



CASE STUDY FINANCIAL SERVICES

# AMRET MICROFINANCE INSTITUTION



អំពាវនាវ ប្រតិបត្តិការ ក្នុងតំបន់  
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# AMRET MICROFINANCE INSTITUTION

**Region:** Cambodia

**Sector:** Access to Finance

**Year of investment:** 2017

**SIFEM investment:** USD 8.4 million

**Amret employment:** 3,979 employees

**Amret branches:** 156 branches across all 25 provinces

**Amret clients:** 400,000 clients

> [www.amret.com.kh](http://www.amret.com.kh)



គ្រឹះស្ថានមីក្រូហិរញ្ញវត្ថុ "អម្រែត"  
Microfinance Institution "Amret"



**2017**  
Investment Year



**USD 8.4 million**  
SIFEM Investment into Amret



**3,979**  
Employees



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# MEETING AMRET

Amret Microfinance Institute had its beginning in 1991 when a French NGO piloted a credit project, seeking to test the possibilities of microcredit for the low-income and rural population in Cambodia. During its first years, the political environment was still unstable, and the underdeveloped road infrastructure created difficulties in physically reaching most of the population, particularly during the rainy season – a challenge still existing today albeit to a lesser extent.

In 2001, Amret obtained the first microfinance institution license in Cambodia, followed by the license to collect deposits in 2009, soon after the respective legislation was introduced in Cambodia. This not only allowed Amret to offer its clients the possibility to save formally, but also increased its local credit supply. Amret currently has 400,000 clients (both depositors and borrowers) - served by 156 branches in all 25 provinces - and is targeting to reach 450,000 by the end of 2018.

Amret is a subsidiary of the Advans Group, an international microfinance group focused on building strong and financially-inclusive financial institutions. In 2008, Advans became a lead shareholder of Amret, which benefitted the institution by giving it access to the resources of the group, assisting Amret in improving its efficiency as well as providing employee training and capacity building.

Small loans constitute the majority of Amret's loan portfolio, signifying accessibility to lower-income people. This and a client base inclusive of female and rural clients demonstrates Amret's commitment to financial inclusion in Cambodia. SIFEM provided a USD 8.4 million loan to Amret in 2017, as part of a syndicated transaction led by the Dutch DFI, with the aim to support Amret in further expanding its portfolio and promoting its financial inclusion agenda.



« Amret is playing an important role for the Cambodian people, especially those with low incomes in rural areas. Without us they wouldn't have access to financial services, but through us they can obtain the means to generate their own income. »

– Chea Phalarin, Amret CEO

« It was my first experience to take a loan but Amret explained the process clearly to me. I have repaid my first loan and I am now also able to save money for my family's future. My children will be able to attend university if they wish. »

AMRET CLIENT STORY



## A FIRST EXPERIENCE WITH A FINANCIAL INSTITUTION

Channy lives in a rural area of the Phnom Penh province together with her husband and their two children. A couple of years ago, her brother suggested that she contact Amret to present her business idea – to construct an apartment building at the back of her property to rent rooms to garment workers who worked in the factories nearby. It was Channy's first experience with a formal financial institution – she had never taken a loan before – but her business has been successful, and she has already paid off her loan to Amret. She has now taken a second loan with Amret to build and rent a warehouse in her village.





# THE SITUATION IN CAMBODIA

- **The deliberate support of the financial sector has been a key driver in the development of Cambodia.** When Cambodia reopened to the outside world in the early 1990s, the government was determined to rebuild the financial sector and develop the economy via a market-driven approach. It is one of South East Asia's fastest growing economies: the GNI per capita has grown from USD 250 in 1995 to USD 1,230 in 2017, and the World Bank forecasts 6.9% economic growth in 2018.
- **Cambodia's population surpassed 16 million in 2017, with a national poverty rate of 13.5%.** The poverty rate has dramatically decreased in the last 10 years, but the majority of people have only escaped poverty by a small margin, meaning that they are highly vulnerable to falling back into poverty. This is especially the case for the rural population, which comprise 80% of Cambodia's total population.
- **As of 2017, more than 20% of the population has a formal financial account, either via a bank or microfinance institution, compared to 3.7% in 2011, according to World**

**Bank data.** This financial inclusion ratio could be as high as 50% according to national sources, which use a broader definition. The remaining population needs to instead use informal services to transfer money, grow their business, or cover unexpected expenses, making them vulnerable to inflated pricing and interest rates. In addition, informal financial sector clients are less likely to have access to valuable financial education to know how to protect against over-indebtedness or save on a regular basis for longer-term prospects.

- **The comparably short history of its modern financial sector and the rapid growth experienced creates unique challenges for Cambodia.** Although the financial sector is now relatively mature, financial institutions need to ensure that financial products and services are available for the rural and low-income populations, in a manner and at a price which is appropriate and affordable to encourage sustainable development and grow the public's confidence in the sector.



# DEVELOPMENT EFFECTS IN A NUTSHELL

- **Since its beginning, Amret's mission has been to increase financial inclusion in Cambodia.** The characteristics of this population has changed over time, but the inclusive nature of Amret has not. 74% of Amret's total loans are classified as micro loans, 72% of borrowers are women, and 91% of clients are located in rural areas. 88% of Amret's branches are located outside of Phnom Penh.
- **Amret targets financial inclusion by offering localized financial products and services that are specifically designed to reach out to low-income populations.** Examples of these include a mobile service by motorbike, agriculture loans with terms set for this specific sector, and financial literacy and agriculture training.
- **In line with true financial inclusion, Amret is committed to protecting its clients against over-indebtedness by delivering only suitable financial products and services and providing financial literacy education.** In 2016, Amret became Client Protection Certified as part of the Smart Campaign. This certification is delivered based on an external evaluation of the proper implementation of the Client Protection Principles in the applicant's business practices.
- **With Cambodia being a burgeoning market, Amret must be flexible and grow together with the financial operating environment, a task not without its challenges.** The need for digital products and services are increasing in this region, and Amret is working with a long-term view to ensure appropriate digital reach to its clients, including the low-income and rural clientele. Changing circumstances such as the recently introduced interest rate cap also contribute to complexities which Amret must face in its continued reach of the underserved.



# REACHING OUT TO THE UNDERSERVED



Amret is targeting the financial inclusion of those who are most likely to have been previously underserved in the formal financial sector, primarily rural and low-income clients (a majority of which are women), as well as micro, small, and medium business owners. Cambodia's unique history has contributed to its burgeoning financial sector, key to which are financial products and services that fit the need and demand of the population. Amret offers a number of innovative and localized financial products and services, designed to appropriately meet the needs of different segments of the population and contribute to making financial products and services more accessible.

## OVERCOMING GEOGRAPHICAL CONSTRAINTS

The 156 branches of Amret are spread across the country's 25 provinces, validating Amret's mission and vision for Cambodia, with its population of 80% of rural inhabitants (considered to be the population outside of the main cities of Phnom Penh, Siem Reap, and Battambang). Evidently, any sustainable improvement and development for Cambodia must benefit this segment of the population, which Amret directly serves with more than 400,000 clients, 90% of whom are rural.

Illustrative of the services tailored to its rural clients, Amret offers a Mobile Teller service, where Mobile Tellers travel by motorbike to villages to collect even very small deposit amounts (10,000 Riel/USD 2.50 per day) from rural clients. In 2017, almost 20,000 clients actively used this service, living too remotely to have easy access to a brick-and-mortar branch of Amret. This purposeful outreach by Amret encourages these rural clients to



save on a regular basis and includes them in the formal banking sector despite the challenges of the geographical context. Some of these villages are inaccessible during the rainy season and have been traditionally ignored by formal institutions. This service significantly extends Amret's reach to remote locations and opens the door for additional financial products and services in the future if required by the clients. This is particularly important for women, who constitute more than 70% of Amret's borrowing clients, and who may not be able to travel easily due their commitments at home, including looking after their children, parents, and home-based businesses.

## **SERVING THE AGRICULTURAL SECTOR**

Amret offers specific financial products and services for the agricultural sector. 30-40% of Amret's total loan portfolio is currently disbursed for agricultural purposes, including cropping, animal rearing, animal breeding, equipment and agricultural land, and agri-business. With approximately half of Cambodia's population working in the agricultural sector, this specific loan type is instrumental for the improved efficiency of the sector, as well as the enhancement of the agricultural capacity and living standards of the clients. Examples of these products and services include repayment options based on the seasonal cycle, or doorstep services for loan repayment of farmers who are too remote, too shy, or too busy to visit an Amret branch. Amret is determined to be known to the rural population for its support of the agriculture sector, backed by its ongoing partnership with the Ministry of Agriculture to provide crop- or business-specific agriculture training for approximately 1,000 of its farmers annually across all provinces.

## **MEETING THE NEEDS OF SMES**

As Cambodia becomes more integrated into the global economy, it becomes increasingly important for small and medium enterprises (SMEs) to obtain adequate access to finance for their growth. According to the Economic Census of Cambodia 2014, micro, small and medium enterprises (MSMEs) accounted for 99.8% of all enterprises in the country and employed about 72% of the total national labor force. The majority of these are micro businesses, often operating from the family home to supplement the household's income. These businesses operate for the most part in the informal economy, which makes it very difficult for those which wish to grow to access financial products from the formal banking sector. In the Cambodian context, insufficient financial records, weak accounting standards, lack of knowledge around the legal and regulatory environment, and absence of hard assets has allowed the SME segment to fall in the gap between the target clientele of the different financial services providers, not being formally served by either banks or Microfinance Institutions (MFIs). From an operational perspective, larger banks are not interested in working with SMEs to help them bring their standards to an acceptable level due to the risks still involved, while MFIs do not have the capacity.

Since 2015, Amret has begun to offer loan products more specific to SMEs, which they define as businesses taking a loan over USD 15,000. The path to receiving a formal loan is not always easy for SMEs – they often lack the financial statements and proper documentation needed to prove the soundness of their business model and the robustness of their financial track record. Often, they are also apprehensive of the administrative and operational burden it may entail to enter the formal sector. Although a relatively small part of its total loan portfolio (approximately 13% in 2017), Amret is supporting its SME clients on their formalization journey. Amret provides SME-related training to its own staff for support of this particular segment, including the specific risk management, legal environment, and monitoring needs. The SME clients benefit from Amret's financial advice and support to ensure the purpose of the loan contributes to the SME business targets appropriately.

In addition to financing and alongside the formalization assistance, Amret is working to provide a complete set of solutions for SMEs, tailored to their needs and the specific context of Cambodia as it gradually shifts from a cash-based economy to an electronic payment culture. For example, Amret has partnerships with third-party agents across the country to allow SMEs to access their accounts and make transactions, even in very remote areas. The expansion of service provision via the use of the agents has been very well received, and ensures Amret can meet the needs of SMEs, especially those operating in rural Cambodia.

# ENSURING CLIENT PROTECTION

As a microfinance institution targeting an underserved population, it is Amret's duty to ensure that the services and products provided are delivered in a manner which protects and supports their clients and is truly in line with the aim of financial inclusion. In 2016 Amret became Client Protection Certified, one of only 100 MFIs in the world to have done so, as part of the Smart Campaign which is an international movement committed to embedding client protection practices in the microfinance industry.<sup>1</sup> Amret's work in this area has been rigorous and is ongoing to ensure its practices are compliant and the principles are continually embedded in the development of its culture and operations.



## CLIENT PROTECTION PRINCIPLES

Ensuring client protection is still a relatively new concept in Cambodia, characteristic of a financial sector which is yet in earlier stages of development. The Cambodian Credit Bureau (CBC) was established in 2012 and provides a centralized system to help institutions manage risk and prevent over-indebtedness. Amret contributes to developing and maintaining the database underlying this system by monthly reporting client data to CBC. With the client's permission it is then able to use the same system to check the client's credit history and guarantor information, ensuring repayment ability. At the end of 2017, Amret's write-off ratio was 0.29%, and the non-performing loan (NPL)<sup>2</sup> ratio was 0.38%, which is much less than the reported NPL average of approximately 2% of the MFI sector as a whole. High levels of refinancing and clients acquiring multiple loans from multiple institutions have been a challenge for this sector in Cambodia in the past. As a result, Amret has introduced a number of new practices to protect its clients. These include systematically using the CBC system to check the history of each client prior to disbursing a loan and applying strict limits on the number of loans provided to each client, including those outstanding at other financial institutions. Such practices contribute towards preventing over-indebtedness and are part of Amret's commitment to the Client Protection Principles. Amret's further engagement includes provisions for appropriate product design and delivery, transparent communication and pricing, as well as respectful treatment of clients and their data, including offering the appropriate mechanisms for complaints resolution.

## MONITORING AND TRAINING

Amret staff will personally meet with all clients as part of the loan application process, and then pay regular monitoring visits, the frequency of which is determined by the loan type. For example, an Amret credit officer visits group loan participants on a monthly basis, whereas SME clients are visited on a quarterly basis. Financial guidance is offered to ensure clients have a distinct purpose for their loan and repayment options are clear. Specific financial literacy training is provided to those who are entering the formal financial system for the first time - approximately 1,000 clients in 2017.

<sup>1</sup> To help the microfinance industry remain both socially focused and financially sound, The Smart Campaign is working with microfinance leaders from around the world to provide microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients. For more information, please see [www.smartcampaign.org](http://www.smartcampaign.org)

<sup>2</sup> Non-performing loans greater than 30 days past-due



« The relationship with our clients is very important to us, which is also reflected in our current work on increasing the transparency of our operations. This is further in line with our commitment and focus on the Client Protection Principles. We want to be part of a sustainable industry, and we are determined to act in a responsible way. »

- Sou Moniveark, Chief Business Development Officer



« There are no other sports centres like this in the area and a lot of people like playing sports, so I had the idea to create this business. It is challenging for me to be a mother and a business owner, but I want to provide a good future for my children. When I finished school, I worked making bricks and selling noodle soup, but I want my children to go to university if they want, or to start their own business. Thanks to Amret's loan, I can run a successful business, and also save money for my family's future. »

AMRET CLIENT STORY

## SUPPORT FOR AN ENTREPRENEUR

Bunry is 42 years old and lives together with her husband and their six children in a rural area of the Phnom Penh province. By obtaining a loan from Amret, Bunry has been able to add a proper roof and further refurbish and transform an existing building to create a sports centre. To serve her customers, she also runs a small coffee shop, and as result of the increased business she now employs three people.



# THE CREDIT BUREAU

## CAMBODIA ON THE PATH OF FINANCIAL SECTOR INSTITUTIONALIZATION

Prior to the creation of the Cambodian Credit Bureau in 2012, there was no process to facilitate the centralized reporting of financial institutions, and no centralized system to allow financial institutions to access information on a person's or a business' credit history. Such an institution serves both financial institutions and consumers, decreasing the risk for financial institutions, and protecting consumers against over-indebtedness. The rapid expansion of borrowing and the global credit crisis raised the urgency to create an institution to link the different actors in a national financial database. All financial institutions with an operating license are now required to join the CBC and upload data monthly. More than 140 financial institutions in Cambodia are CBC members, representing all registered MFIs, banks, leasing companies and credit operators.

With a focus on the data of individual consumers, the CBC captures financial information to allow financial institutions to perform credit checks prior to a loan being approved. With the permission of the applicant, the financial institution can check the CBC data against the information which is provided directly by the applicant, also preventing individuals from taking multiple loans from

multiple institutions. The credit officers of financial institutions are trained by the CBC to ensure they are able to correctly and efficiently input data and interpret the output. The CBC is one of the first in the world to include both the banking and microfinance sectors under the same umbrella. Expansion to corporations and other sectors is planned for the future.

Cambodia scores highly on the World Bank's Doing Business Report in the area of "Getting Credit" (rank 20 of 190). The score includes the assessment of two indicators: the strength of the credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending. The CBC is providing the tools to analyze and reduce credit risks and strengthen the credit information system, which is vital for the development of Cambodia's financial infrastructure.



## WORKING FOR AMRET

Amret highly values its employees and strongly commits to supporting them. This includes providing various benefits, actively developing leadership among its employees and encouraging upward mobility and employee rotation requests. Benefits include private health insurance for Amret employees and their families, as well as additional contributions to the employees' pension plans. In addition, training is provided across all fields on a regular basis and according to job requirements. For example, credit officers receive training on the Client Protection Principles which enables them to clearly explain processes and repayment requirements to clients in order to protect them against over-indebtedness. The parent-subsidiary relationship between Advans and Amret opens up transfer opportunities for Amret employees among other Advans institutions, as well as allows for more advanced training opportunities from Advans. These are valuable benefits for Amret employees.

The recruitment of suitably trained local commercial staff is a challenge not only for Amret but for the whole financial sector in Cambodia. As the sector itself is growing, so is the demand for the respective employee profiles across the board, from microfinance institutions to national and international banks, both public and private. Amret is making an effort to find innovative ways to recruit the staff needed for its growth – between 300-400 employees annually – including recruitment of students and support for student jobs, an internship program, and a referral program. Whilst there are multiple universities in Cambodia, the quality of education differs according to each university; to address this, Amret is increasingly providing direct training and coaching for suitable applicants and promising employees, to find the best fit and encourage upward mobility.

**« Amret has provided me with coaching and training during the five years I have been working with them. I started as a Service Officer and have been promoted to a Credit Officer. I'm happy to work for Amret because of its good reputation and support for the community. One day I would like to be an Amret Branch Manager. »**

- Pen Pisith, Amret Credit Officer (pictured above, right)

# FACING THE CHALLENGES OF THE MFI SECTOR

The fast-paced growth of Cambodia's financial sector has not come without growing pains, bringing along challenges as the country strengthens its structural pillars in this sector and increasingly expands the outreach of economic development to more rural regions. As one of the largest MFIs operating in the country, Amret is facing the same challenges, actively meeting them with a focus on the future.

## RESPONDING TO THE INTEREST RATE CAP

In April 2017, an interest rate cap of 18% was imposed on MFIs in Cambodia, for all new and refinanced loans. This affects Amret's smaller and rural loan products, as in some cases 18% is not high enough to cover the costs incurred by Amret to provide these loans. The cap is not enforced on larger banks, nor effective on informal lenders (inherent to the characteristics of informality), forcing Amret and other MFIs to find alternative ways to cover the costs of reaching their lower-income, more rural clients. The interest rate cap therefore may have counter-productive effects as incentives have been created for MFIs to reduce their exposure to this target market, naturally giving informal lenders more space to increase their market share. Amret has been able to continue providing its low-income, rural clients with access to finance, but as is the case for all MFIs will need to increase its efficiency in order to continue reaching out to this client segment. At a national level, the average microfinance loan size has increased slightly since the introduction of the cap. This can be attributed both to the need of the MFIs to cover their costs, as well as to the overall growth of the actors in the Cambodian economy. As a result of the interest rate cap, the sector as a whole will need to increase the efficiency of its lending operations

## EMBRACING DIGITAL TECHNOLOGY

The emergence of digital technology for accessing financial services is opening up new opportunities for Cambodia. With an extremely high penetration of mobile phone ownership (96% of the population owns a phone, with more than half of the phones being internet-enabled), and increasing network availability throughout the country, the opportunity and need for digital innovation is indisputable. For Amret, who is currently developing its own mobile banking platform, the challenge lies in creating a platform that meets both the needs and expectations of the more urban clients who are likely to be digitally-literate and will be reached by the first phase of the roll-out, whilst ensuring its suitability for the rural clients as well, who may not be digitally-literate and will be reached in a second stage of the roll-out. Additional offerings addressing the needs of the two distinct target groups could help solve this dilemma. Specific functionalities under consideration for the rural clients



## **ABOUT SIFEM**

The Swiss Investment Fund for Emerging Markets (SIFEM ) is the Swiss development finance institution. It is owned by the Swiss Government and is an integral part of the instruments of economic development cooperation. SIFEM is specialized in providing long-term financing to small and medium-sized enterprises and other fast-growing companies in developing and emerging countries, focusing on the priority countries of Switzerland's development cooperation. This helps to create and secure more and better jobs and reduce poverty while also contributing towards the integration of these countries into the global economic system.

## **ABOUT OBVIAM**

Obviam is an independent investment advisor specialised in long-term investments in emerging and frontier markets. Obviam advises public, institutional, and private clients, including the Swiss Investment Fund for Emerging Markets (SIFEM), the Development Finance Institution (DFI) of the Swiss Confederation. Obviam offers investors an opportunity to capture attractive returns and generate sustainable positive impact in emerging and frontier markets, via a proven and responsible investment approach.

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