

# **Acquisition of Microfinance Institutions by Commercial Investors: Evidence on Its Impacts on Outreach of the Cambodian Microfinance Institutions**

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**Acquisition of Microfinance Institutions by Commercial Investors:  
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Cambodian Microfinance Institutions**

Daiju Aiba<sup>\*†‡</sup>

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**Abstract**

Recent developments in the microfinance sector have attracted a large inflow of capital investment. At the same time, there has been an increasing number of cases of acquisition of microfinance institutions (MFIs) by domestic and foreign private investors, especially commercial banks. This study investigates the current state of acquisition of local Cambodian MFIs and examines the impact of the recent acquisition cases on the lending behavior of local MFIs. The analysis employs unique data on Cambodian MFI lending at the MFI-district-pair level, and applies a robust difference-in-differences approach to estimate the impact of acquisition. The study finds that the acquisition cases have contributed to increases in the loan portfolios of MFIs and a shift in MFIs' credit allocation from rural to urban areas after acquisition. Thus, changes in ownership and organizational structures through acquisition by commercial investors could more or less cause mission drift among MFIs. The results of the analysis may suggest that investment by impact investors should be facilitated to ensure the sustainability of social lending to the poor.

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**Keyword:** Microfinance Institutions, Financial Inclusion, SDG Investment, Capital Inflow, Cambodia.

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# 1 Introduction

Microfinance institutions (MFIs) have played an important role in the alleviation of poverty by supporting financial inclusion in developing countries. As MFIs have developed in various countries, there has been a large increase in capital inflow into them. Until recently, such capital inflows from abroad had supported the evolution of MFIs in developing countries (Reille et al., 2011). As lending to the poor is generally costly, those low-cost funding sources from abroad, especially from pro-social or public investors, supported the expansion of microfinance loans to rural areas (Cull et al., 2018).

In recent years, there has been a change in the capital inflow trends for MFIs, with an increasing number of equity and debt investments by domestic and foreign commercial investors into local MFIs. Such investments are frequently directed towards mergers and acquisitions (M&A) of local MFIs as a strategy to penetrate retail markets within the target nations.<sup>1</sup> These capital inflows have facilitated the expansion and enhanced financial inclusion within these countries. Acquisitions by global banking entities can offer certain benefits such as access to the internal capital markets of the parent bank (de Haas and van Lelyveld, 2010). Nevertheless, investments from profit-oriented investors may accelerate the commercialization of MFIs, potentially leading to a shift away from their original missions. According to the literature on M&A in financial institutions, M&A activities can result in changes in ownership and organizational structures, thereby influencing the governance of the acquired entities and possibly altering their foundational objectives (Asimakopoulou and Athanoglou, 2013). Consequently, there is a growing concern that M&As could transform the ownership and governance frameworks of local MFIs, thereby distorting their primary missions focused on financial inclusion and poverty alleviation..

This study analyzes the impact of acquisition cases on the lending behavior of MFIs in the Cambodian microfinance sector. Over the last decade, the acquisition of MFIs has been prevalent in the Cambodian microfinance sector. In 2016, the third largest commercial bank in Thailand acquired 100% of the shares of HKL Plc., the fourth largest MFI in Cambodia. In addition, in 2018, a Taiwanese commercial bank purchased more than 80% of the shares of the AMK Microfinance Institution, which is the second largest MFI in Cambodia. By 2019, most of the 10 largest MFIs had been acquired by domestic or foreign commercial banks, and some of those MFIs had transformed into commercial banks after acquisition. Using the unique data from individual Cambodia MFIs at the district-level, we empirically estimate the impacts of the acquisition of local MFIs on their lending behavior by looking

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<sup>1</sup>For instance, in Peru, M&A activities commenced in 2006 with Edyficar's acquisition of Crear Cusco, as a move to broaden its customer base. This trend persisted among various entities, and subsequently, commercial banks like BBVA, Scotiabank, and BCP also demonstrated strategic interests in MFIs. In a similar vein, in Tanzania, the merger of three banks - Mwangi Community Bank, Hakika Microfinance Bank, and EFC Microfinance Bank, led to the establishment of Mwangi Hakika Microfinance Bank, sanctioned by the Bank of Tanzania in January 2020 and officially licensed in July 2020.

at their loan portfolio and operations. Specifically, we examine the impact of acquisition on MFIs' outstanding loans, loan size per borrower, the total number of borrowers, the ratio of female borrowers, and the number of staff. There is concern about the presence of bias due to the heterogeneity across timings of treatments, as the treatment of acquisitions in our study is staggered and could have dynamic effects over time. To circumvent this technical problem in the difference-in-difference approach, we apply the robust difference-in-differences approach proposed by [Callaway and Sant'Anna \(2021\)](#).

As a result of the study, we find that the recent acquisition of MFIs in Cambodia has led to increases in the loan portfolios of acquired MFIs, in terms of the amounts of loans, number of borrowers, size of loans, and the number of lending operation areas. Those results suggest that acquisition has contributed to increases in MFI ' s loan portfolios. In relation to the operation of MFIs, we find that on average the number of staff decreased, while the number of borrowers per staff member increased. The results suggest that acquired MFIs increased the productivity of loan officers after their acquisition. However, the study found that the increases in the number of borrowers and the number of lending operation areas were only observed in urban areas after acquisition. In addition, acquisition significantly contributed to an increase in the average loan size in rural areas. These findings suggest that after acquisition, there was a shift in MFI credit allocation policies from rural areas to urban areas.

The current study contributes to the literature on the commercialization of MFIs by providing new evidence gathered from Cambodian MFIs. Theoretically, the commercialization of MFIs is considered to be one of the possible strategies for achieving the dual objectives of the microfinance business. ([Hamada, 2010](#)). The commercialization of MFIs could have a positive impact on their outreach as large-scale loans have lower unit costs, and provide a cost advantage to financial institutions ([Cull et al., 2018](#)). However, [Peng and Xu \(2021\)](#) argued that profit-oriented MFIs deviate from the objectives of poverty reduction, by providing empirical evidence that microloans by profit-oriented MFIs did not perform well, due to the lack of strong demand for microloans. Our findings suggest that changes in ownership structures from socially-oriented investors to profit-oriented investors may have negative effects on socially responsible practices of the acquired MFIs. Additionally, our findings may suggest that there is a need to control capital inflow into MFIs and enhance discipline to ensure MFIs maintain their objective of reducing poverty through lending to the poor.

The remainder of this paper is organized as follows: Section 2 reviews the relevant literature, particularly relating to the acquisition of financial institutions and the recent discussions on mission drift among microfinance institutions. Section 3 provides an overview of the microfinance sector in Cambodia, the recent capital inflows and the acquisition cases in the sector. Section 4 provides the framework of our empirical analysis and provides a description of the data. Section 5 sets out and discusses the empirical results and Section 6 concludes.

## 2 Relevant Literature of Microfinance institutions and Acquisition

### 2.1 Business Model of Microfinance Institutions and Mission Drift

Microfinance institutions (MFIs) exhibit diverse business models, ranging from those that mobilize funds through public deposits to those reliant on external subsidies or loans for their lending activities to impoverished communities. The literature explores the relationship between the MFI business models and their outreach, highlighting a fundamental trade-off between financial sustainability and social performance, particularly in terms of serving the underprivileged and women. This dichotomy between financial and social objectives has been extensively discussed, with numerous studies addressing the inherent challenges, for instance, lending to low-income groups involves high fixed and variable costs, especially for microloans, compared to larger loans which benefit from economies of scale, as noted by [Cull et al. \(2018\)](#). The higher default risk and lower collateral values associated with lending to the poor, necessitate higher interest rates or pose sustainability challenges for MFIs, often requiring cheaper funding sources such as subsidies or deposit-taking.

There is some variation in the business models of microfinance institutions. Some MFIs collect funds by taking deposits, while others rely exclusively on subsidies or borrowings from external organizations in order to lend to the poor. There is a strand of literature on the relationship between the business model of microfinance institutions and its outreach activities. The variation in business models is related to the trade-off between financial performance and social performance (outreach to the poor or women). The trade-off between financial performance and social performance has been addressed in several previous papers. From the perspectives of the lending side, microloans entail large fixed and variable costs, while large-sized loans have lower unit costs and provide a cost advantage to financial institutions ([Cull et al., 2018](#)). In addition, lending to the poor entails a higher risk of default and lending is only secured with low-value collateral. These traits in lending to the poor may require financial institutions to set higher interest rates or may make it difficult to sustain the microfinance business. Thus, keeping microloans requires cheaper funds received as subsidies from international organization or governments, or by taking deposits. [Hermes et al. \(2011\)](#) empirically examined whether a trade-off exists in microfinance institutions, by adopting a traditional approach to the cost function estimation to the global sample of microfinance institutions from the MIX Market database. [Abate et al. \(2014\)](#) found that there is a trade-off between financial performance and outreach to the poor. However, the authors further found that the degree of trade-off is different across microfinance institutional models. Specifically, microfinance banks are more cost-efficient than non-bank microfinance institutions.

Commercialization of MFIs is considered to be one of the strategies for achieving the dual

objectives of the microfinance business (Hamada, 2010). Without subsidized debts or investment, collecting funds from commercial sources, such as deposits, and borrowing from private entities, allows MFIs to increase the scale of their operations and then realize economies of scale to reduce the unit cost in lending. However, recent studies argue that commercialized MFIs are likely to deviate from their mission of poverty reduction. Barry and Tacneng (2014) examined the differences in the financial and social performance of MFIs across different ownership and organizational structures. The authors found that NGOs socially and financially perform better than banks and cooperatives. Peng and Xu (2021) investigated poor Chinese households and examined whether they were willing to take out microloans. The authors provided empirical evidence to suggest that profit-oriented MFIs deviate from the objectives of poverty reduction; in particular, their evidence showed that microloans by profit-oriented MFIs did not perform well, due to the lack of strong demand for microloans. However, the commercialization of MFIs may not always lead to mission drift. Cull et al. (2018) observed that commercial microfinance banks also attract significant subsidies, with per-borrower subsidies often exceeding those received by NGOs. This suggests that the commercialization of microfinance institutions need not be viewed as detrimental or exclusive to for-profit endeavors.

## 2.2 Investment in Microfinance Institutions

Capital inflow takes various forms, such as debt and equity investment, and there are a variety of investors and lenders interested in MFIs. In the literature on social responsibility investment, Dyck et al. (2019) empirically documented that investors increase a firm's ESG performance when they come from countries with a strong community belief in the importance of ESG issues. Their findings suggest that the types of investors could affect the performance and policies of target institutions.

El-Zoghbi et al. (2011) and Reille et al. (2011) categorized investors as either public and private. Private investors are defined as individuals, retail investors (such as Oikocredit (Netherlands) or responsAbility (Switzerland)), institutional investors (commercial banks, insurance companies, pension funds, private firms, and other corporate companies), and NGOs/foundations. Public investors are defined as development financial institutions (DFI), such as AECID, EBRD, IFC, KfW, and OPIC, and bilateral and multilateral/UN agencies. Generally, retail investors have big social goals. Although the demand from retail investors for microfinance is strong, its growth has been hampered by financial market regulations that do not allow microfinance investment funds to enter the retail market in the United States and Europe (Reille et al., 2011). Institutional investors are usually attracted by three features of microfinance, namely its social value, its perceived attractive risk-adjusted returns, and its potential negative correlation with other asset classes.

Mersland and Urgeghe (2013) investigated the factors of debt capitals from commercial lenders and pro-social lenders. The authors found that commercial debt capital inflows are positively associated with the financial performance of MFIs, as MFIs with higher ROA and lower operating expenses are more likely to receive the debts from commercial funding sources. Debt capital inflows from pro-social lenders are associated with average loan size, the ratio of women borrowers, and MFI ages. They also found that the existence of internal auditors is also significantly correlated to lender types. If there are internal auditors, MFIs are more likely to have access to commercial lenders, and less likely to have access to pro-social lenders.

Looking at the accessibility of MFIs to pro-social lenders, Dorfleitner et al. (2017) examined the MIX Market database covering the period 2007 to 2010. The authors identify a positive relationship between debt capital from microfinance investment vehicles (MIVs) and the maturity of MFIs. Furthermore, MFIs with a solid financial performance in terms of portfolio quality exhibit better access. Their findings also suggest that MFIs that maintain their social mission experience easier access to funding from MIVs.

### **2.3 Mergers and Acquisition of Financial Institutions**

There have been a large number of mergers and acquisition within the banking sector internationally. Primarily, mergers aim to achieve economies of scale and scope, to increase market power, to gain access to a large client base, and to diversify income sources, particularly in cross-border M&A cases (Asimakopoulos and Athanoglou, 2013). Pasiouras et al. (2011) studied the determinants of bank acquisitions in European countries between 1997 to 2002. The authors found that the target banks were less profitable and had a lower rate of growth. In addition, they found that banks were more inclined to engage in acquisitions in market environments that favored higher profitability, higher liquidity, lower concentration, and a lower industry size. Pasiouras et al. (2011) also found that the regulatory environment was a strong determinant of M&A in European countries. Specifically, banks in countries where the higher disciplinary power is vested in the authorities were less likely to be involved in M&A activity either as an acquirer or as a target bank. This finding is consistent with the findings of Focarelli and Pozzolo (2001), which showed that cross-border M&A among banks is less frequent than in other industries, due to the stringent regulatory restrictions.

Shirasu (2018) studied the impact of M&A cases on the management characteristics of acquired banks in Asian countries from 2000 to 2011. There were also a large number of M&A cases among banks in Asian countries in the 2000s, and the number of banks significantly decreased. The author found that acquired banks increased the number of new loans and improved the capital adequacy ratio after their acquisition, while non-performing loans also increased. However, there are



also a number of risks in M&A. If the cultural differences between the acquired financial institutions and the target financial institutions are significant, M&A may lead to inefficiency in operation and lower the performance of a targeted financial institution. [Claessens and Van Horen \(2014\)](#) investigated the impact of the presence of foreign banks by constructing a database of global samples from banks and cases of M&A. They found that foreign commercial banks often use the acquisition of local banks to enter the market. Additionally, the authors provide empirical evidence that the presence of foreign banks is associated with low private credit to GDP in low-income countries. Regarding the operational efficiency of the acquired banks, [Havrylchuk \(2006\)](#); [Havrylchuk and Jurzyk \(2011\)](#) studied the entry of foreign banks into the Polish banking sector. Both studies documented evidence that the form of entry has an impact on the efficiency of foreign banks. These studies showed that the takeover of domestic banks exhibits lower efficiency than cases of green field entry into the market. [Wezel \(2010\)](#) investigated the impact of M&A on the operational efficiency of banks in Central American countries.

In recent decades, there has been an increasing number of M&A cases in the microfinance sector. In Peru, M&A activities began in 2006 when Edyficar acquired Crear Cusco to expand its client outreach. M&A cases continued to occur among several institutions. Later, commercial banks, including BBVA, Scotiabank, and BCP also showed strategic interest in MFIs. In Tanzania, three banks - the Mwanga Community Bank, Hakika Microfinance Bank, and EFC Microfinance Bank - have merged. In January 2020, the Bank of Tanzania approved the formation of the Mwanga Hakika Microfinance Bank; it subsequently received its license in July 2020. The motive for the merger was to enhance compliance, efficiency, and performance while providing financial services to individuals, MSMEs, and corporate clients.

The central bank of Nepal, Nepal Rastra Bank, also promotes the M&A of MFIs to strengthen the paid-up capital and ensure reliable financial services. The central bank plans to reduce the number of MFIs from 84 to 30, and to increase their minimum paid-up capital. For the state- and national-level microfinance companies, the required paid-up capital is 10 and 100 million NPRs, respectively. The central bank provides incentives to the merged/acquired MFIs by permitting them to issue their right shares. Importantly, the recent coronavirus pandemic prompted most of the MFIs to opt for M&A in order to strengthen their capital. As of May 2021, 28 microfinance companies had completed M&A and formed 13 micro-finance institutions. Of those companies that entered into M&A agreements, 35 were microfinance companies that subsequently consolidated into 17 MFIs.

Even though there are an increasing number of mergers and acquisitions of MFIs by commercial banks worldwide, there is little research on the impact of M&A on the microfinance sector. [Mersland and Urgeghe \(2013\)](#) investigated the funding of MFIs in terms of the relationship between types of funding and the performance of MFIs, and found that commercial-purpose funding is associated with high profitability among MFIs, while social-oriented funding is associated with high

outreach of MFI lending. However, their study focused on debt investment and the lack of strategy for identifying the causality of receiving the funds. Thus, it is not clear whether the recent direct investment in MFIs has shifted their operations toward profit-seeking entities.

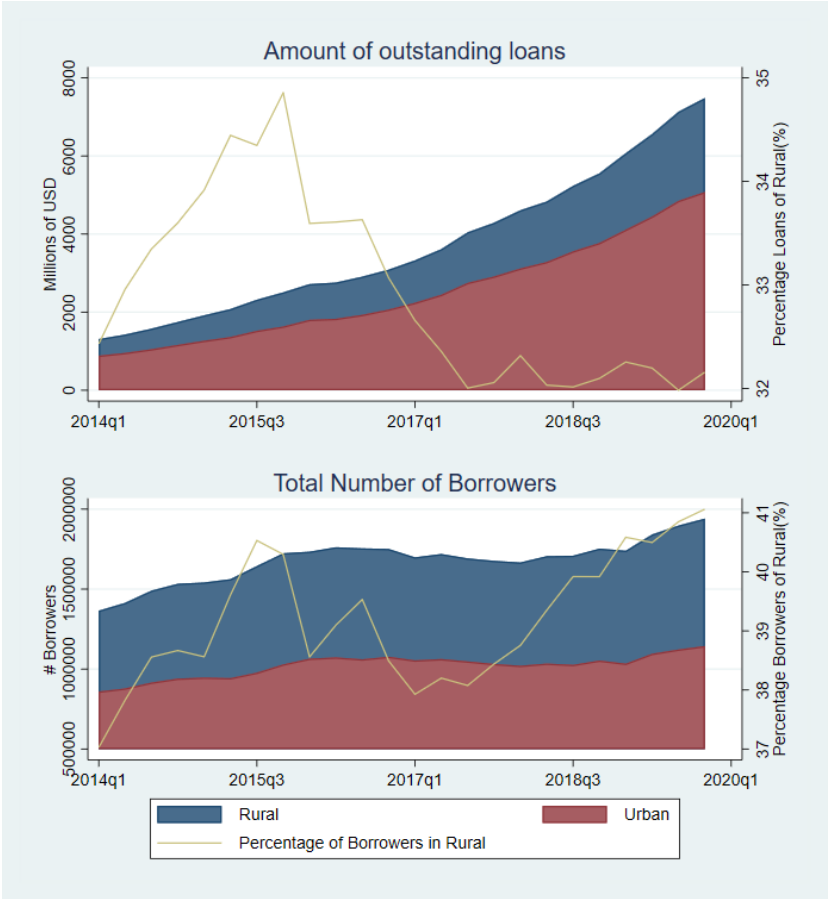
### **3 Overview of Microfinance Institutions and Acquisition in Cambodia**

At the end of 2020, there were 81 microfinance institutions, including six microfinance deposit-taking institutions, in Cambodia. The National Bank of Cambodia (NBC) put several regulations in place to facilitate and monitor the operations of microfinance and other institutions. Recently, the bank has made revisions to several of the regulations, which include modifications to the minimum capital requirements, management independence, net-worth computation, liquidity coverage ratios, solvency ratios, capital buffers, and interest rate ceilings. The Cambodian financial sector is not generally restrictive, and there have been a number of entries by foreign-owned banks into its market.

In the previous decade, the Cambodian Microfinance sector has expanded significantly. Figure 1 shows the evolution of amounts of outstanding loans and the number of borrowers in the Cambodian microfinance sector. As can be seen, the amounts of outstanding loans have increased almost ten-fold since 2012, and the number of borrowers has doubled. However, since 2016, increases in the number of borrowers has slowed down. Figure 2 shows the geographical expansion of MFI borrowers from 2012 to 2019 and plots the number of borrowers in each district. The geographical coverage of MFIs has also expanded to rural areas, although there was no significant expansion between 2015 and 2019, compared to the expansion between 2012 and 2015. In addition, the number of MFI borrowers is still low in the north-eastern areas of Cambodia, where economic development is also low in terms of industrial diversity, household living standards, and infrastructure development.

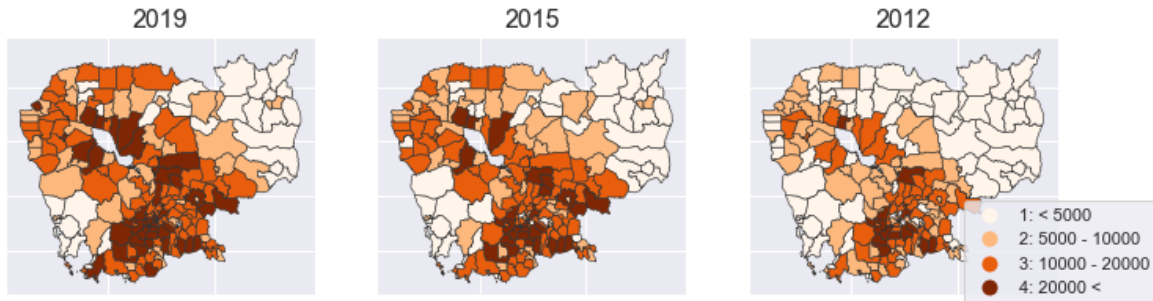
The history of the Cambodian microfinance sector is not long. After the devastation of the financial sector by the Pol Pot regime, MFIs began to emerge at the beginning of the 1990s (Aiba and Lam, 2019). In the early stages of MFI development in Cambodia, MFIs were created as non-profit projects initiated by international donors or NGOs. In the 2000s, the NBC undertook a series of reforms of the Cambodian financial sector, including MFIs. In the 2000s and 2010s, the stance of the NBC toward regulation of MFIs was radical and policies were implemented to promote the commercialization of MFIs, and has let management of microfinance lending depend on self-regulation of MFIs (Green, 2020). As stated in the Financial Sector Development Strategy 2006–15, “ significant success is largely the result of an overall market-based approach to development and light government intervention ” (Royal Government of Cambodia, 2007). ACLEDA was the first NGO to transform into an MFI and then into a commercial bank. After the success of ACLEDA ’ s commercialization,

Figure 1: Amounts of Loans and Number of Borrowers in the Cambodian MFIs



Note: The figure shows the number of MFI borrowers by districts.  
 Source: CMA-NIX

Figure 2: Geographical coverage of the Cambodian MFIs



Note: The figure shows the number of MFI borrowers by districts.  
Source: CMA-NIX

other NGOs also started to obtain MFI licenses. In 2004, the Cambodia Microfinance Association (CMA) was created by seven of the largest MFIs; it subsequently took on the role of coordinating the operations of MFIs.<sup>2</sup>

In 2007, the NBC started to issue licenses for deposit-taking microfinance institutions, which allowed for the receiving of deposits from the public (Aiba and Lam, 2019). Seven MFIs obtained licenses to receive deposits, and expanded their operation by taking advantage of cheap funds as deposits. The emergence of these deposit-taking microfinance institutions helped to develop the microfinance market.

At the same time as MFIs started expanding, national reforms to the country's property system, codified in the 2001 Land Law, defined the legal parameters within which borrowers are able to offer movable and immovable forms of property as collateral for a loan (Green, 2020). Lending by MFIs expanded throughout the country as the government launched a program for land registration, known as systematic and voluntary land registration, to formalize the property right of land in rural areas. Thus, lending by commercial banks and MFIs usually takes the form of loans with land titles as collateral; this is one of the unique features of the Cambodian microfinance sector (Bateman, 2020).

The development of the Cambodian microfinance sector in the 2010s was also assisted by large capital inflows. According to Reille et al. (2011), Cambodia is the fourth largest destination of international debt in the MFI sector, and one fourth of the international debt for Cambodian MFIs is from private lenders. Aiba and Lam (2019) also investigated the recent debt trends in Cambodian

<sup>2</sup>For the detail of the history of the microfinance sector development, see Aiba et al. (2021) and Green (2020).

MFIs using data from the MIX Market. They show that the borrowings of large MFIs are in large part financed from abroad. Moreover, FDI flows into MFIs were also prominent in the same period. In 2015, FDI flows totaling 514.65 billion USD entered the Cambodian financial sector, which is approximately one third of total FDI flows (1,822.80 billion USD). One third of all FDI flows into the Cambodian financial sector are used for investment in MFIs.

In recent years, capital inflow into the sector has remained significant, while there were also an increasing number of acquisition cases in the Cambodian microfinance sector. Table 1 presents the number of acquisition cases by years.<sup>3</sup> We collected information on mergers and acquisition cases based on the annual reports and websites of each MFI, local newspapers, and the websites of the Cambodian Microfinance Association. Most acquisitions were cross-border deals by foreign financial institutions, and ownership was transited from microfinance investment vehicles to commercial banks. For example, Sathapana Microfinance was established in the 2000s and was one of the largest MFIs in Cambodia. DWM funds and FMO, which are microfinance investment vehicles, were the largest shareholders in the MFI. However, in 2012, Sathapana Microfinance was acquired by the Maruhan Japan Bank, a Japanese-owned commercial bank. In 2016, Sathapana Microfinance was merged with Maruhan Japan Bank and transformed into a commercial bank. Similarly, in 2018, AMK was acquired by the Shanghai Commercial & Savings Bank, which is currently based in Taiwan. AMK's major shareholders were Agora Microfinance N.V. and Incofin IM's Rural Impulse Fund II, which are both microfinance investment vehicles. In 2017, the Bank of East Asia (Hongkong) and Sri Lanka's LOLC jointly acquired a majority stake in Prasac Microfinance, Cambodia's largest MFI. In 2018, SAMIC Microfinance was acquired by NongHyup Bank in South Korea and changed its name to NongHyup Finance. Vision Fund International had the largest share in Vision Fund Microfinance. In 2018, Vision Fund sold its shares to Woori Bank, one of the largest commercial banks in Korea.

As argued by [Vanroose and D'Espallier \(2013\)](#), the outreach and operations of MFIs were determined by the development of traditional financial institutions, such as commercial banks. The lower the development of traditional financial institutions, MFIs are more likely to be outreach-oriented and have larger operation. In the case of Cambodia, the traditional banking sector was underdeveloped when NBC started to promote the commercialization of MFIs ([Aiba and Okuda, 2020](#)). In recent years, most of the individual loans have been disbursed by MFIs, meaning that Cambodian MFIs have a significant share in the retail banking sector ([Aiba et al., 2021](#)). Thus, cross-border M&A is often aimed at gaining a large customer base and entering the Cambodian finance market.

The major challenges for Cambodian MFIs are the exclusion of the poorest of the population from the primary targets of the institutions, difficulty in reaching the poorest of the poor in the remote rural areas, the high competitive interest rates offered by the Cambodian MFIs, managing risks in their

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<sup>3</sup>For detail of each acquisition case, see Appendix Table 1.

Table 1: Acquisition Cases By Years(2010-2019)

Year	Number of acquisition cases	As percentage of all the acquisition cases
2012	1	3.85
2014	2	3.85
2015	1	7.69
2016	5	26.92
2017	5	23.08
2018	6	23.08
2019	2	7.69

Source: Annual reports, websites of MFIs, and local newspapers

operations, and the rapidly increasing multiple loans taken out by borrowers (Tahir and Tahrir, 2015). Acquisition may help MFIs improve their operations through the achievement of economies of scale and scope, and by consolidating planning and management information and financial administration systems. However, the recent M&A cases have mainly been cross-border actions aimed at entry into the Cambodian financial market. Thus, there are concerns about mission drift caused by changes in board structure and management schemes, and inefficiency due to cultural differences.

## 4 Empirical Methodology

### 4.1 Empirical Model

Using MFI-district pair-wise data spanning from the first quarter of 2012 to the fourth quarter of 2019, we adopt a difference-in-differences methodology to estimate the effects of the acquisition cases.

$$y_{ijt} = \alpha + \sum_{k=-6}^{-1} \beta_k \times treat_{ik} + \sum_{k=0}^5 \beta_k \times treat_{ik} + \gamma X_{it} + \mu_{ij} + \nu_t + \epsilon_{ijt} \quad (1)$$

where  $y_{ijt}$  represents MFI  $i$ 's outcome variable at district  $j$  in period  $t$ .  $treat_{ik}$  is a dummy variable taking one if the period relative to the first treated period is the same value as  $k$  or 0 otherwise; it also takes 0 for all never-treated groups. Estimation is performed with standard errors clustered at a district level. In the estimation, we include fixed effects at the MFI-district-pair level,  $\mu_{ij}$ . In addition, we capture a time fixed effect,  $\nu_t$ .  $\epsilon_{ijt}$  is a disturbance term, where we assume that there is serial correlation at cluster level. We define the cluster at MFI level and calculate the cluster-robust standard

errors for the calculation of confidence interval. To confirm whether the data supports the parallel trends assumption in difference-in-differences estimation, we also examine whether the control and treated groups have statistically the same trends before treatment. The coefficients  $\beta_k$  for  $k < 0$  capture the trends relating to the differences between the treatment and control groups before the treatment.

However, these acquisition events occurred at various points throughout the study period, necessitating adjustments in our analytical approach to deal with heterogeneous effects in the timing of treatment as discussed by [Goodman-Bacon \(2021\)](#). Previous research has highlighted the possible biases that might arise when using a standard two-way fixed effects (TWFE) regression estimator in situations with staggered implementation. These studies point out the need for caution and careful analysis when applying TWFE methods to such setups. To circumvent the problems of heterogeneous effects in the timing of treatment, we adopt the approach proposed by [Callaway and Sant'Anna \(2021\)](#).<sup>4</sup> In addition, the granularity of quarterly data results in a reduced number of cohorts. Consequently, to address this limitation and streamline the analysis, we have aggregated the data on an annual basis.

We further examine differences in impacts of the acquisition cases between urban and rural areas. The acquisition cases could drive MFIs from a poverty alleviation mission, and concentrate loan provision to developed areas. To examine those changes in MFI lending behavior, We apply above-mentioned robust difference-in-differences approach to sub-sample of urban and rural areas, respectively. For the definition of urban or rural areas, we categorize each district into urban and rural areas based on the definition of National Institute of Statistics, Cambodia.

Lastly, given that loan amounts, and number of borrowers across districts and MFIs seem to follow exponential distributions, We use log-transformation of the dependent variables as  $\log(y_{ijt})$ , instead of  $\log(y_{ijt} + 1)$ . Since our dataset have a lot of zeros in variables, as the operation areas are different from MFI to MFI. [Mullahy and Norton \(2022\)](#) suggests that transformation including zeros would cause biases in the estimation. Thus, we treat the zero values in dependent variables as missing values.

## 4.2 Data and Variables

For the estimation, we constructed the dataset from three sources. Firstly, the data relating to MFI lending is extracted from the CMA-NIX database. Secondly, the data representing the MFI's financial condition is extracted from the NBC Supervision Annual Report. Thirdly, we collected data

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<sup>4</sup>We applied `did` packages in R for estimation.

on mergers and acquisitions in the Cambodian MFI sector from the website of each MFI and from local newspapers. The summary statistics of variables used for the regression analysis are presented in Table 2.

MFI's lending data are available at the MFI-district pair level from the CMA-NIX database on a quarterly basis. From this database, we construct a panel dataset at MFI-district-pair level.<sup>5</sup> Since there were new MFI entries and exits during the study period, our dataset is an unbalanced panel structure. The dataset includes variables representing MFI lending behavior in terms of the loan amount, total number of borrowers, loan size (the loan amount divided by total number of borrowers), and the ratio of female borrowers to the total number of borrowers. The dataset also includes the number of staff and the amount of PAR30.<sup>6</sup> The variables have variation across the 194 districts and across the 80 MFIs from 2012Q4 to 2019Q4. To examine the impact of acquisitions on financial access, we created a bi-variate variable of financial access for each MFI-district pair observation. The variable takes one if there were more than 50 borrowers in the the district  $j$  for MFI  $i$  in the period  $t$ , and capture whether an MFI actively operated in the district.

We also employ data from the NBC Supervisory Annual Report which contains variables on income statements and balance sheets for each MFI. From this data source, we extract variables relating to MFI's financial conditions, such as capital ratio, funding prices, and cash-to-asset ratios.

The treatment variable represents cases of MFI acquisitions. We create a dummy variable taking a value of 1 for MFIs if their shares are acquired by other shareholders, based on information from MFI websites and annual reports. Again, the summary of acquisition cases is presented in Table 1. Previous studies of foreign acquisition have often used the dummy variable approach to approximate the changes in ownership structure by using changes in foreign shares [Claessens and Van Horen \(2014\)](#). For example, dummies take one if foreign shares exceed 50%, and changes in the dummy are treated as significant changes in ownership through acquisition. However, for MFIs, large shares are initially owned by foreign international organizations and other institutional and individual investors. Thus, the changes in ownership are difficult to measure using the dummy of foreign ownership in our study.

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<sup>5</sup>In 2014, Kampong Cham Province was divided into two provinces, and the district codes changed for the new province. To construct panel data consistently before and after the division of the province, we modified the district codes before 2014 to align with the new ones.

<sup>6</sup>PAR30 is the abbreviation of "portfolio at risk > 30 days", indicating the outstanding balance of all loans with arrears over 30 days by the outstanding gross loan portfolio.



Table 2: Descriptive statistics of variable used for regression

Variable	Unit of Observations	Number of Observations	Mean	Standard Deviation
Amount of Loans (Millions of USD)	MFI-District	24,493	1.08	2.70
Number of Borrowers	MFI-District	24,300	527.95	831.69
Average Loan Size (Millions of USD)	MFI-District	24,544	0.005	0.014
Total Number of Staff	MFI-District	6,443	22.88	39.63
Amount of Loans (Log.)	MFI-District	23,923	-1.92	2.38
Number of Borrowers (Log.)	MFI-District	24,300	4.27	2.61
Average Loan Size (Log.)	MFI-District	23,912	-6.27	1.31
Total Number of Staff (Log.)	MFI-District	6,443	2.53	1.03
Ratio of Female Borrowers	MFI-District	24,544	0.60	0.32
Productivity (#Borrower/#Staff)	MFI-District	6,511	85.31	109.53
Lending Operation Dummy	MFI-District	24,544	0.59	0.49
Funding Price (Interest Expense/(Borrowings + Deposits))	MFI	22,305	0.15	1.24
Capital Ratio (Equity/Total Asset)	MFI	22,275	0.31	0.23
Liquidity Ratio (Liquid Asset/Total Asset)	MFI	22,275	0.14	0.10

**Source:** Cambodian Microfinance Association Network Information Exchange (CMA-NIX). Data is from 2012 to 2019 on yearly basis.

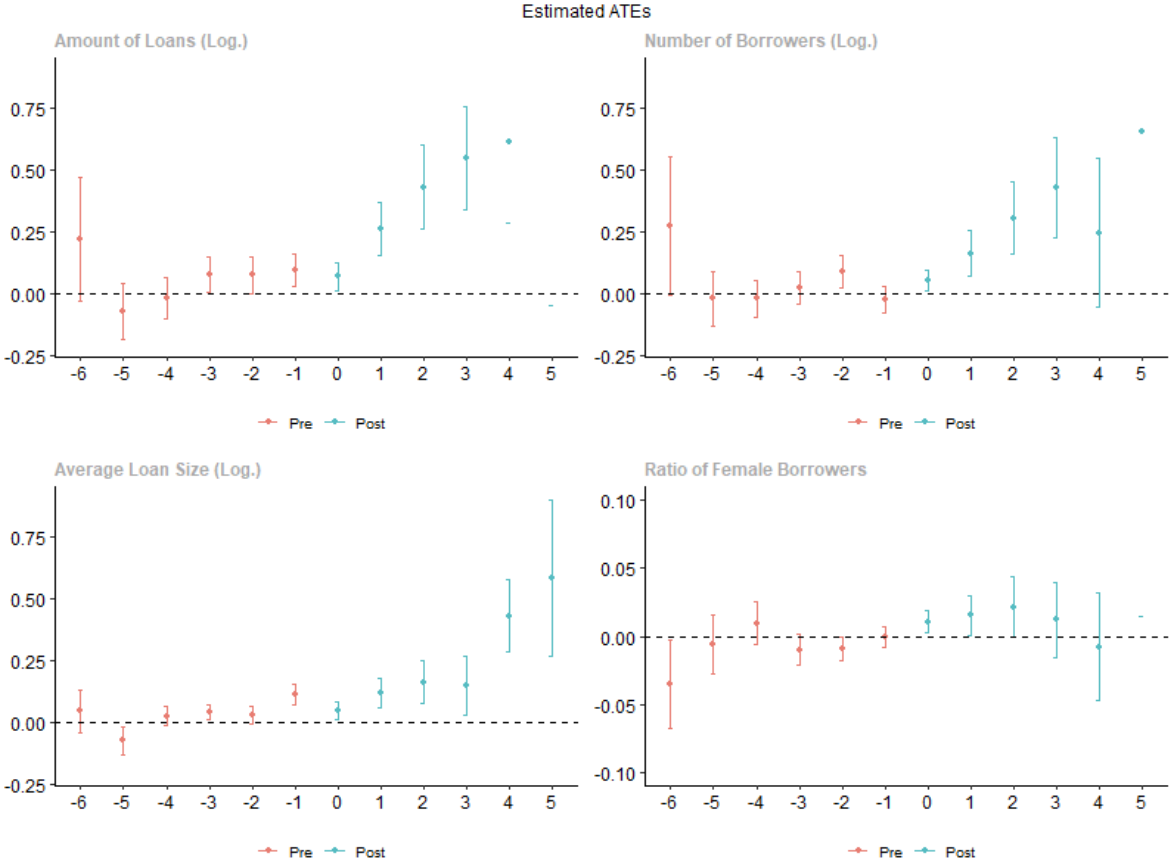
## 5 Empirical Results

Figure 3 and 4 present the results of the estimation. We adopted the robust difference-in-differences approach proposed by Callaway and Sant’Anna (2021). The estimated ATEs over the periods of exposure to treatment are presented in both figures. Although there is a difference in outcome variables before the event year, the results support the parallel trends between treatment and control groups before the acquisition, for most of the outcome variables in the estimation. Those results suggest that the increases and decreases in the outcome variables after the acquisition may represent the causal effect of the acquisition of MFIs.

We found significant enhancement in the lending measures post-acquisition, including the total loan volume, the number of borrowers, and the average loan size, as illustrated in Figure 3. Specifically, the Average Treatment Effect (ATE) for the total loan volume indicated an approximate 50% augmentation three years subsequent to the acquisition. Regarding the average loan size, the ATE suggested an approximately 40% increment four years following the acquisition. Additionally, we observed an uptick in the number of borrowers post-acquisition, with the ATE revealing an estimated 30-40% increase three years post-acquisition. These findings imply that the acquisition contributed to expanding the lending operations of MFIs.

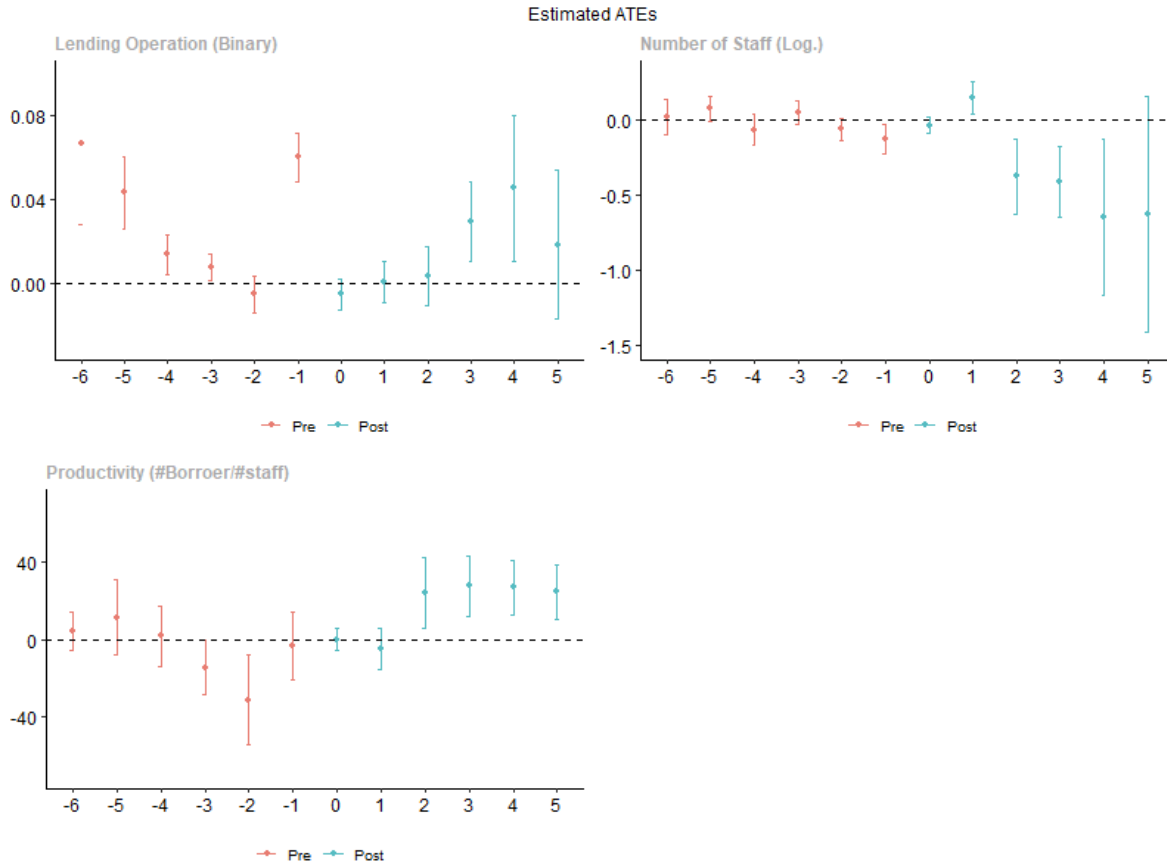
The study also found that the acquired MFIs decreased the number of staff per district (Figure 4). and the labor productivity per district increased after the acquisition cases. These results suggest that MFIs increased their operational efficiency after acquisition but the time and costs per borrower were reduced after MFIs were acquired. Regarding the number of areas of lending operation, there was a strong pre-trend in the estimated results. Thus, the causal impact is not supported by our results, although the areas of lending operation did increase for acquired MFIs compared to non-acquired MFIs.

Figure 3: Estimated ATE Effects with the Full Sample Estimation



**Note:** The figure shows the estimated ATEs over the periods of exposure to treatment. We adopted the robust difference-in-differences approach proposed by Callaway and Sant’Anna (2021). The data is used for the estimation is spanned from 2012 to 2019 on an annual basis. The data has variation at institution level, district-level, and time-level, respectively. Estimation is performed with standard errors clustered at a MFI level.

Figure 4: Estimated ATE Effects with the Full Sample Estimation



**Note:** The figure shows the estimated ATEs over the periods of exposure to treatment. We adopted the robust difference-in-differences approach proposed by [Callaway and Sant'Anna \(2021\)](#). The data is used for the estimation is spanned from 2012 to 2019 on an annual basis. The data has variation at institution level, district-level, and time-level, respectively. Estimation is performed with standard errors clustered at a MFI level.

We further investigated the impact of acquisition on the geographical outreach of MFI lending. To do this, we applied the difference-in-differences approach with a sub-sample of urban and rural areas. Figure 5, 6 and 7 present the estimated ATEs over the years of exposure to treatment.

In Figure 5, we found that there were positive impacts of acquisition on amount of loans in both urban and rural areas. In both areas, the amount of loans significantly increased after the acquisition cases. However, for average size of loans, the increases are more pronounced in the rural areas compared to urban areas. In urban areas, the ATEs were not large until 4 years after the acquisition,

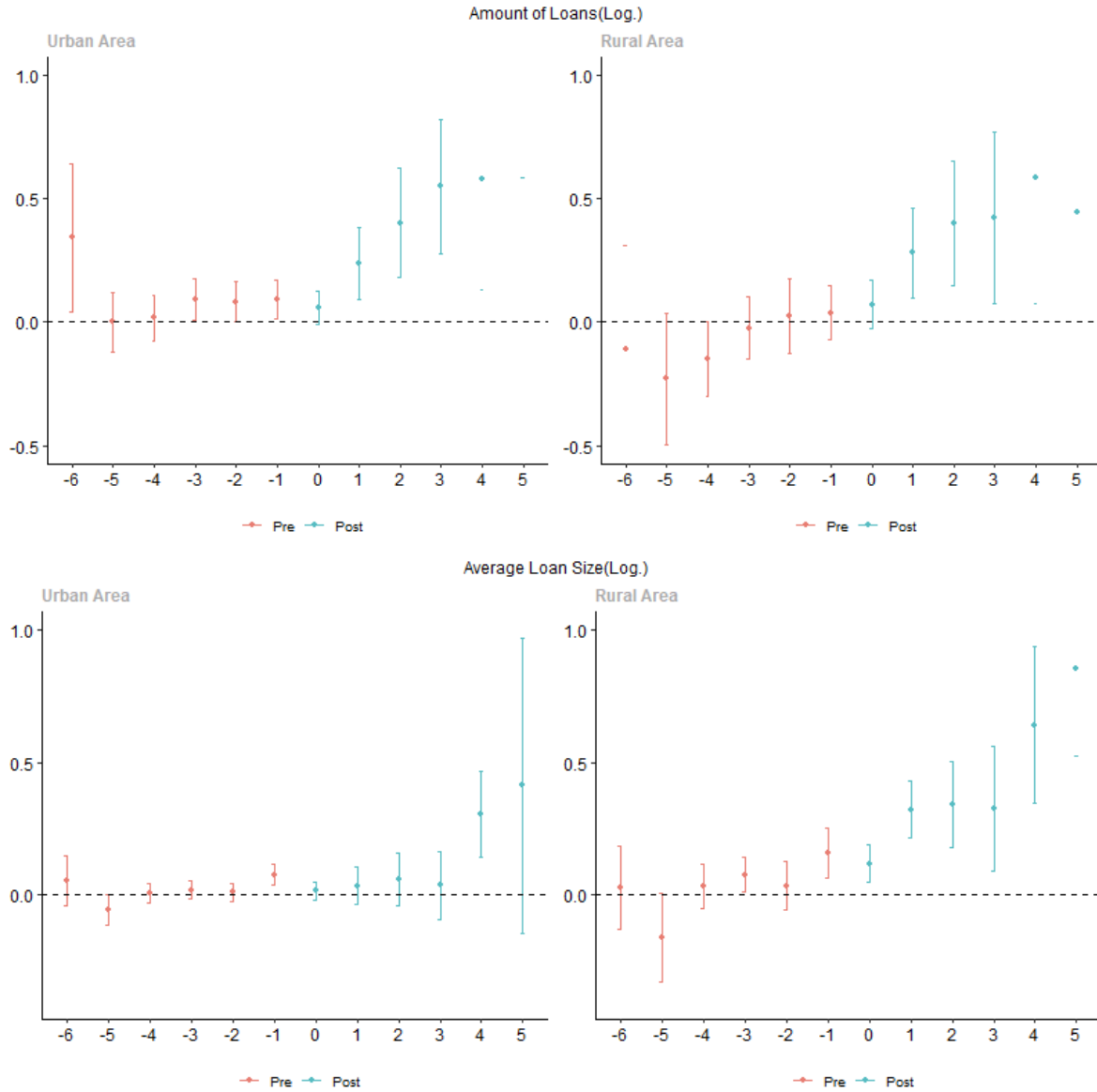
while the ATEs were significantly pronounced as large size 1 year after the acquisition cases.

Looking at the number of borrowers in Figure 6, the statistical significance was only found in urban areas; the results suggest that the acquired MFIs increased their number of borrowers by 50% three years following acquisition. In Figure 7, we also found that the number of areas of lending operation slightly increased after acquisition, while there was a tendency that the number of areas of lending operation decreased in rural areas. For the number of staff and labor productivity, we found that there were similar trends in both urban and rural areas. Those results might suggest that MFIs also changed their operational structures and lending policies related to risk assessment after acquisition.

The findings pertaining to gender inclusion in finance were inconclusive. In urban areas, there was statistical significance in the increase of the proportion of female borrowers one to three years following acquisition. However, the increases were trivial and there is still concern of violation of parallel trend assumption.

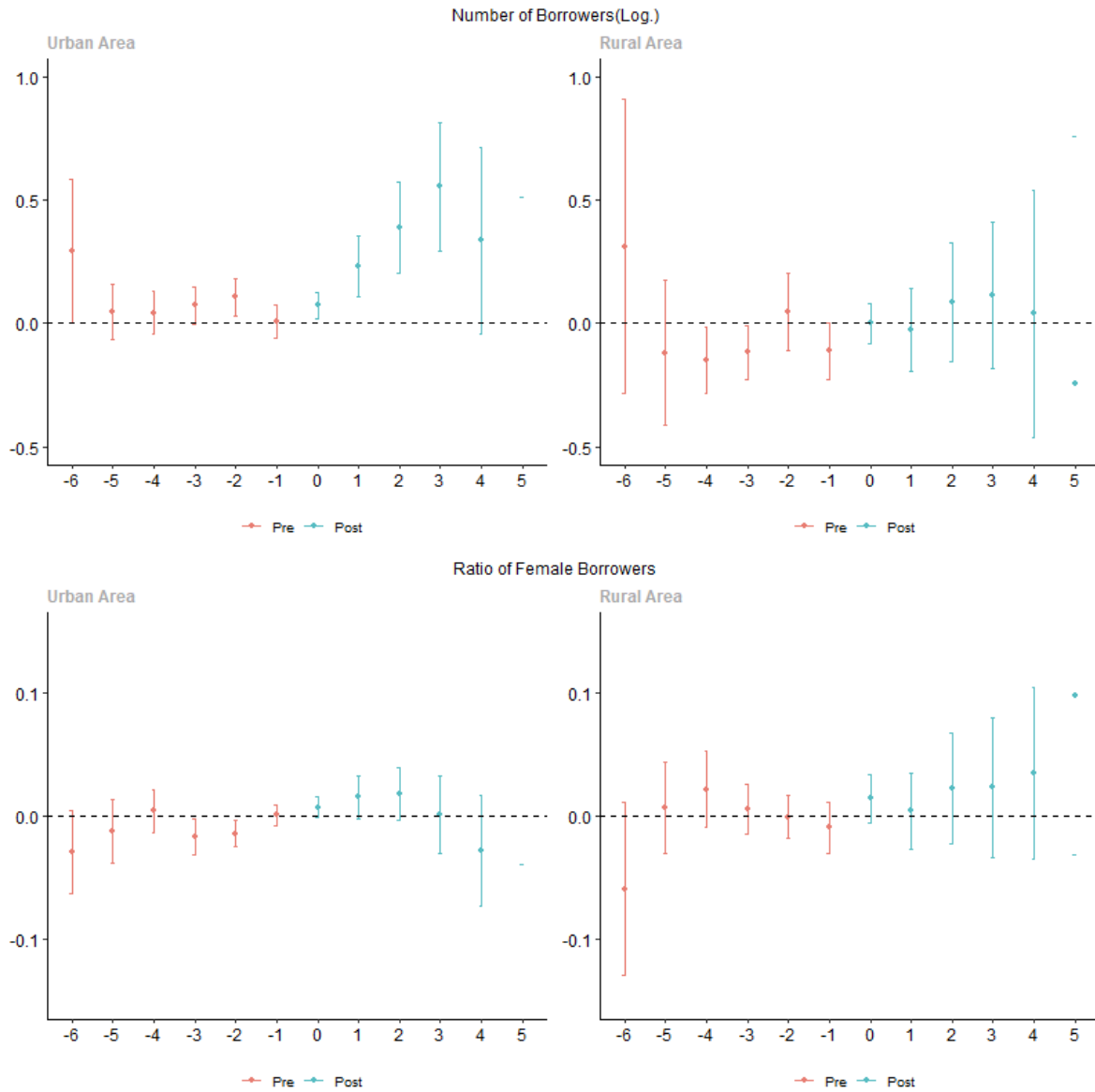
Overall, the results of the sub-sample analyses indicate that acquired MFIs began to increase their customer bases in rural areas after acquisition. In addition, the evidence also showed that MFIs tend to reduce costs in lending operations after acquisition, as the average loan size and the number of borrowers per staff member increased after the operation.

Figure 5: Sub-sample estimation for urban and rural areas



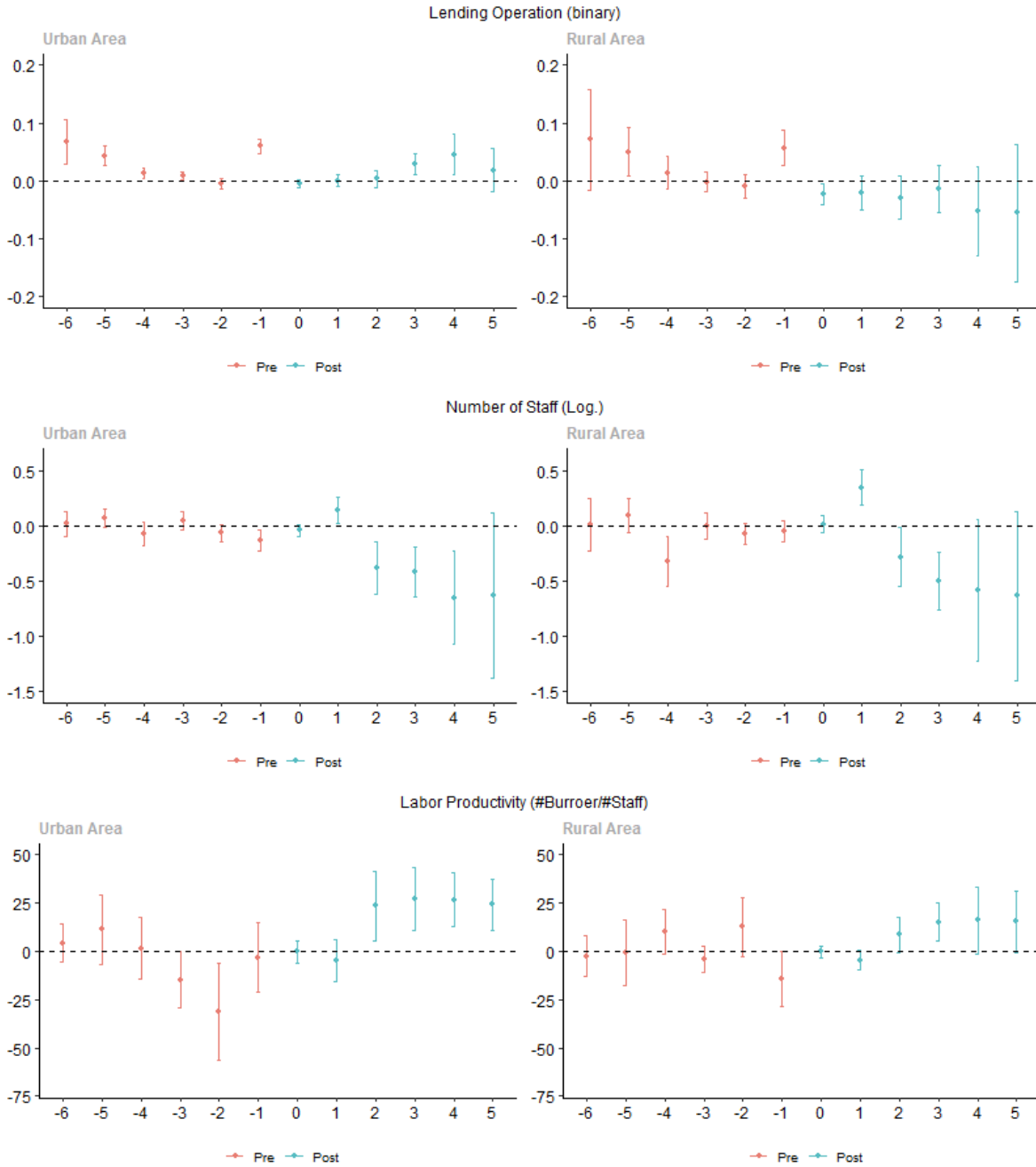
**Note:** The figure shows the estimated ATEs over the periods of exposure to treatment. We adopted the robust difference-in-differences approach proposed by [Callaway and Sant'Anna \(2021\)](#). The data is used for the estimation is spanned from 2012 to 2019 on an annual basis. The data has variation at institution level, district-level, and time-level, respectively. Estimation is performed with standard errors clustered at a MFI level

Figure 6: Sub-sample estimation for urban and rural areas



**Note:** The figure shows the estimated ATEs over the periods of exposure to treatment. We adopted the robust difference-in-differences approach proposed by [Callaway and Sant'Anna \(2021\)](#). The data is used for the estimation is spanned from 2012 to 2019 on an annual basis. The data has variation at institution level, district-level, and time-level, respectively. Estimation is performed with standard errors clustered at a MFI level

Figure 7: Sub-sample estimation for urban and rural areas



**Note:** The figure shows the estimated ATEs over the periods of exposure to treatment. We adopted the robust difference-in-differences approach proposed by [Callaway and Sant'Anna \(2021\)](#). The data is used for the estimation is spanned from 2012 to 2019 on an annual basis. The data has variation at institution level, district-level, and time-level, respectively. Estimation is performed with standard errors clustered at a MFI level

## 6 Conclusion

Development patterns and the roles of microfinance institutions are different from country to country, and MFIs sometimes cover retail lending, which traditional financial institutions usually take over (Aiba and Okuda, 2020). Thus, MFIs are often targeted for acquisition by large domestic and foreign commercial banks who wish to enter the local market or diversify their income sources. However, there has not been a study aimed at estimating the impact of recent cases of MFI acquisition on their lending behavior in terms of financial inclusion. The current study contributes to the literature on MFIs and financial inclusion, by providing empirical analysis using granular data of MFI lending at MFI-district pair.

The study finds that the recent acquisition of MFIs in Cambodia contributed to increases in loan portfolios, especially an increase in the size of loans and the number of borrowers. In addition, we find that acquired MFIs increased their average loan size per borrower in less developed areas and started concentrating the number of borrowers in relatively developed areas. Furthermore, we found evidence that acquired MFIs increase their operational efficiency by increasing the number of borrowers per staff member and decreasing the number of staff per operation area. These results support the view that acquisition causes mission drift in MFIs possibly as a result of changes in ownership and organizational structure, which could lead to decreases in the outreach of the microfinance sector overall. Therefore, it is necessary to regulate the inflow of capital to MFIs and reinforce their commitment to poverty alleviation goals through focused lending practices targeting the economically disadvantaged.

It should be noted that there are limitations to our analysis. Firstly, treatments of acquisition could not be random. There is a tendency that larger MFIs attract investment from commercial lenders. In addition, the timing of the acquisition cases is concentrated in the period 2017 to 2018. Thus, there is potentially bias in ATE. Secondly, we cannot rule out the possibility of biases from potential confounding factors, such as the impact of regulatory changes in the study period, such as changes in capital requirements and interest rate caps. Lastly, data only has variation across MFI-district-pair levels. Thus, the changes in the composition of loan portfolios within districts cannot be captured by our data. Future studies need to address these issues.



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## Appendix 1. List of Mergers and Acquisitions of MFI in Cambodia

Name of MFI	Description	Period
Amret Microfinance	International Finance Corporation acquired 19.99% of equity in 2015. Other shareholders are Advans SA SICAR (52.78%), (19.99%), Dutch Development Bank (FMO 19.99%), La Fayette Partipations (4.06%), and Botta (3.17%)	2015Q1
AMK Microfinance	The Shanghai Commercial & Savings Bank, Ltd. (SCSB), Agora Microfinance N.V. (AMNV), and AMK Staff Association (AMK-SA)	2018Q3
Atom Capital Microfinance Institution	A Japanese businessman has acquired a majority stake of Cambodian MFI, Farmer Union Development Fund (FUDF) . He renamed the MFI as Atom Capital Microfinance Institution.	2016Q3
Cellcard Finance	Taiwanese financial firm Chailease Holding announced on Thursday that it has inked a deal to acquire a 60 per cent stake in the Royal Group-owned microfinance firm Cellcard Finance, according to the Taipei Times.	2018Q3
Chamroeun Microfinance	ReNet Japan Group purchased 90 percent of shares of Chamroeun Microfinace	2018Q4
Chokchey	TaiwHanshin Engineering and Construction Co., Ltd (51%), Plus International Co., Ltd. (49%)	2017Q3
Farmer Finance	No detail	2017Q1
Funan	Cambodia Post Bank purchased the full shareholding of local microlender Funan Microfinance for 12 million USD.	2017Q2
Futaba Microfinace Plc. (Futaba)	In June 2016, AZUMA & Co., Ltd., has become a shareholder of FUTABA Microfinance Plc (100% share)	2016Q3
Hattha Kaksekar Limited (HKL)	Bank of Ayudhya Public Company Limited, a member of Mitsubishi UFJ Financial Group, acquired 100% share of HKL in 2016.	2016Q3
Kredit Microfinance	As of Dec 2013, KREDIT has 2 shareholders: Phillip Capital Group (International based in Singapore with 67%) and World Relief Corporation (33%)	2019Q3
LY HOUR Microfinance Institution Plc.	In 2019 SBI Holdings Inc. acquired a 70 per cent stake from Ly Hour, chairman of Ly Hour Group, for USD44.2 million.	2019Q3
Maxima Microfinance	Current shareholders after conversion in March 2015 include: Gojo & Company Inc., represented by Mr. Taejun Shin (Japanese company 61.63%), Mr. An Bunhak (19.63%), Mrs. Sreng Sivechheng (8.44%), Ms. Sarun Vithourat (8.24%), Mr. Chet Chanprasoeur (1.08%), Mr. Pa Ponnak Rithy (0.86%), and MAXIMA Employees (0.12%), represented by Mr. Pa Ponnak Rithy	2014Q3
NongHyup Finance	Samic Microfinance, an institution that was worth 17.3 million USD last year, has sold its entire operations to South Korea-based NongHyup Bank for an undisclosed amount.	2018Q3

Source: Annual reports, websites of MFIs, and local newspapers

### Appendix 1. List of Mergers and Acquisitions of MFI in Cambodia (Con't)

Name of MFI	Description	Year and Quarter
Prasac	LOLC International Private Limited (a wholly-owned subsidiary of Lanka ORIX Leasing Company Plc (“LOLC”)) and The Bank of East Asia, Limited (“BEA”) announced today that they have acquired a majority interest in PRASAC Microfinance Institution Limited (“PRASAC”) from Belgian Investment Company for Developing Countries SA (“BIO”), Dragon Capital Group Limited (“Dragon Capital”) and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (“FMO”). Under the new ownership structure, the LOLC Group’s stake in PRASAC increases to 70%, while BEA holds 21% and 9% is held by P S Co., Ltd.	2017Q1
Sathapana Microfinance	DWM funds and FMO were the major shareholders of Sathapana Microfinance. However, in December 2012, Sathapana Microfinance was acquired by Maruhan Japan Bank. In April 2016, Sathapana Microfinance was merged with Maruhan Japan Bank, and transformed into a commercial bank.	2012Q4
Sunny Microfinance	Apple Microfinance changed its name to Sunny Microfinance Plc., following the acquisition by Sunny Bank Co., Ltd, a bank incorporated in Taiwan	2018Q4
WB Financ	Vision Fund International had a largest share of Vision Fund Microfinance. In 2018, Vision Fund sold its shares to Woori Bank, which is one of the largest commercial banks in Korea.	2018Q2
Welcome Finance	Secured foreign capital from Templeton and AFC, investment from Hungkuk. Welcome Finance (Cambodia) Plc. (“WFC”) is a financial institution that was transformed from Green Central Micro Finance and was approved by the NBC on 25 October 2016, and Welcome Creditline Corporation is the main Korean Shareholder with 100% shares.	2016Q4
Woori	South Korea-based Woori Bank has purchased Cambodian microfinance institution “Malis Finance” for 4.9 million USD.	2014Q2

Source: Annual reports, websites of MFIs, and local newspapers

## Abstract in Japanese

### 要 約

近年、発展が顕著なマイクロファイナンスセクターでは多くの資本投資が集まっており、それに伴い国内外の商業銀行を始めとした民間投資機関によるマイクロファイナンス機関 (MFIs) の買収が多く発生している。本研究では、カンボジアの MFI の買収状況を調査し、近年の買収が MFI の貸出行動に与える影響を分析した。分析では、カンボジアの MFI 貸出に関するデータを MFI-地区レベルの粒度で収集し、差と差の分析 (Difference-in-differences analysis) を用いて買収の影響を推定した。分析の結果、買収された MFI の貸出ポートフォリオは買収されていない MFI に比べ増加する傾向にあることがわかった。また、買収された MFI の貸出が農村地域から都市地域へとシフトする傾向にあることも示された。つまり、買収を通じて所有構造や組織構造が変化し、MFI の本来の目的である貧困向け貸出の割合が縮小した可能性があることが考えられる。本研究の結果から、MFI を通じての貧困層貸出の持続可能性を確保するためには、より公的あるいは社会性志向の高い投資機関による投資が促進されていく必要があると考えられる。

**キーワード：**マイクロファイナンス機関、金融包摂、SDGs 投資、資本流入、カンボジア