

Wall Street comes to Cambodia's microcredit sector

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By Milford Bateman. One microcredit institution in Cambodia has in recent years been highlighted not just as a best practice example of the microcredit model in action, but as a leading example of 'inclusive capitalism' composed of 'social enterprises' that aim to do good in the community. Now AMK had been acquired for a cool \$US150 million by the Taiwan-based Shanghai Commercial and Savings Bank, one of Asia's most aggressive financial institutions. What is making the former owners of AMK wealthy, is very bad news for its already suffering creditors.

Microcredit is the provision of tiny loans – microloans – to the poor in order that they might establish an income-generating microenterprise, thereby to escape poverty. Popularised above all by the US-trained Bangladeshi economist and 2006 Nobel Peace Prize winner, Muhammad Yunus, the microcredit model went from a small action-research project to become the most popular international development community intervention of all time. Crucially, by 'including' the poor in the financial system it was said that microcredit institutions could deliver on their good intentions to bring about a poverty reduction process achieved 'from the bottom-up'.

The microcredit institution AMK was established in 2003 by Concern Worldwide, an international NGO working on poverty reduction. By the late-2000s AMK had grown to become Cambodia's largest microcredit institution. With a keen eye for maximizing every possible PR opportunity, AMK crafted for itself a very positive reputation not just in Cambodia but within the global microcredit sector as well. A good part of AMK's fame came about thanks to a book that AMK commissioned from leading microcredit advocates Anton Simanowitz and Katherine Knotts. In 'The Business of Doing Good' Simanowitz and Knotts go to extraordinary lengths to describe AMK as a social enterprise whose management and shareholders are deeply imbued with good intentions and a genuine concern for doing all they can to assist Cambodia's poor. The book notes that a major contributory factor in AMK's apparent success as a social enterprise was its establishment of a Social Performance Committee, a unit that apparently had the power to guide and cajole AMK's management to "be as good as it could be". Simanowitz and Knotts concluded by declaring that AMK pointed the way towards building a completely new form of 'inclusive' social value-driven capitalism.

It all seemed too good to be true. And it was.

In September 2017, Shanghai Commercial and Savings Bank, one of Asia's most aggressive financial institutions, [announced the intention](#) to buy a majority stake in AMK. The legal advisors H. M. Chan and Co and Taylor Wessing recently announced conclusion of the \$150 million deal on their website, but took it down again, after I had written on it.

The sale still remains under wraps, one suspects, in order that a suitably solid 'pro-poor' justification for the deal can be fleshed out between all those set to benefit. The palpable fear is of being cast as another 'Banco Compartamos', an allusion to the [scandal that arose in 2007](#) in the wake of an IPO that exposed Banco Compartamos shareholders and senior managers making spectacular profits from promoting 'financial inclusion' while its poor clients exhibited no improvement in their lives, and, in fact, were mainly consigned to massive levels of over-indebtedness and heightened vulnerability.

Nonetheless, local analysts have confidentially explained that all those closely connected to

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AMK expect to benefit substantially from the sale, which might, of course, account for why they have doggedly pushed it through in the first place. First, there are the key equity holders in AMK. This means the largest shareholder in AMK since 2009, Agora Microfinance N.V. Self-advertised as attempting to 'pursue financial sustainability and social objectives' but conveniently registered in low regulation/low tax Holland, Local analysts also expect that the senior management in AMK, and also key board members too, will be very well rewarded for carefully facilitating AMK's move into the arms of its new owner.

Clients will suffer

Pointedly, AMK's poor clients will see none of the financial rewards to be enjoyed by its key stakeholders. The existing supposedly 'socially-concerned' stakeholders have handed the organization over to a mainstream financial institution geared up to maximizing profits for its wealthy Taiwanese and foreign shareholders. Based on previous acquisitions, then, the interest rates, fees and charges imposed on AMK's poor clients are almost certainly going to rise at some stage. Even worse, in order to maximize profits AMK's new owners will inevitably want to expand its operations in order to 'financially include' the few remaining communities in Cambodia not fully saturated with microcredit. This action will manifestly exacerbate an individual over-indebtedness problem in Cambodia's poorest communities that is already one of the world's worst examples, as attested in pages 14-15 in, the Asian Development Banks report: *Cambodia: country poverty analysis 2014*. Poor communities already bursting with informal microenterprises will also likely see many new competitors induced into operation by the inflow of new microcredit. As everywhere else, the increased competition will reduce the turnover, profits and wages of already struggling incumbent microenterprises, thus making their lives much worse. This ultra-competition angle, of course, is one of the main reasons why there is [no independent evidence](#) that microcredit has on average improved the lives of AMK clients, or the lives of Cambodia's poor as a whole.

One aspect of the downside to microcredit in Cambodia is especially disturbing. Cambodia has begun to experience a growing but quiet tide of land lost by the poor when their microcredit-induced micro-businesses fail to generate any income, or fail outright, and they are [forced to forfeit the land titles](#) they submitted as collateral to obtain the microloan. Even worse, many of the hapless victims of the microcredit model that become landless are forced to migrate, notably to Thailand, and end up as part of an expanding under-class of thoroughly exploited migrants toiling in the informal sector, as described by Maryann Bylander in 'Credit as coping: Rethinking microcredit in the Cambodian context'.

Some always do well

Of course, it cannot be denied that a few poor individuals have done well with the help of a microcredit. Such lucky individuals often find themselves on the websites of the microcredit institutions as examples of 'what is possible'. But like the many national lotteries that celebrate a few high profile winners but on average act to drain a community of its wealth in order to enrich the lottery's owners, success in 'financially including' the poor in Cambodia has overall done nothing but to help to channel wealth up and out of the poorest communities and into the outstretched hands of the narrow elite that owns and controls the country's microcredit sector.

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This latest bump in the already controversial history of the microcredit movement in Cambodia cannot and should not be dismissed lightly. When even its one-time leading advocates have now come around to accepting that microcredit has simply not worked as a poverty reduction intervention in general, [notably Jonathan Morduch](#) and when supposedly 'best practice' donor-community-supported microcredit institutions like AMK can so easily cast off their appointed social mission when it suits them, it should surely be clear to all that 'inclusive capitalism' does not provide a workable, still less socially progressive, model of sustainable development. Presumably, also, it will not be long before we hear about the formal retraction of the ill-advised hagiography of AMK prepared by Simanowitz and Knotts.

P.S. The situation appears to be changing as we speak. As this piece was being finalized, for example, [it was announced](#) that 90 per cent of the medium-sized Chamroeun Microfinance had just been purchased for \$US9.21 million by the Japanese appliance recycler Renet Japan Group.

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