, microfinance institutions have experienced a slight increase but manageable portfolio at risk due to pandemic-associated constraints such as operation and credit risk. The study found that microfinance institutions have remained in operation by rolling out timely strategic responses such as (i) loan restructuring, (ii) continued lending but more cautious, (iii) flexible internal working re-arrangement, and (iv) digital means to ensure daily organizational stability and client interaction. The strategic responses of microfinance institutions, with support from the government and central bank, allow them to not only remain in business but continue to ensure the injection of financial capital and the continuous flow of capital into the economy, particularly for microfinance clients. Such a condition sets an essential stage for economic revitalization among microfinance clients and thus reflects the contributing role of the microfinance sector in economic recovery efforts.

Keywords: *Covid-19, Microfinance institutions (MFIs), Strategic responses, Economic recovery, Cambodia*

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I. Introduction

Cambodia's microfinance sector has been improving at a very high pace over the past two decades, allowing the poor and financially excluded people to get access to formal financial services and helping them to have a better livelihood (World Bank, 2019, CMA, 2017). In financial terms, a healthy and stable financial system is crucial for the development of a country. The microfinance sector in Cambodia has played a vital role in contributing to the national economic growth and the robustness of the financial system, promoting financial inclusion and rural development (NBC, 2021). According to the World Bank (2019), microfinance has a positive effect on financial inclusion and families' well-being. In addition, the overall poverty rate decreased from 47% in 2007 to 14% in 2014, while microfinance also led to a drop in informal lending from 32% in 2004 to 6% in 2016.

Along with this trajectory, Cambodia has enjoyed considerable economic expansion and emerged as one of the fastest-growing economies in the region and the world. Cambodia thus graduated from a low-income country and became a lower-middle-income country in 2015. Its success has partly been due to sound policies and regulations and prudent macroeconomic policy, which has provided a conducive environment for investment and trade (RGC, 2018).

However, the outbreak of COVID-19 has imposed the greatest threat to the trajectory of Cambodia's high economic growth. The pandemic has made Cambodia experience a negative growth rate, with its main sectors—tourism, manufacturing exports, and construction being the hardest hit, while agriculture has been relatively resilient (World Bank, 2020).

Various research studies have witnessed the negative impacts of Covid-19 on microfinance clients, especially the vulnerable population (ADA, 2021; Malik et al., 2020; Incofin, 2020). The crisis has negatively affected the activities in which MFI's clients can generate income. The affected cases have appeared in the picture, such as the decline of income and deterioration of household financial situations. This was especially true during periods of severe restriction and throughout the crisis in urban areas (ADA, 2021; Malik et al., 2020).

In Cambodia, COVID-19 has affected the economy and also the microfinance sector. It is due to the spillover effects deriving from the economic downturn and negative impacts on the socio-economic of Cambodian people, particularly borrowers. There has been the witness of losses in household income due to the rising number of laid-off workers in the affected sectors and the restraint of economic activities of microenterprises due to the preventive measure to curb the spread of the virus (World Bank, 2020).

Amid the uncertainty, microfinance service providers have been actively adapting their operations to better respond to their clients. There's also the intervention from the Central Bank advising the Financial Service Providers to reschedule loans in conjunction with the establishment of SME Banks, and Credit Guarantee Scheme, and many other measures from the government. The financial sector in Cambodia thus remains resilient and stable against the pandemic (NBC, 2021), while the microfinance sector is observed to stand against the crisis (Jose, 2021). The microfinance sector is also seen as having a prominent role in boosting economic recovery (Incofin, 2020; World Bank, 2022; ADB, 2020). Microfinance services have the power to provide immediate support to micro and small businesses affected by the pandemic and the resultant economic standstill (Simon, 2021). The following presents the research objectives, research questions, the significance of the research, limitation, and the paper structure.

1. Objectives

- To investigate the impacts of Covid-19 on microfinance institutions and their clients,
- To explore the intervening measures taken among the microfinance sector's stakeholders,
- To understand how microfinance's role has implications on the economic recovery in the post-Covid-19.

2. Research question

To achieve the research objectives, the overarching and guiding research question is:

How MFIs in Cambodia contribute to economic recovery in the context of post-Covid-19?

The main research question will be followed by three sub-research questions, including:

1. What are the impacts of Covid-19 on microfinance institutions and their clients?
2. What are the intervening measures taken among the microfinance sector's stakeholders to cope with the Covid-19 situation?
3. How MFIs help clients and institutions themselves in this crisis and play a role in the economic recovery?

3. Significance of the study

The growth of microfinance has further helped the poor in Cambodia to access affordable loans and to use them for emergency purposes or the expansion of micro, small and medium enterprises (World Bank, 2019). As a result, microfinance has played an essential role in promoting financial inclusion among the Cambodian population. It is especially true in the context of the pandemic, where the microfinance sector has remained stable and resilient against the shock. On top of that, the sector has been observed to be in the vein of economic recovery efforts as it has helped those affected (MFI's clients) and pulled them back on the development track.

Despite such echoed importance, it is still a relatively underexplored area in the microfinance study in Cambodia, which specifically presents how the sector manages to stay resilient and even help stimulate economic activities in the context of a pandemic. With this in mind, this study will be served as the primary document to empirically explain how MFIs in Cambodia play a role in the economic recovery journey. Further, this study will contribute to literature and discussion on microfinance's contribution to economic recovery in an emerging economy country like Cambodia. This study will also open the stage for future consideration and action on how the sector shall be managed and improved among regulators, investors, lenders, and microfinance institutions.

4. Limitation

Even though mix method is used in this study, the quantitative data collection is secondary and mainly from the joint research of CMA with other organizations. Nevertheless, those data are sector-represented and thus essential for this study because they give preliminary information in the questionnaire design and offer critical insights which we use for qualitative data collection to either confirm or further explore. Rural credit operators and financial leasing were not chosen in the interview, which might limit our understanding of going deeper to another lower level of the microfinance client segment. Still, in this study, we try to choose microfinance institutions that focus on smaller loans and medium to larger loans size and reflect the microfinance sector. This study is more qualitative even though a quantitative method is used; therefore, our goal is not to make generalizations from 15 microfinance clients' interviews and four microfinance institutions' interviews but rather establish an in-depth understanding of how the microfinance sector partly plays a role in economic recovery. Therefore, it sheds light on any future research that wants to further study the role of the microfinance sector in economic recovery in a more specific and narrow sense.

5. Structure of sections

The remainder of the paper is organized as follows: Section 2 discusses the research context by providing an overview of the microfinance sector and the COVID-19 pandemic in Cambodia. Next, we present the research methodology in Section 3, followed by the research findings in section 4. The following section 5, we discuss the findings. In section 6, we make a conclusion, and in section 7 we provide some recommendations.

II. Setting the context: the microfinance sector and the Covid-19 in Cambodia

1. Microfinance sector in Cambodia

Microfinance in Cambodia is not new. In the early 1990s, Cambodia saw the birth of the microfinance business. Initially, this sector was formed by NGOs following the Paris Peace Accords in 1991. During that period, non-governmental organizations (NGOs) and donor communities played a major role in delivering rehabilitation and reconstruction services to the underprivileged. The government prioritized its social sector development agenda for decreasing rural poverty by rehabilitating and developing the economy utilizing all available methods and resources. As a result, the government saw the rural financial sector as a critical instrument for eliminating poverty and boosting the economy because it increases and expands enterprise and productivity by generating income that raises people's living standards (NBC, 2007).

The establishment of the microfinance industry is prompted by the need to improve the rural economy, as it is critical for assisting people living in rural regions to get credit at acceptable interest rates and fuel their economic activities. The National Bank of Cambodia (NBC) began issuing and revising regulations in 2000 to transform NGOs into registered and licensed MFIs based on their scope of operations. NBC regulated and supervised those institutions after obtaining licenses and registration certificates (NBC, 2007). By the end of 2006, there were 17 licensed MFIs and 26 registered as rural credit operators. Among those institutions, the majority of them were transformed from NGOs, while others were local private companies (NBC, 2007).

Following the Grameen Bank model, which has as its primary goals the alleviation of poverty and the promotion of economic growth throughout the post-war era, microfinance is regarded as one of the most effective techniques for alleviating poverty (Suzuki et al., 2011). Cambodia's microfinance industry has grown rapidly in terms of asset, loan, and deposit over the last two decades. Microfinance institutions have expanded their services throughout the country, and some have evolved from donor-supported NGO programs to full-fledged commercial banks. (That, 2018). According to the National Bank of Cambodia (as of 30 June 2022), the number of microfinance institutions has increased remarkably. There are 5 Microfinance Deposit-Taking Institutions (MDIs), 82 Non-Deposit Taking Microfinance Institutions (MFIs), and 226 Rural Credit Operators.

Growth in microcredit has positive financial and welfare impacts on households in Cambodia. The share of households who borrowed from formal sources of credit quadrupled during 2004-2016. This shift increased access to finance for segments of the population who previously relied on unregulated money lenders and provided households with longer loan durations and lower effective interest rates relative to informal lending (World Bank, 2019). A study examining the effect of microfinance by using cross-sectional data in 2015 of 411 households, who are beneficiaries of the Agriculture Cooperative (AC) community supported by World Vision, in 9 provinces of Cambodia showed that access to microfinance services in every aspect reduces poverty and promotes household welfare, proxied by per capita income (Dina, 2018).

2. Covid-19 and microfinance sector in Cambodia

COVID-19 has spread over the world, affecting hundreds of countries, particularly developing countries, not only in terms of health issues but also in terms of socioeconomic effects. The Covid-19 pandemic has drastically altered global economic growth, affecting other factors and people's life. This pandemic also has had an impact on Cambodia's economic growth, health emergencies, social, and educational systems, among other things (OHCHR, 2021).

The first coronavirus disease 2019 (COVID-19) outbreak was reported in December 2019, and it quickly spread to the majority of the world's countries. By August 2, 2021, more than 200 million COVID-19 cases have been confirmed, with over 4 million COVID-19-related death globally (Worldometers, 2021). In Cambodia, the Ministry of Health (MoH) confirmed the first case of a new coronavirus with the World Health Organization (WHO) on January 27, 2020 (MoH & WHO, 2020).

To prevent the spread of the pandemic, plenty of health measures have been undertaken by the Cambodian government and its relevant ministries, especially the Ministry of Health. The Cambodian Government's first action in combating COVID-19 was the formation of an Inter-Ministerial Committee for Combating COVID-19 in early April. This committee, in partnership with the Ministry of Health, is in charge of all COVID-19-related problems throughout the country. The Inter-Ministerial Committee then created and circulated numerous instructions and guidelines on COVID-19, including preventive measures, hygiene practices, quarantine, and other foreign travel precautions (MoH, 2020). On February 10, 2021, the Royal Government of Cambodia inaugurated its countrywide COVID-19 vaccination campaign. The target is to vaccinate 10 million people by the end of 2021. Frontline healthcare workers, the elderly, people with co-morbidities, and the general adult population are among the priority groups for the campaign (United Nations, 2021). In addition, the country also has implemented a variety of social and economic initiatives. Cash transfers for poor and vulnerable households, salary subsidies for affected workers, and tax assistance for affected businesses and firms in the garment, textile, and footwear, tourist, and aviation sectors are examples of such programs, to name a few (Somreth, 2021).

In terms of the microfinance sector, the pandemic has hit the industry across the world and imposed a substantial strain on many microfinance providers and their customers (CGAP, 2021). The pandemic has also highlighted essential variations in terms of the level of Covid-19's impact across microfinance institutions. This is partially a result of differences in local government responses to the pandemic, such as the depth, breadth, and length of Covid-19 across regions, but it is also related to the institutions' inherent financial and operational strength (CGAP, 2021). In Cambodia, the microfinance industry has proven to be resilient and has so far been able to weather the pandemic's difficulties. By the end of 2021, the asset of microfinance has started to increase by 7% equivalent to KHR 37.1 trillion compared to a contraction of -3.7% in the previous year. Of these, MDIs cover 86.1% of the total asset in the microfinance industry (NBC, 2022).

Even though the microfinance sector has appeared to weather the Covid-19 impact, the microfinance institutions and their clients have been directly and indirectly affected (Somreth, 2021). The main reason is the interconnectedness of economic activities in the entire economy, which are linked from one sector to another (Balwin, 2020). COVID-19 has led to a decrease and/or loss of jobs, earnings, and revenues due to the decline and suspension of economic and production activity (World Bank, 2020). This means that households, MSMEs, and businesses that borrowed from banks, microfinance institutions, and rural credit operators have been affected by the pandemic only with different levels of impact. Due to the economy's slowdown in conjunction with measures to prevent the spread of Covid-19, including travel restrictions and social distancing, borrowers find it difficult to repay loans (NBC, 2022).

Meanwhile, poor households and small enterprises may be more susceptible to pandemics due to already-limited resources available to mitigate the impact (Somreth, 2021). As a result, microfinance deposit-taking institutions' credit to households fell from 8% in 2019 to 5% in 2020. Furthermore, for non-deposit-taking MFIs, this credit fell from around 13% in 2019 to a negative rate in 2020 (NBC, 2021). Between the fourth quarters of 2019 and 2020, the NPL ratio for the microfinance industry slightly grew from 0.8% to 1.8%. (NBC, 2021).

In the banking sector, NBC has rolled out various measures to ensure the resilience and stability of the banking sector. One of which was loan restructuring (circulated on 27 March 2020) to be undertaken by financial institutions for borrowers who have been mainly affected by the pandemic in 4 of the economic sectors, such as tourism, construction, garment, and transportation (NBC, 2022). However, the loan restructures covered all sectors at the end of 2020 because of the prolonged pandemic. The objective is to support borrowers who have experienced shortfalls of revenue, and difficulties in paying back their loans (NBC, 2022).

III. Methodology

This study aims to investigate the extent to which the Covid-19 pandemic has affected the microfinance industry and its clients in Cambodia and explore how this sector has contributed to the recovery of the national economy. This study employs a mixed-technique approach to give a comprehensive investigation of the phenomena mentioned above. The mixed method is appropriate for this microfinance study because it allows researchers to obtain holistic information on the impacts that the pandemic has had on microfinance institutions and their client's stories and the role that the MFI sector plays in economic recovery efforts.

Quantitative data collection is from secondary sources such as Credit Bureau Cambodia (CBC), National Bank of Cambodia (NBC), the Ministry of Economy and Finance (MEF), Cambodia Microfinance Association’s Network Information Exchange (NIX), Social Performance Task Force (SPTF), Asian Development Bank (ADB), World Bank (WB) and others accessible sources and archives. These data offer a contextual understanding and information on how Covid-19’s impacts affected the national economy and how the microfinance sector has emerged to play a role in economic recovery.

To augment the quantitative data, this study employs a qualitative method based on an inductive approach. Primary data collection was done qualitatively using an in-depth interview method (IDI) with 15 microfinance borrowers who are in low-income and micro/small/medium business segments and chosen randomly. The target groups are divided into three categories based on the loan size, such as (1) less than 3 thousand loan amount, (ii) 3 up to 10 thousand loan amount, and (iii) larger than 10 thousand loan amount. This allows us to have a more holistic picture of clients. On the one hand, this qualitative data is imperative to support our understanding of the intervention measures from the microfinance's stakeholders and how effective they are in responding to what matters to the clients during the pandemic.

Meanwhile, the in-depth interview also happened for senior management officers (chief of operations, general manager, head of marketing) from four microfinance institutions, namely AMK, Chokchey, Chamrouen, and Grow Finance; and one from SME Bank, and another one from Credit Guarantee Corporation of Cambodia (CGCC). The four understudied microfinance institutions represent well-round client segments, from the one focusing on smaller loans and medium to larger loans. This is to add to our understanding more practically how microfinance institutions and their stakeholders deal with the crisis and help their clients and also how they join forces with the government to recover the economic momentum.

IV. Findings

1. The impact of Covid-19 on microfinance's clients and the microfinance institutions

The impact of Covid-19 on microfinance clients

The Covid-19 pandemic has had a significant impact on the Cambodian economy. Similar to other nations, Covid-19 has not only severely damaged Cambodia's economic infrastructure but also placed restrictions and difficulty on MFI borrowers' ability to generate income. In addition, the pandemic has exposed them to infection and thus making it more difficult for them to maintain their health and household economic activities and pay back the loan. However, not all clients have experienced difficulty in repayment because some clients stated that their businesses are not affected, and they can earn income as usual during the pandemic.

> Even though my family members are not infected with Covid-19, I cannot sell my vegetable as much as before. As a result, I experienced a significant decrease in income during the closure of the village. Moreover, my husband's work was suspended for four to five months, and daily sales were not as good as before due to the closure of the village and the inability to sell outside the town. Sometimes I cannot sell out, and those remaining vegetables become decay and cannot be sold. Thus, I have difficulty paying back my loan.

For some households having family members infected by Covid-19, the situations look even worse. An infected family described that:

> I contracted Covid-19, and I need to spend up to heal it, such as buying medicine. The family economy was severely affected. My two shops were closed entirely because no customers came to eat. They were afraid of being infected. This situation forced me to stop selling for several months, causing my income to drop dramatically so that I could no longer afford to rent those two shops.

In some cases, microfinance clients are employed in the affected sectors, such as the garment and entertainment industries. So, when the pandemic hit, their employments were at risk. In some cases, their factories were closed temporarily, or some other measures were implemented by the factories that seemed to affect the employment prospect of workers. A mother of a factory worker and a casino worker similarly said:

> "My daughter's factory was suspended for several months, and during this time, she could not earn any income because her primary income was from this job. After that, her factory reopened but with fewer work duties, and workers needed to shift work with each other. As she could not support me like before, for me I find it hard to repay the loan," a mother of a factory worker said.

> "Because there was the Covid-19 outbreak in my casino, the work was completely closed for two months. And after that, it reopened, but I could work only from 10 to 15 days. So, my income decreased a lot," a worker working at the casino said.

However, from the interview, we found that not all segments of microfinance clients have suffered from the pandemic, affecting repayment capacity. It depends on the nature of their business, type of jobs, and other income streams each family has.

> Actually, my main business was also affected because there were multiple lockdowns in my area, so fewer guests came to get their cars repaired in my small garage, resulting in a reduced income of around 50%. However, my wife's grocery sales increased by about 30% to 40% because the people in the area could not go out far outside, and they bought a lot from my wife's shop.

The interview with a senior microfinance officer also confirmed such a case, but he explained in broad like this:

> It might be too generic to assume that all clients are affected with the same level of impact and difficulty in loan repayment. There are clients who bear the negative impacts; for example, those who are garment workers whose factories are suspended, but there are also clients who experience the positive impacts of Covid-19; for example, some who sell daily consumption goods like food which to some extent the customers increase in buying. In other cases, microfinance clients are creative in converting from offline to online sales on social media like Facebook and gain even more customers before Covid-19. But I see in general that surely Covid-19 affects the economic activities of our microfinance clients. (Chokchey)

In 2021 and 2022, the Cambodia Microfinance Association, with funding support Social Performance Task Force (SPTF), conducted a large-scale survey aiming to assess the impact of Covid-19 on clients among its members. The interview was conducted by phone call and using the Covid-19 Client Interview Tool developed by the SPTF. A total of 1,225 clients from 7 MFIs were systematically selected from 14 provinces. Those 1,225 clients have been distributed all over 933 villages, as shown in *Figure 1*.

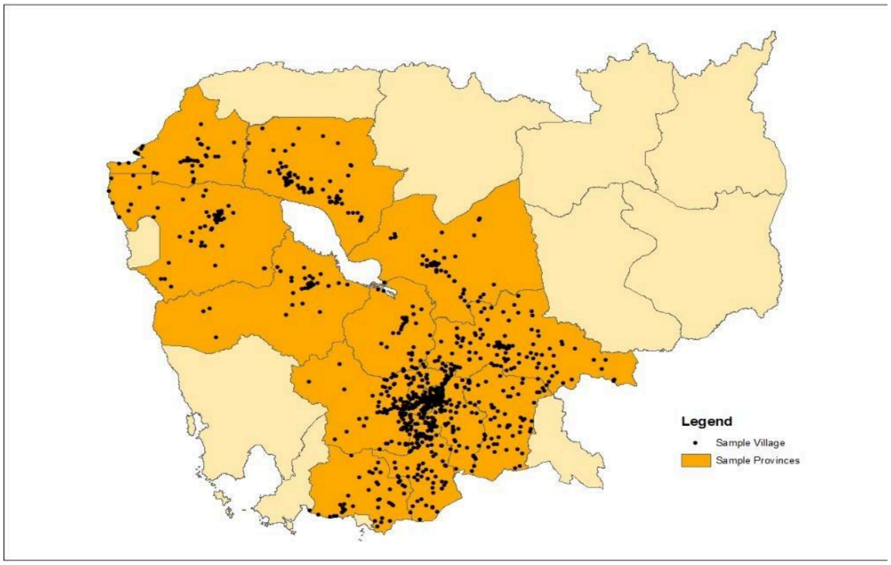

Figure 1: Distribution of sample by province

To better assess client resilience, the data were collected twice with the same clients. The first round of data collection started from 28th December 2020 until 22nd February 2021 and the second round of data collection started from 16th March 2021 until 12th April 2021.

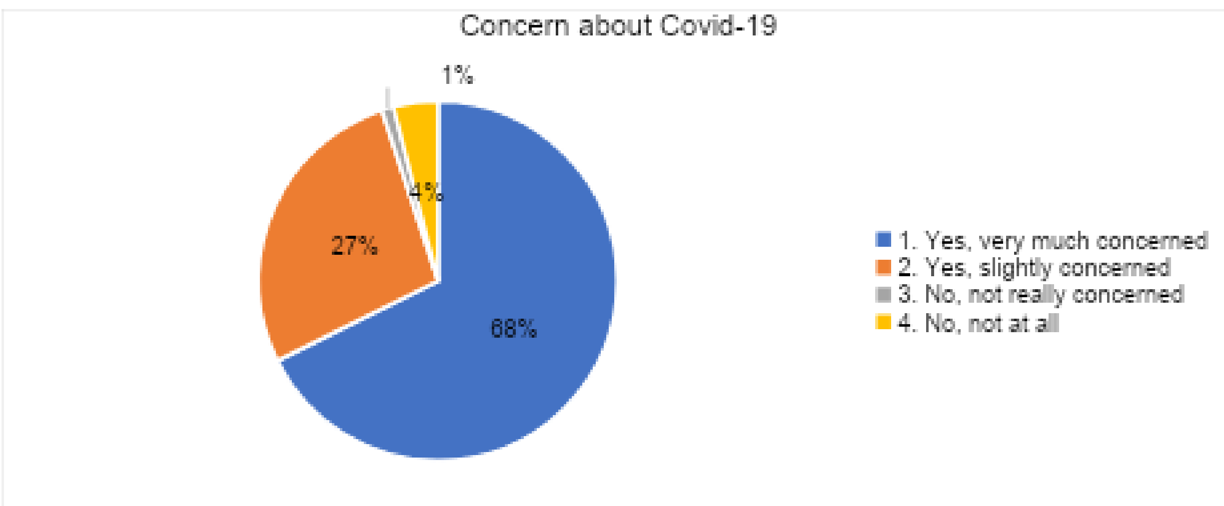

Figure 2: Microfinance clients' concern over the pandemic

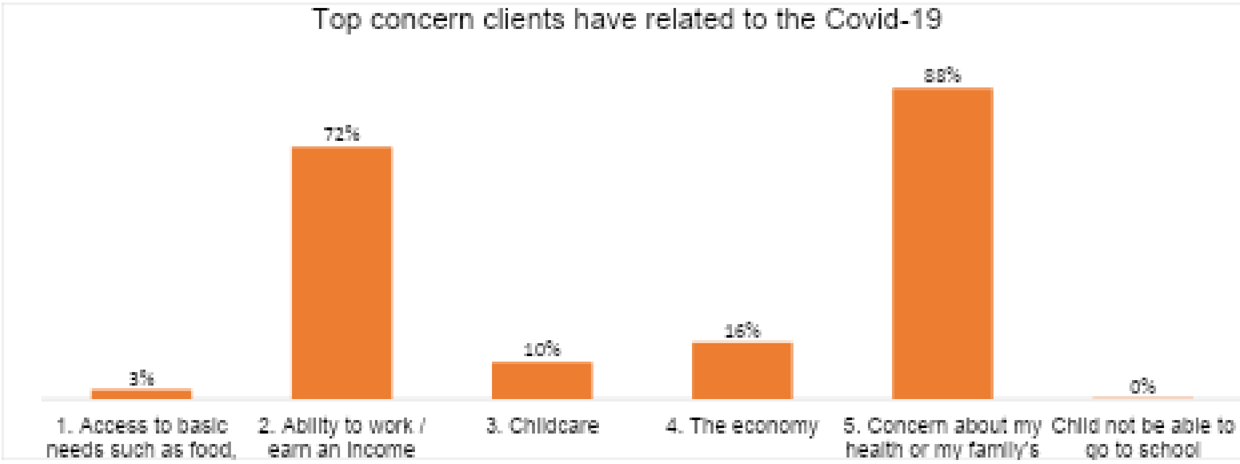

Figure 3: The microfinance clients' perception of top concerns resulting from the Covid-19

As Figure 2 and Figure 3 illustrate, the majority of microfinance clients have had so much concern over Covid-19. The top concerns cited among the clients were related to (i) health, (ii) the ability to work/earn income, and (iii) the economic situation in the household.

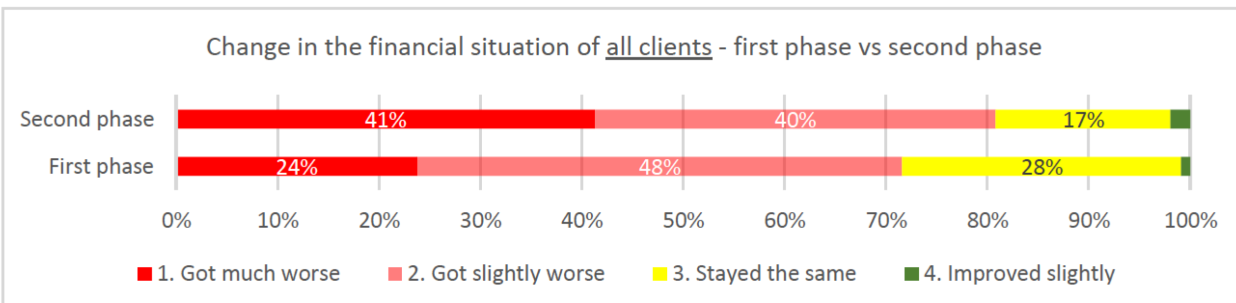

Figure 4: The microfinance clients' perception of change in their financial situation

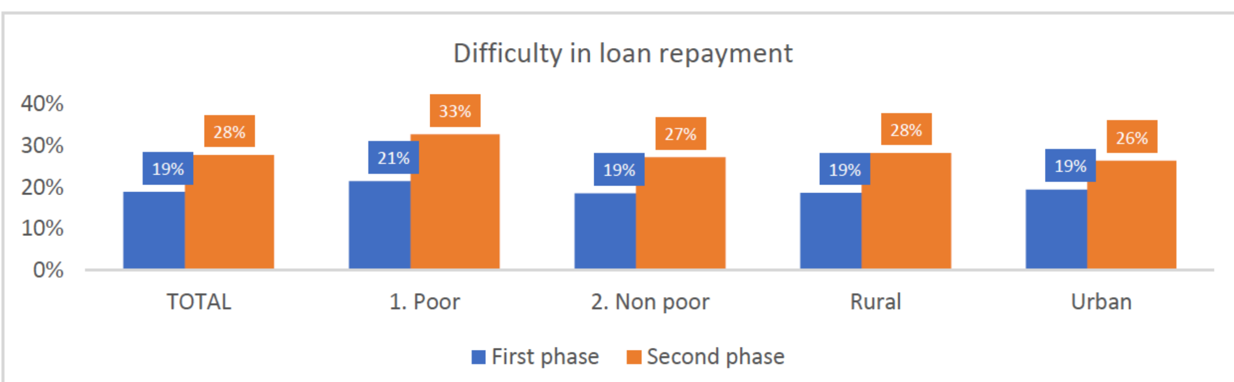

Figure 5: The microfinance clients' perception of change in their financial situation

In terms of the financial situation change of clients during the Covid-19, Figure 4 shows that the financial situation of microfinance clients was reported that it is getting worse from 24% to 41% much worse in the first phase and second phase, respectively. The main reason is the prolonged

Covid-19 and pandemic situation that was yet to get better at that time. However, when we look at the repayment capacity of clients, we cannot see a large percentage of difficulty perceived by the clients interviewed. But the noticeable point is that the difficulty in repayment among clients increased from 19% in the first phase to 28% in the second phase (Figure 5). The reason is highly the same as pointed out above. Since the pandemic was still going on, and by the time the household economy was not back on track, clients experienced more difficulty in repayment.

2. The impact of Covid-19 on microfinance institutions

o Business as usual before the pandemic

To understand the extent to which the COVID-19 pandemic has impacted MFI operations, it is necessary to first establish the context of their activities before the COVID-19 pandemic. The operations of the MFIs studied were typical in the "pre-COVID-19," according to an important theme that emerged from the interviews. The senior MFI executives described how they went about their everyday business activities, such as managing and overseeing loan disbursement, the future growth to disburse the loan, collection of repayment from clients, the ability to meet clients, and products/services marketing for their institutions. Interviewees stated that they simply could forecast the performance of business years ahead and that they were looking forward to an increase in the number of clients and loans and even the possibility of reducing interest rates given that the future market's competition is more robust. What appeared from the interviews was similar when it comes to recalling the time before the Covid-19 outbreak regarding the operation of their financial institutions. A senior executive officer from Grow Finance Plc simply explained that:

> Before the outbreak of COVID-19, our business was as usual. Our loan officers were able to move out to disburse loans and collect repayment from clients. Even the business of our clients was also good, and they seemed to not have any remarkable challenge in paying back the loan.

The statement above is also confirmed among the clients interviewed who explained the situation before Covid-19 similarly to each other. For instance, an interviewed client recalled her sale during the pre-Covid-19 as below:

> My vegetable selling was profitable at that time [before the pandemic]. I could earn enough to support my family, and my husband's work was also in good condition. He can get his salary regularly, and together with my income, we can pay back the loan we have without any issues.

o Impact on loan repayments

CMA conducted another voluntary-based qualitative survey with microfinance institutions in late April 2021 to further assess the impact of Covid-19 on them. The survey was completed by 43 institutions, including 1 MDI, 30 MFIs, 6 RCIs, and 6 leasing firms.

According to the survey, microfinance institutions estimate that the Covid-19 epidemic will influence non-performing loans, capital availability, income, and productivity. Non-performing loans, for example, are anticipated to rise since some microfinance institution clients may become unemployed and/or their business become impossible to earn revenue due to the pandemic. As we interviewed senior executive officers recently, the finding confirmed this past estimation. According to the Network of Information Exchange database from CMA (Figure 7), the trend of Portfolio at Risk (PAR) in the microfinance sector has slightly increased from 1.4% in 2020 to 1.5% in 2021 and up to 2.1% by the second quarter of 2022. For more detail on the changes of the PAR 30+ in Q1 vs Q2 2022.

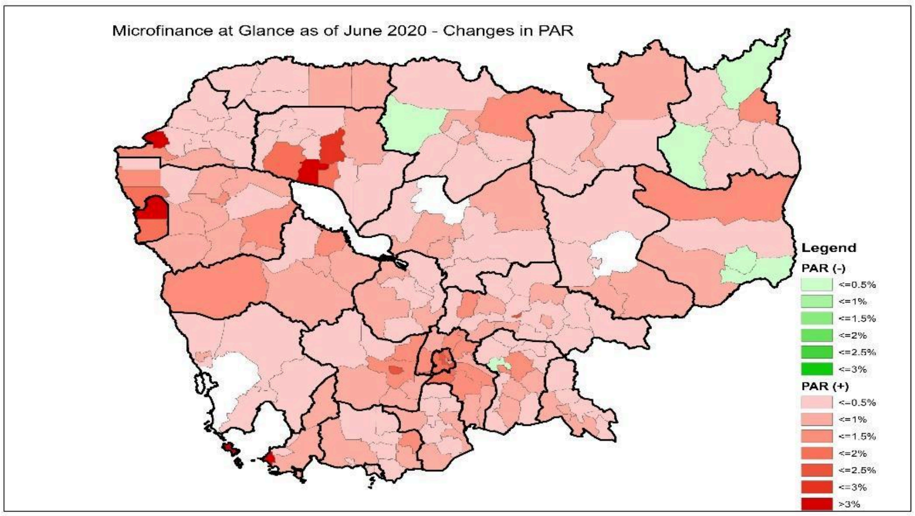

Figure 6: Data from CMA's NIX (as of June 2020)-Changes in PAR of Q1 vs Q2

However, this data is not surprising, particularly in the context of the Covid-19 pandemic where microfinance clients, though not all, bear the negative impact of the pandemic, such as the decrease in income, loss in employment opportunities, less economic activities, and some other challenges related to health. All of these might impose difficulty in loan repayment among clients who have been negatively affected by Covid-19. However, there are also clients who experience opportunities amid the pandemic, as already mentioned in the above section. A senior executive officer from Chamroeun Microfinance Plc explained the situation on PAR as follows:

> In terms of PAR, there was an increasing trend from less than 1% to more than 2% during the last three years, from 2019 to 2022. When the pandemic started, clients were initially not yet highly affected because they had savings or other supporting income to endure the impact and pay back the loan. From the financial institution side and its staff, we were optimistic about the situation and thought the pandemic would not be as last long as we see today. However, the pandemic continues to stay with us longer and longer to the point clients find it more and more difficult to bear the impact, in particular, to maintain their income stream and the obligation to repay loans. Even when the Covid-19 situation is getting better, clients are observed to continue having difficulty because they had been hit hard during the pandemic, and it takes time for them to recover. That is why the trend of PAR is a little bit higher than the previous year.

Another microfinance institution also experiences the increase of PAR but only slightly. From Chokchey Microfinance Plc, a senior executive officer indicated that:

> The pandemic has affected only a few of our segments, particularly the garment industry, where we see a slight increase in PAR because our target operation is mainly in Phnom Penh city, the outskirts, and some provinces near Phnom Penh.

Similarly, the other two institutions also explained the difficulty of repayment among the clients. For Grow Finance Plc, he described that:

> We see some business sectors of our clients highly affected by the pandemic; for example, those in the business supporting service sectors, such as wedding protocol planners, wedding make-up and wedding dress service, and other related kinds of such services. The construction sector was also among the hardest hit in our client segment. We studied and discussed with them and understood that they really have issues with income and, thus, are challenged to pay back the loans.

For AMK, a senior executive officer explained that:

> We see an increase in non-performing loans but with minimal increment. Some clients have lost their income, and as a result, it is hard for them to pay back the loans. That is why the PAR rate in AMK slightly surged in 2022 because some clients still have not yet recovered.

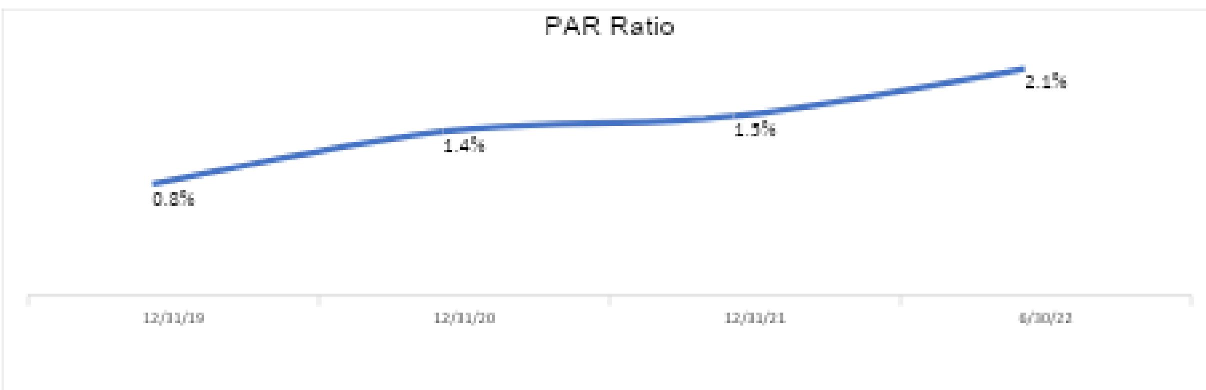

Figure 7: Data from CMA's NIX (as of June 2022)-PAR

In addition to the impact on loan repayment, microfinance institutions also encountered challenges in their operation. Other operational issues caused by the COVID-19 pandemic include the mobility of staff, the closure of offices, loan disbursement, promotion activities, communication with clients, and an increase in operating costs as a result of the requirement to purchase personal protective equipment (PPEs) for staff and clients of the institutions. However, as evidenced by the interviews, microfinance institutions have been trying their best to deal with these challenges. The following section will elaborate on how MFIs deal with these challenges and remain in operation.

3. The intervening measures of microfinance institutions

- **Institutional responses**

According to interview data, four institutional responses were frequently adopted by MFIs to lessen the impact of the COVID-19 pandemic on their business operations and stimulate economic: loan restructuring, more cautious lending; flexible internal operational arrangements; and use of digital platforms for business operations.

- **Loan restructuring**

According to a recurring theme from all of the interviewees, the rescheduling of loans to clients seems to have been one of the MFIs' most crucial responses to the negative impact of Covid-19 on clients. From the interviews of the four microfinance institutions, all of them reported that they were encouraged to implement the loan restructuring program for clients who have been affected by the pandemic. According to CMA's NIX database (Figure 7), loan restructuring started in March and saw a substantial increase in the second quarter of 2020 after the circular from the National Bank of Cambodia in March 2020 following the large-scale Covid-19 outbreak.

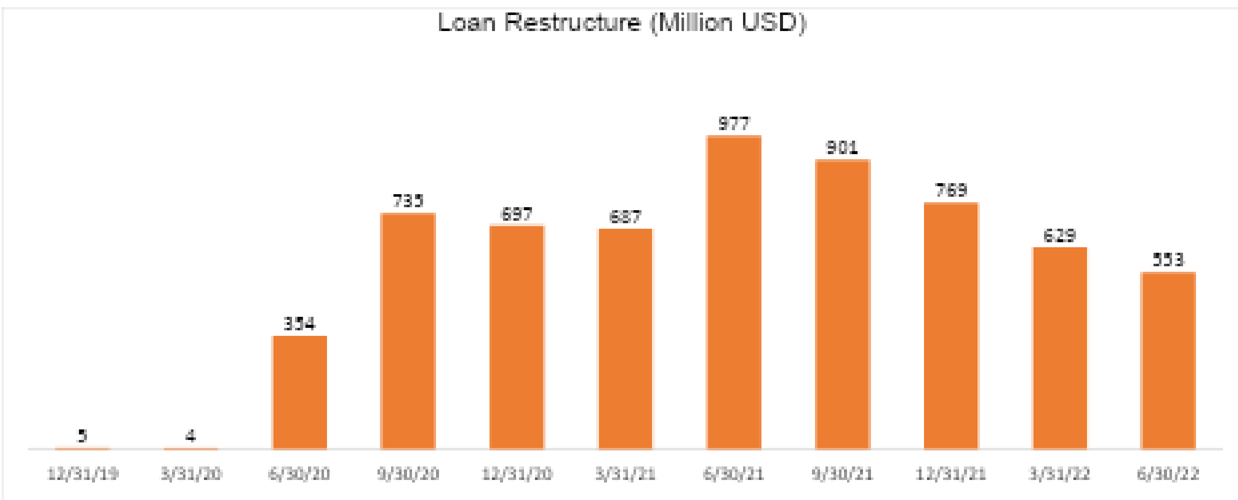

Figure 8: Data from CMA's NIX (as of June 2022)-Loan restructure

Microfinance institutions were reported to implement loan restructuring circulars, and from their views, it was not about compelling to do it, but they expressed a firm understanding of the situation of their clients and perceived loan restructuring as one of the primary solutions during a hard time. Below are what they described about loan restructuring in their institution.

> In an effort to help affected clients, we rolled out the loan restructuring for the clients after we studied their situation and repayment ability when they requested. We learned that some clients face difficulty in repayment because of a decline in income. On top of this, we also have our own policy to ensure the proper conduct of loan restructuring for clients, and we wanted to understand how best we can assist them during this difficult time. (A senior executive officer from Chokchey Microfinance Plc)

> My institution implemented loan restructuring for clients. A lot of our clients have to bear the negative impact of Covid-19, especially those who have businesses with larger loan sizes because their business was severely ruined by the pandemic. (A senior executive officer from Grow Finance Plc)

> When Covid-19 came, the economic situation was not good. So far, we have restructured loans for 90,000 clients, which is equal to 10 million USD. I see that clients working in the service sector have been highly affected, for example, rickshaw drivers. They have had a hard time earning income. I think loan restructuring is beneficial for those affected by the pandemic and experiencing a shortfall in the come. (A senior executive officer from AMK)

> It is clear that clients from my institutions and others suffered at least some degree of income loss or decline due to the pandemic. Thanks to NBC, we have loan restructuring for clients with difficulty in repayment because it is hard for them to generate income during a pandemic. We also got support from NBC on implementing the loan restructuring program. (A senior executive officer from Chamroeun Microfinance Plc)

Regarding loan restructuring, clients who received such a program were reported to express their satisfaction, and they mentioned how this program helps them when they cannot generate income as usual. From interviews with clients, we found the common theme that loan restructuring can facilitate the income flow of clients and give them enough space to sustain and recover their business in a hard time. Two of the beneficiaries described their experience below:

> "The microfinance staff came to my house to ask if I could afford to pay the loan as usual (installment and interest). Understanding that I was struggling to pay, Chamroeun Microfinance staff asked me to pay the only interest rate for six months to facilitate my payment and to maintain my livelihood. With this relive, I could have the ability to save some money to pay back the loan and sustain my business," a vegetable seller said.

> "Because I had difficulty earning income during the pandemic, I contacted the microfinance institution staff to ask for a six-month exemption to pay the only interest rate. This helped me ease the burden on the family, such as reducing my expenses by 50%. I can space to save money and prepare for resuming my business when the pandemic situation is better," a small food stall owner said.

- **Continuity of lending but more cautious**

While loan restructuring is among other responses microfinance institutions take, we found that all understudied microfinance institutions did not choose to entirely close loan disbursement to clients. However, what we also found along with the continuity of lending varies across the institutions in terms of their perception towards the pandemic and risk appetite. But the common theme that emerged from the interviews is more cautious in lending to clients. A social-oriented microfinance like Chamrouen microfinance seemed to have a high-risk appetite and a strong commitment to helping its clients during the pandemic. A senior executive stated that:

> Of course, we did loan restructuring for affected clients who faced a shortfall of income. We also understand that their financial situation is not good. But we believe that clients' success is our

> success, and we also want to show them we are always with them in both good and bad times. On top of loan restructuring, we launched a few products, one of them is Social Emergency Loan. The maximum loan amount is 1 million riels with 12 months duration, and clients pay only interest for the first nine months. We wanted to help them solve household consumption and, if possible, sustain their business. But we know this amount is not large. In 2021, we saw slight growth, but then in 2022, we almost could not see this trend. It is not surprising because there was very little demand, and clients were also aware of repayment capacity. But as I once mentioned, PAR was getting a bit high, but we accepted it because it is our social identity.

Similarly, the introduction of additional lending alternatives/products was also found at AMK. It can be said that the launching of new products is the business strategy of their institutions themselves amid the crisis, but it is also the willingness of MFIs to take care of their clients. A senior executive explained that:

> As long as the clients economically survive, the institutions will be able to survive. This is why understanding clients during a difficult time is essential to the institution […]. Here we launched Quick Loan, similar to an emergency loan, for clients living in the lockdown zones. It takes only 4 hours to get the loan approved. The purpose is to enable clients to buy some necessary goods during a difficult time. We did not stop lending. If we do so, it means there will be no economic activities. Actually, we still disburse loans to clients whose businesses were not highly affected by the pandemic, for example, in agriculture, such as agri-trading business. But we carefully assess them. We also give loans to some resilient business sectors up to 5 thousand USD, along with the grace period.

Some institutions have similar aspirations for business strategy aspiration. In the case of Chokchey microfinance, the focus is to continue to disburse loans and inject capital into the economy. However, the institution also grants loan moratoria on a case-by-case basis together with its policy and more careful loan assessment. A senior executive officer from Chokchey microfinance institution narrated that:

> We continue to issue loans and adhere to NBC's measures when clients request loan restructuring. We learn that clients are affected, and we study the possibility of providing them assistance. We facilitate them by listening to clients more, and we are lenient with clients. Of course, we survive as long as clients survive. It keeps cash flow going on in the economy when we continue our loan disbursement. But we also look at the type of business and assess loan prudently, especially new clients. For the new business client, they can request a loan, and we provide them with a 12-months grace period to pay only interest. We understand that clients have somewhat credit risk, and other institutions might not choose to give loans which means it can pause business activities, which might affect the economy.

While loan disbursement was not put on halt, Grow Finance also continues to provide loans, even if the loan portfolio is not big, to clients whose types of businesses are resilient to the pandemic, and outward-looking to the macro-economic situation. The institution is critical and cautious when assessing loans. A senior executive from the institution said that:

> We still disburse loans but with more prudence, and we also look at business types carefully, especially for new clients if compared to existing clients. We also look at the situation at the macroeconomic level, which affects our decision to disburse loans. For example, the Russian-Ukraine issue, the Chinese market, inflation, etc.

In terms of demand from clients, some non-affected clients have leveraged the opportunities during the pandemic because their businesses were still profitable, and in some cases, they even experienced higher sales compared to the pre-Covid-19 period. We found that those non-affected clients have sought capital for their businesses. One of the non-affected respondents described that:

> I applied for a new loan during the Covid-19 because of the low-interest rate, but I could not remember well, around 7% per year, not sure. It was easier without much paperwork because I am an old customer. I could use the loan to buy more daily consumption goods to sell to earn more revenue.

According to CMA's NIX database (Figure 9), we can see that the number of borrowers steadily increase from time to time, alongside the increase of outstanding loan (Figure 10).

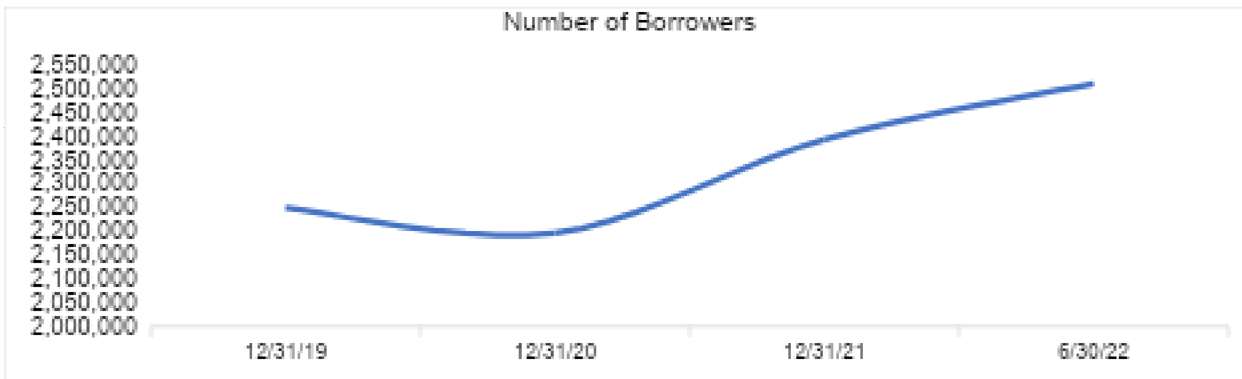

Figure 9: Data from CMA's NIX (as of June 2022)-Number of borrowers

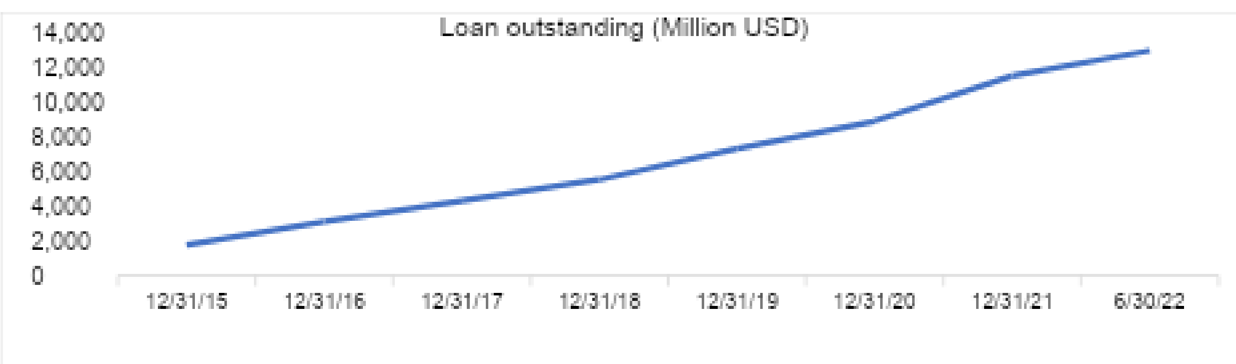

Figure 10: Data from CMA's NIX (as of June 2022)-Loan Outstanding

- **The arrangement of the internal working environment**

MFIs, like other institutions and industries, were subjected to social distancing and lockdown restrictions, requiring internal working procedures to be adjusted. Despite the difficulties they experienced, all the understudied MFIs, we observed that there was no single case where institutions laid off any employees. Importantly, lockdown and social distance regulations prompted all MFIs to implement a rotating strategy in which certain workers were expected to work from home and in smaller teams taking turns in the office without impacting compensation. A senior executive officer from AMK outlined the working conditions put in place by management as follows:

> In my institution, the most common response to work during the high peak of the pandemic is flexible staff arrangement. To us, staff is our priority. We place high consideration for the health security of our staff and, at the same time ensure operation as usual. That is why we spend a lot of money purchasing needed PPEs for staff and also for clients to use, such as masks, hand sanitizers, infection-preventing devices, etc. I think around 100 thousand USD. We rolled out the rotation working arrangement where 1/3 of staff work and another 2/3 stay home, switching on a weekly basis. We also established a committee managing the working arrangement and keeping track of up-to-date information about the pandemic infection. So we can quickly adjust and respond if anything happens.

On top of this, according to the interviews, what appeared in common is the implementation of a Business Continuity Plan (BCP) and vaccination that were facilitated by CMA. As already outlined by a senior executive officer from AMK, other interviewed senior executive officers also described the same response—flexible staff arrangement. However, the arrangement might be slightly varied across the institution when it comes to a detailed arrangement. A senior executive officer from Chokchey microfinance and another one from Grow finance similarly described that:

> With support from CMA, my institutions abruptly applied BCP and re-arranged the internal working environment. We adhere to 3 dons 3 protects, and the vaccination for MFI's staff which we gained support from CMA, and my staff could get vaccination early.

Together with our interviews, we also observed that all MFIs developed new health safety protocols, including restrictions on social distance, hygiene, and teamwork. All of which are essential to their operation and staff health safety.

- **Digitalizing operation**

Another key element that emerged from the interviews is the usage of digital platforms and mobile money services to ease communication and operations. During the lockdown period, understudied MFIs used digital platforms such as Zoom, Team, and other virtual channels to conduct staff meetings and communication. Linking to the internal working arrangement, digital means was used to ensure daily communication. Virtual work arrangement is common among interviewed institutions. Microfinance institutions, even with some challenges, transitioned to virtual work by requiring employees to work from home and communicate and cooperate using technology. At a time when Covid-19 was better, and the easing of movement limitations and social distancing was announced, some MFIs have learned about virtual operation and adopted it the regular operation. A senior executive officer from AMK said that:

> When we re-arranged staff working during the pandemic, we conducted meetings using Zoom, Team, and other channels to communicate with staff.

According to a Digital Readiness Survey in the microfinance industry (2021)[2], it showed that more than 80% agree that digitalization helped their institutions to maintain operations during Covid-19, while 55% agree that their institution's willingness for digitalization readiness is higher due to Covid-19.

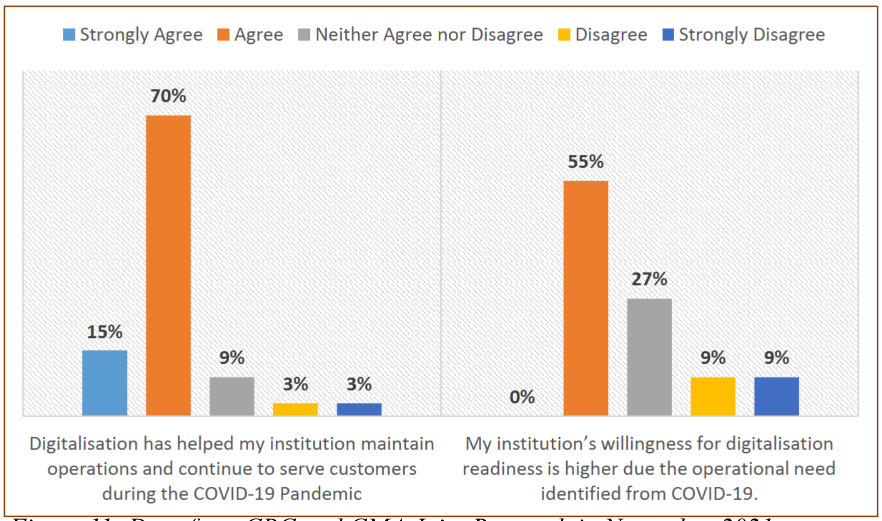

Figure 11: Data from CBC and CMA Joint Research in November 2021

To continue serving clients during the lockdown, mobile money services and agents were reported to be helpful, convenient, and cost-efficient. According to interviewees, the platform enabled consumers to do transactions from the comfort of their homes rather than risk traveling to the MFIs' facilities. Furthermore, we learned that continual phone contact with consumers was maintained throughout the lockdown.

> "Our loan officers do not need to collect loan repayment from clients physically; clients themselves can do so through Wing, an agent we partner with. It is beneficial for us and our clients. It is cost-efficient, and our loan officers can have time to do other tasks which means productivity also increases," a senior executive officer from Grow finance said.

> "As it was really difficult during the pandemic to communicate face-to-face with clients, our officers called clients to understand their situation. We also used the referral model to reach out to new clients and introduce our products because we could not meet them physically. So to remain in operation, we shifted the way of approaching clients to ensure the continuity of loan provision, " a senior executive officer from Chokchey explained.

[2] This survey was conducted in November 2021 by Credit Bureau Cambodia and Cambodia Microfinance Association. The main purpose was to assess the level of digital readiness, digital adoption, challenge and way forward in the microfinance industry during the Covid-19.

Another innovation that MFIs had to implement was the development of online loan applications and the setup of online payment systems that would allow customers to apply for loans and make payments using online and digital methods. At this moment, all MFIs have online loan application and payment systems, albeit there is still more work to be done in this area. Some MFIs who implemented online systems alongside traditional loan application processes before the crisis witnessed an increase in the utilization of digital applications during the pandemic. For example, a senior executive officer from AMK indicated that:

> Luckily, our institution already has a mobile app and agent banking. I can see clients increasingly use them. We encourage clients to pay back the loan through our agents and mobile app for those who have it. We also implemented online loan disbursement. The advantage is the low cost of operation, and it showcased our ability to roll out digital means in our operation during the pandemic.

4. Microfinance and economic recovery

Even during the economic slowdown, the country has seen a steady increase in lending from microfinance institutions (MFIs) to individuals and business owners, resulting in gradual growth in this part of the financial sector. For many workers and business owners, the suspension of jobs in industries impacted by the pandemic and the need for support to sustain day-to-day expenses and to keep businesses afloat have enhanced the importance of MFIs in the revival of the nation's economy (Ek & Po, 2022). As emerged from the interviews, microfinance institutions did not choose to close operations and pause loan disbursement understanding it might affect the economy even further. A senior executive officer from Chamreoun microfinance explained that:

> In our institution, the loan size is mostly under 700 USD, and we see that some of our clients have been affected by Covid-19. Some almost lose all their income. For us, we try to find possible means to issue loans for them. It is risky, but it is part of our social identity, and the most important thing is the cash flow of our clients. We want to ensure that it keeps running that is why we continue loan provision. In difficult times, we stay with clients and do not give up on them.

Obviously, one of the few instruments in the financial services industry that targets customers with low incomes and who have historically had trouble accessing traditional banking services is microfinance. These organizations offer essential financial services such as modest loans, help with savings, and insurance. MFIs have a vital role in reviving Cambodia's economy, thanks to their capacity to offer financial support to the poor throughout the pandemic. MFIs can stimulate recovery through two primary methods, including serving as a source of financial capital and ensuring constant capital flow. However, microfinance alone cannot boost the economy but partly contribute to the recovery journey. This is evidenced by our interviews with microfinance institutions and clients. As a senior executive officer explained above, one of the primary objectives is to ensure the breathing of cash flow among clients who have been affected and further provide working capital to those who have business opportunities. A senior executive officer from Chokchey microfinance further clarified that:

> Literally, microfinance can help clients create business through working capital. We professionally give loans with affordable interest rates where clients can realize the revenue from their business. Microfinance is one of the main economic sectors, it can have a substantial

> implication on the economy. So if it has a problem, the whole economy will suffer to some extent. Even when a pandemic happens, we continue loan provisions for resilient businesses that need capital.

There have been some studies indicating the critical role of microfinance in supporting low-income clients and micro-business to survive and recover in the pandemic (World Bank, 2022; ADB, 2020; Malik et al., 2020). The COVID-19 pandemic has demonstrated the importance of microfinance institutions' ability to adjust and respond when client demands change and operational capabilities are constrained. This is crucial for helping MFIs remain financially viable as well as for enabling them to assist poorer people in times of shock and crisis. According to an interview with a senior executive officer from AMK, he lengthy described how microfinance has its central role in the economy during a challenging time:

> We continue to provide credit. It's different from what happened in 2007-2008, where we saw a sharp credit decline. We continue to inject money into the economy. We communicate and facilitate with clients to understand their situations. We want to ensure that we can help clients well in this challenging time. We don't stop operations but quickly respond to remain active. We don't slow down the progress, and we learn by doing in working closely with clients. One of our target segments is low-income. Everyone knows it is challenging to work with them. But it's our commitment to provide small loans. We understand that they are the most affected by the pandemic. We don't give up on them, and we still try our best to ensure the accessibility of finance to low-income clients. We have age-long experience working with them and try to keep this segment. It is actually our DNA.

According to the findings from our interviews, the clients who were negatively affected by the pandemic similarly describe that:

> [Intervention from microfinance] relieved much of my burdens, like reducing the monthly spending to MFI during that hard time. This enabled me to save money to support my family's livelihood and keep my business stay active even though the sale was not good. (a family selling retail seafood)
>
> When the pandemic initially hit, I still had some income from my online sale and used the money I earned before to support my family's daily life. But it became harder and harder since Covid-19 still existed, and I also needed to pay back the loan. So I requested MFI to pay only interest. I could earn enough to pay back the loan while I was able to sell online and earn some income to support my children's education. (a female online seller)

For those clients who felt that they did seem not to be affected by the pandemic similarly described their situation below:

> For my family's economy, it is less affected because my grocery shop still has customers as usual. My husband's salary was also not affected, he got it every month, and in the family, we did not spend much. The reason I borrowed during Covid-19 was that the interest rate was lower than usual. And now, my business is bigger as I got a loan from microfinance.

In the context of Covid-19, the financial sector continues to play a significant role, notably in promoting financial inclusion, MSMEs, and agriculture. The majority of institutions noted a rise in credit demand, particularly when the economy began to recover, and there was greater certainty regarding market demand and business potential, primarily for working capital purposes. See (Figure 12)

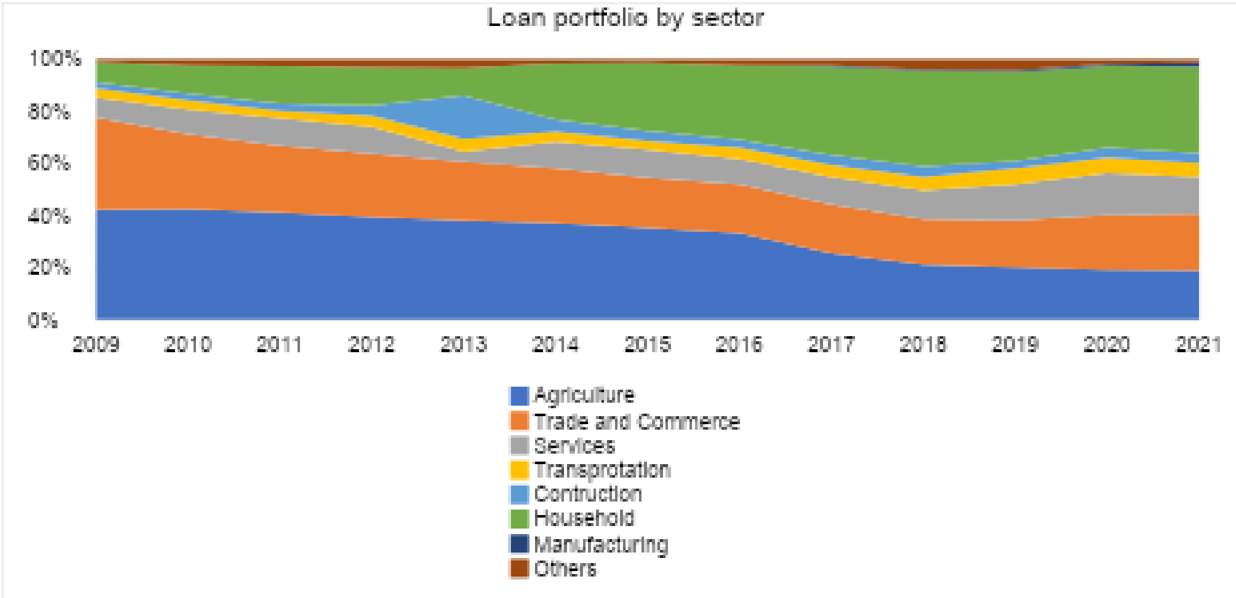

Figure 12: Loan portfolio by sector, Source: National Bank of Cambodia (2021)

5. Government and regulatory responses

● Government

The Cambodian government has launched a series of policy measures and efforts to mitigate the negative impact presented by the COVID-19 outbreak and to assist companies, particularly SMEs, in dealing with the ongoing pandemic (MEF, 2022). Between 2020 and 2021, the government rolled out ten rounds of relief measures with a budget spent USD 2.3 billion (NBC, 2022). As the pandemic has prolonged, the government also planned the Covid-19 intervention package in 2022.

Table 1: 2020-2022 Covid-19 Intervention Package (Million USD)

Intervention Programs (Million USD)	**2020**		**2021**		**2022**
	Plan	**Implementation**	**Plan**	**Estimation**	**plan**
1. Outbreak prevention and treatment	100	29	30	747	300
2. Wage subsidy and skill training	64	58	59	22	59
3. Cash for work	100	100	160	150	100
4. Cash transfer	300	306	200	275	280
5. Food supporting during lockdown	-	-	-	-	-
6. Financing through ARDB	50	50	-	-	-

7. Co-Financing through SME Bank	50	50	-	-	-
8. Credit Guarantee Fund	200	200	-	-	-
9. SME Financing Facility	300	30	270	150	-
10. Economic Recovery Plan	-	-	-	-	250
Total Intervention Package	1,164	824	719	1,291	989

Source: Ministry of Economy and Finance (30 May 2022)

With such an intervention package, in June 2020, the Covid-19 Cash Transfer was rolled out to support vulnerable and poor households. The program initially served 562,000 homes and was later expanded to serve nearly 700,000 households (approximately 2.7 million people). The government had disbursed more than USD 320 million under this program by June 2021 (Medina, 2021).

Under the Ministry of Economy and Finance (MEF), Credit Guarantee Corporation of Cambodia Plc. (CGCC), Cambodia's first state-owned credit guarantee firm announced its first guarantee plan—the Business Recovery Guarantee Scheme, in March 2021 (CGCC, 2021). The initial project, with a total scheme worth USD 200 million, intends to facilitate enterprises obtaining formal loans for working capital, investment, or business development. As of September 30, 2022, CGCC had enabled 736 enterprises by providing credit guarantees for loan applications totaling 71.2 million USD equivalent. SMEs account for more than 96% of all enterprises seeking credit guarantees (CGCC, 2022). According to an interview with a senior executive officer from CGCC, CGCC has partnered up with 24 Participating Financial Institutions (PFIs) consisting of 19 banks, 4 microfinance deposit-taking institutions, and 1 microfinance institution in 2022. She also added that:

> The financial sector is very important for the economy. We understand that business activity is crucial for boosting the economy. And business activities are possible when there is enough capital. In Cambodia, micro, small and medium enterprises (MSMEs) are the backbone of the economy. Still, many have issues accessing financial services because of the lack of collateral. So, CGCC emerged as the solution to help them access affordable financial services as we work with our PFI partners, including those from the microfinance sector. As we can see, the banking and microfinance sectors are dynamic even in the Covid-19.

In September 2021, the Co-Financing Guarantee Scheme (CFGS) targeted loans under the SME Bank. The first Co-Financing Scheme Phase was established. The USD 50 million programs would be valid until the entire amount is utilized, with the same goal of improving SMEs' access to financing. According to an interview with a senior executive officer from SME Bank, 3rd scheme of co-financing has finished with USD 490 million loan portfolio, reaching 3,000 account borrowers.

These two initiatives allow SMEs with minimum or no collateral, particularly CGCC, to access affordable financial services to support business and economic recovery during the pandemic. At the strategic and policy level, several policy directions have been created, such as Policy Approach to Achieve Vision 2030 and 2050, Strategic Framework and Programs for Economic Recovery in the Context of Living with Covid‑19 in a New Normal 2021‑2023, to name a few. Typically, to maintain and stimulate economic growth, the government implements mixed policies such as fiscal policy, monetary policy, and structural policy (MEF, 2021).

- **National Bank of Cambodia**

During this challenging period, the National Bank of Cambodia (NBC) also intervenes in relaxing monetary policy, assisting borrowers, financial institutions, and the overall stability of the financial system. In March 2020, NBC released a circular encouraging all financial institutions to restructure loans to pandemic-affected borrowers. Loan restructuring might take the form of deferring interest, principal, or other costs. This circular was intended to remain valid until the mid of 2021. Following that, considering the prolonged pandemic situation, NBC agreed in May 2021 to extend loan restructuring until mid of 2022 (NBC, circular on 28th December 2022).

Loan restructure: Number of loan restructuring account.

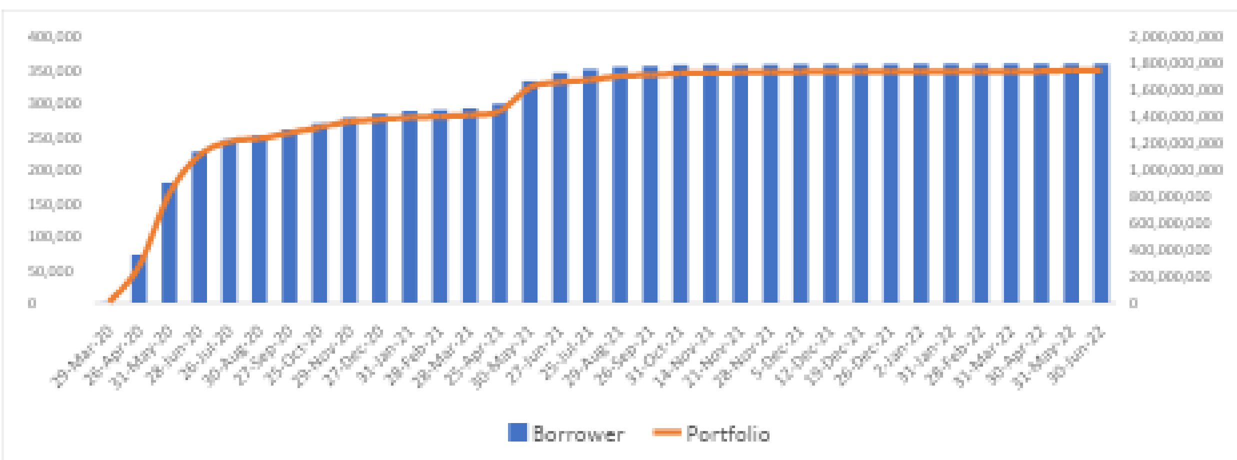

Figure 13: Data from CMA - Number of accumulated loan restructuring account

Loan restructuring contributes to reducing loan default when the economic shock of the pandemic affects borrowers' capacity to repay. Another action taken by the central bank is to keep the reserve requirement at 7% for both deposits and borrowing. Furthermore, NBC continues to intervene in the currency market to preserve exchange rate stability. The aforementioned easing measures contribute to economic recovery by assisting financially impacted borrowers (NBC, 2022). It is worth noting that the amount depositors have steadily increased even in the context of the Covid-19 outbreak. By June 2022 (Figure 14), the number of depositors in the microfinance industry is 3,584,593, while the number of borrowers is 2,508,927.

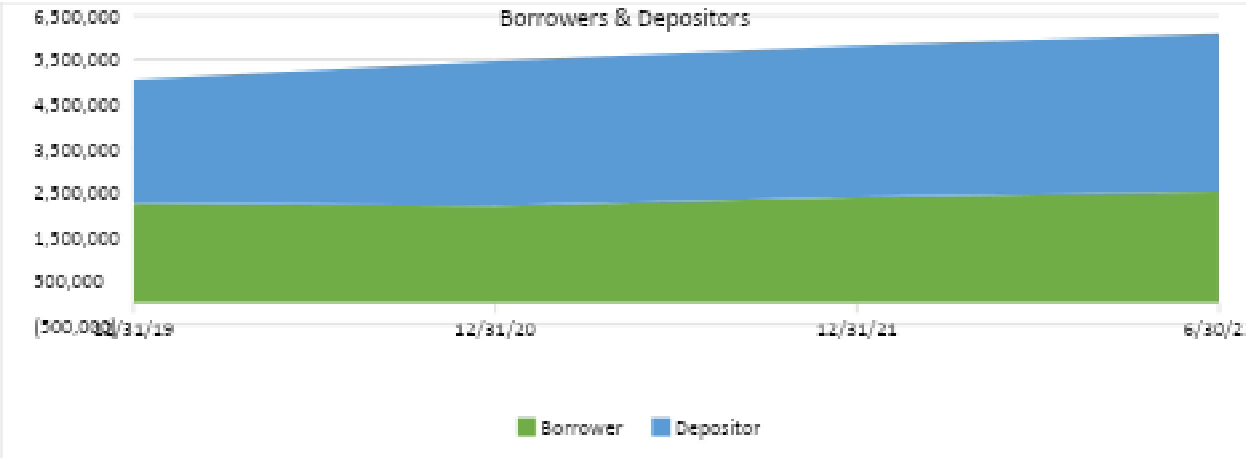

Figure 14: Data from CMA's NIX (as of June 2022)-Number of borrowers and depositors

On top of the loan restructuring intervention and among other policies, NBC also introduced a reduction of the reserve requirement ratio for financial institutions from 8% for KHR and 12.5% for foreign currencies to 7%, as well as a 0.5% reduction in the minimum interest rate on liquidity-providing collateralized operations (LPCO) to reduce financial institutions' funding costs in domestic currency, (NBC, 2021). Combined with other regulatory responses, the banking and financial sector in Cambodia remain resilient and stable. This condition sets the stage for the microfinance sector to be sustained even in difficult times, which is reflected by healthy and sustainable profitability, credit demand, and liquidity (NBC, 2022).

V. Discussion: From institutional strategic responses to economic recovery

One of the most pressing policy challenges posed by the COVID-19 pandemic has been how to protect and sustain essential economic activities, particularly those of low-income people and the financial institutions that serve them. We discovered in this study that the COVID-19 pandemic has resulted in a decline in economic activity and restricted business operations, which has implications for MFI operations. The scale of the impact of the COVID-19 pandemic weighs somewhat strongly on self-employed and micro-entrepreneurs, who are the primary client segment of microfinance institutions, as has been reported elsewhere (Rahman and Matin 2020; Malik et al. 2020).

As documented in the research literature, the financial sustainability and survival of MFIs are dependent on their client's ability to run their businesses effectively and repay loans. A drop in repayment rates over time is likely to increase portfolios at risk (Churchill 2019; Malik et al. 2020). However, the microfinance industry in Cambodia has emerged to weather the pandemic even though there is a slight increase in the portfolio at risk. In addition, other indicators such as increased assets, sustainable profit, increased number of borrowers and depositors, and strong liquidity have shown the resilience of this industry.

Despite the complexity of the COVID-19 pandemic, the MFIs under study appeared to handle the operational challenges the pandemic posed to their operations quite well. Our study demonstrates that restructuring loan repayments, more cautious lending, modifying internal procedures, as well as using digital channels to reach clients were key response measures taken by the MFIs studied during the pandemic. This finding is consistent with recent emerging research (Debrowska et al., 2020; Malik et al., 2020; Yeboah et al., 2021). The MFIs were still able to operate and continue to serve their clients during a hard time. Additionally, the understudies MFIs were all reported to be lenient to clients with utmost understanding towards their clients. The continuity of MFI's operation has a considerable advantage for the clients, particularly when some clients have suffered a shortfall of income from the pandemic.

Literally, microfinance has demonstrated a proven record of engaging poor and previously excluded groups in formal financial services, delivering vital last-mile distribution and services to populations that typically lack access to mainstream financial services (Simon, 2020). During the pandemic, MFIs have a significant part in reviving Cambodia's economy, given their capacity to offer financial assistance to the needy. Indeed, microfinance alone cannot revitalize the economy; however, it can play a crucial role in contributing to the economic recovery as the source of financial capital and by ensuring the continuous capital flow in the country (Ek & Po, 2022).

Microfinance services can provide immediate assistance to small businesses affected by the pandemic, for example, unexpected lockdowns and the resulting economic standstill, while also assisting in providing much-needed financial education and information to their clients (Simon, 2020). As we found from this study, microfinance institutions have tried all the possible ways to ensure the operation. They continue their mission by providing loans to clients who need them and facilitating the clients in repayment, for example, loan restructuring, which has been acknowledged as one of the critical solutions for both clients and institutions during a hard time. According to a cross-countries study, which also included Cambodia, conducted by Zheng and Zhang (2021), they claim that despite COVID-19's detrimental effects on MFI's financial efficiency, social efficiency or performance increased due to the ability to connect with low-income and poor and vulnerable households.

The study on the role of microfinance in mitigating the impact of clients and recovery contribution is not new. For example, many studies indicate that microfinance may relieve hardship in disaster and post-conflict situations by diversifying client income sources (Kumar & Newport, 2005; Osman, 2021; Anpalakan, 2002; Marino, 2005). Scholars and practitioners have advocated for purposeful ways for microfinance organizations to respond to disasters, such as rescheduling loan payments, disbursing emergency loans, and revisiting lending strategies and methods, among others (Mathison, 2003). This helps to reflect more on the role of microfinance in economic recovery efforts despite the differences in the type of events, for example, natural disasters and pandemics.

As a result, recent studies have shown the critical role of microfinance in supporting low-income clients and micro-business to survive and recover in the Covid-19 pandemic (World Bank, 2022; ADB, 2020; Malik et al., 2020). “The success of clients is our success” and “We can survive as long as clients survive” have been echoed in the microfinance industry over the past two decades. The former has been pronounced since the initial microfinance business, and it remains today, while the latter has appeared to be a common phrase used among microfinance industry players during hard-time deriving from the pandemic. This is evidenced by the interviews with senior executives from microfinance institutions and clients. Clients who have informal businesses could withstand the pandemic and reported being able to restart their businesses when the situation gets better.

We also found that MFIs comprehensively grasp how consumers have been impacted and how their demands have changed. Therefore, they could adjust and respond quickly in an economically feasible way for their MFIs (Hobden et al., 2021). As a result, MFIs have provided crucial lifelines to those most in need and negatively impacted by the pandemic. Small loans and other forms of financial assistance keep struggling families and small businesses afloat. It can be reflected that the continuity of microfinance’s operation is vital in ensuring the availability and accessibility of financial services to the needy, including MSMEs. In this regard, policies supporting financial services to MSMEs and the informal sector and protecting these clients through restructuring processes are crucial to accelerating recovery. Even though microfinance institutions (MFIs) are frequently small and may appear unimportant in terms of balance sheets, they provide services to a macroeconomically significant sector of an economy (World Bank, 2022). For instance, the formal microfinance sector in Cambodia provides over 2.5 million clients with credit services, not to mention deposits (data from CMA’s NIX as of June 2022).

Another central element enabling the resilience of the microfinance industry to promote economic recovery is government and regulatory response (World Bank, 2022). In Cambodia, the regulating body, the National Bank of Cambodia, has been proactive in supporting the microfinance sector and able to maintain the stability of the whole financial industry. It is believed that plenty of microfinance clients come from relatively needy areas of society and are striving hard to strive forward. A collapse of the microfinance sector might impose risks pushing those communities backward. Surviving the microfinance business during a challenging time is a way to support the economic recovery of the poor (ADB, 2020).

On top of the loan restructuring circular, NBC also announced a delay in requiring banking and financial institutions to meet the 50% capital conservation buffer to lessen the economic impact of the COVID-19 pandemic, reduction of 0.5% across all maturities in the minimum interest rate for collateralized operations that provide liquidity, lowering the interest rate on negotiable certificates of deposit in US dollars and Khmer Riel while maintaining a reasonable limit, reduction of the reserve requirement rate for a period of six months beginning in April 2020, from 8% for the Khmer Riel and 12.5% for foreign currency to 7%, and reasonable reduction in the liquidity coverage ratio, among others (NBC, 2022). These measures have been critical to the stability and resilience of microfinance institutions which allow them to both survive and serve clients. In addition, the private sector financing mechanism is also regarded by the government as the main catalyst in economic recovery efforts. In such a regard, providing more credit to the private sector is a crucial measure to revitalize the economy. For instance, the government has established an SME Bank and Credit Guarantee Scheme, which led to the creation of the Credit Guarantee Corporation of Cambodia. The government encourages commercial banks and microfinance institutions to continue increasing their lending to MSMEs (MEF, 2021). In the microfinance industry, shareholders and investors have also been mentioned as understanding the situation of their respective invested microfinance institutions and being supportive to ensure the continuity of microfinance operations to serve clients. In good times, microfinance institutions support households and small businesses to prosper; in bad times it can help them cope and rebuild (ADB, 2020). During this challenging time, cooperation among stakeholders in the microfinance sector is reflected as integral for stability and resiliency, which sets the stage for contribution to economic recovery. The collaborative approach works best in Cambodia (Incofin, 2020).

VI. Conclusion

In conclusion, the empirical findings indicate that the pandemic has affected both microfinance clients and institutions. Even though the level of impact varied across clients, the typical result was difficulty in income generation, which led them to have challenges in loan repayment. However, some clients remain resistant to the pandemic and are able to maintain and generate income. Meanwhile, microfinance institutions have experienced a slight increase but manageable Portfolio at Risk due to pandemic-associated constraints such as operation and credit risk. To weather the pandemic, the study found that microfinance institutions have been able to remain in operation by rolling out timely strategic responses. They are loan restructuring, continued lending but more cautious, flexible internal working re-arrangement, and digital means to ensure daily organizational stability and client interaction. The strategic responses made by the microfinance institutions have not only helped them to remain in operation but allowed them to continue serving clients during this challenging time.

Understanding that more than 2.5 million accounts of microfinance clients are being served, the industry's collapse will put a huge economic setback for the national economy. Successful strategic responses are possible with strong support from the government and the central bank that has maintained financial sustainability and made the sector resilient to the pandemic. In addition, other microfinance stakeholders such as shareholders and investors were also found to work collaboratively with their respective microfinance institutions to ensure the continuity of institutions' operations and help clients to maintain a livelihood and economic momentum to sustain and restart the business. The strategic responses of microfinance institutions, with support from the government and central bank, allow them to not only remain in business but continue to ensure the injection of financial capital and the continuous flow of capital into the economy, particularly for microfinance clients. Such a condition sets an essential stage for economic revitalization among microfinance clients and thus reflects the contributing role of the microfinance sector in economic recovery efforts. As a reflection, the sector adapts strategies to strengthen resilience and sustainable approaches to better contribute to economic recovery efforts with the government.

However, the sector's effort does not stop here. It is believed that the long-term post-pandemic performance of the industry will be likely influenced by the ability of clients to return to pre-pandemic business situations; the willingness and ability of clients to make good on loan repayment obligations; the willingness of lenders, investors, and shareholders to be patient and understanding; and how much financial cushioning microfinance institutions may obtain from external financing sources (Malik et al., 2020).

VII. Recommendations

- MFIs should continue strengthening responsible lending practices and client protection.
- MFIs should futher enhance effectiveness and efficiency through the adaptation of fintech in order to appropriately digitalizing the operations to better serve customers' needs in a timely and fashionable manner.
- MFIs to further innovate products/services that are more affordable and flexible to better address the needs of MSMEs and local entrepreneurs to build back better, in contributing to the economic recovery efforts.
- Microfinance investors and lenders should consider adjusting profitable KPIs and benchmarking the responsible growth model in providing MFIs the needed liquidity to continue operating with less restrictions.
- The government and development partners should continue to strengthen the implementation of economic recovery to ensure the economy's steady growth.
- CMA should play more role in strengthening financial literacy among the consumer and general public so that they can improve capacity and resiliency in managing risks, to better cope with future shocks and crises.

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