



CASE STUDY FINANCIAL SERVICES

# iCARE BENEFITS CAMBODIA





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A PORTFOLIO COMPANY OF THE CAMBODIA-  
LAOS-MYANMAR DEVELOPMENT FUND II

**Region:** Cambodia

**Sector:** Consumer Finance and Retail

**Fund intermediary:** Cambodia-Laos-Myanmar Development Fund II

**Fund manager:** Emerging Markets Investment Advisors

**SIFEM investment into Fund:** USD 4.2 million (2015)

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**2017**  
Investment Year



**46**  
iCare Employees





« The majority of iCare clients were never offered formal financial services before. We are reaching this untouched market with a hybrid model, something of a merge between e-commerce and microfinance. »

– Molika Meas, iCare CEO

## MEETING ICARE

iCare Benefits Cambodia (iCare) provides an innovative financing solution for affordable quality products and services to low-income clients. Its target market are the employees of Cambodian garment factories, and its primary products are essential home appliances and electronics – consumer products which make their clients' lives easier and more enjoyable. In the near future, iCare plans to extend its range of merchandise to basic healthcare and education products. iCare clients purchase products from iCare at market price and on credit with 0% interest for a maximum loan term of six months. Items are delivered directly to clients within five days of purchase. iCare's business model is based on gaining volume discounts from local suppliers. This profit margin is then used to cover costs, including the provision of interest-free loans for iCare clients, and grow the business further.

iCare sets up small booths at partnering garment factories during the lunch breaks of the workers. This is where the iCare sales personnel presents the catalogue of available items, takes and delivers orders, and explains the financial conditions to make a purchase. iCare clients are allowed to purchase products costing up to 1.8x their monthly salary. The repayments are then taken directly out of their pay check but cannot exceed 30% of their monthly salary. iCare's innovative financial solution, together with its basic financial literacy training, gives its clients the opportunity to take a responsible first step towards financial inclusion.

iCare is a portfolio company of Cambodia-Laos-Myanmar Development Fund II. SIFEM invested in the Fund in 2015.



# THE SITUATION IN CAMBODIA

- **The Cambodian garment sector is the largest single employer in the country, with an estimated 700,000-800,000 employees – almost 10% of the Cambodian adult workforce – of which 80-85% are women.** The general perception and reputation of this sector are extremely important to the Cambodian government and the industry is one of the most regulated sectors in the country. Garment exports account for the majority of Cambodia's total merchandise exports, contributing approximately 30% to Cambodia's total GDP.
- **Basic regulations support formal employment and minimum wages for workers in this industry,** as well as allowances and seniority bonuses. In a country with few formal jobs, receiving a minimal wage from a legally-established employer is in itself an advance, yet there is still little money left over at the end of the month for this low-income population.
- **Garment workers often leave their families living in very rural and remote areas behind to move closer the factories.** The factories are often located in semi-rural areas or on the outskirts of larger cities, localities which are not well-connected themselves and where products and services are not readily available. The logistical difficulty of obtaining products and services paired with very limited financial means further hinders garment workers from gaining access to consumer goods and financial services.
- **The comparably short history of its modern financial sector and its rapid growth 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 and designed with the end beneficiary in mind.





## DEVELOPMENT EFFECTS IN A NUTSHELL

- **iCare currently works with 20 garment factories, which have a total number of 120,000 employees.** 23,000 of these have made at least one purchase through iCare as of early 2018, with an average of 1,500-2,000 items purchased every month. The number of factories collaborating with iCare is growing, and the company targets to reach an additional 5,000 workers and generate an extra 2,500 purchases per month.
- **For the majority of iCare clients, their iCare purchase is also their first time using a formal financial lending service.** Their low-income status has prevented them from purchasing a product or service on credit before. Making a purchase via iCare allows these clients to take a first step towards financial inclusion and receive basic financial literacy training on how savings and credit products work.
- **The majority of iCare's target clients are women living and working in rural areas.** The types of product and financing options are provided by iCare under very favorable conditions which workers would not easily find elsewhere. Therefore they find it easier to improve their own living situation as well as that of their families. Families of workers often live in very rural and remote areas and rely on the financial support provided by the family members working at the garment factories.
- **The iCare model has been designed to meet the needs of the workers in the garment industry.** iCare is a local SME selling affordable products and services directly to low-income clients via an innovative and responsible financing solution with 0% interest. Clearly communicated conditions and restrictions ensure affordability for clients and protect against over-indebtedness, alongside basic financial education workshops open to each worker during their lunch break.

# REACHING UNDERSERVED MARKETS

WOMEN, LOW-INCOME WORKERS AND RURAL POPULATIONS

82% of iCare's clients are female, with 72% of these being married and 64% having children; iCare's statistics are in line with the Cambodian garment sector demographics. Many of these women have moved away from very rural areas in order to work at the factories, and the income they are able to send home is vital for their families. Products purchased through iCare are also often for their families at home, allowing an additional layer of provision and care by these women for their families.

For the majority of iCare clients, the purchase of a product or service with credit had never been a possibility before due to their low-income status. Workers in Cambodian garment factories typically earn a minimum wage of USD 170 per month, in addition to small allowances (for example for transportation or housing) and seniority bonuses. A sizable portion of this is often sent home to their families. After paying for necessities such as accommodation

and food, it is difficult for these workers to imagine they could save enough money for a larger consumer good, such as a mobile phone or household appliance. Even less within reach is an investment in their long-term future such as the purchase of more complex products and services related to healthcare or education, items often viewed as less essential. The lack of a credit history further reduces their options: workers can either resort to informal money lenders with predatory interest rates or use new types of financial services such as those offered by iCare. iCare's innovative model allows its clients to access financial services, despite their long working hours and rural location.

iCare reaches both semi-urban and rural factories. The location of the factories and the lack of public transport creates limited opportunities for workers also to shop, purchase, and transport goods. iCare's service meets these needs – workers can

“shop” and purchase an item during their lunch break which will be delivered directly to them within five days. As needed, iCare's team provides follow-up support for product set up or assistance with warranty claims.

In addition to its main target market of garment factories, iCare also offers its products and services to more than 100 SMEs in Phnom Penh. Although a smaller target market, it is a way for iCare to serve SMEs in a broader sense and grow its network in the Cambodian business community.



**« I come from a rural province in Cambodia, where my family and two children still live. I moved to Phnom Penh to work in a garment factory to earn money and provide for my children. Through iCare I bought a phone which I use to call my family. I also bought a portable speaker which we like to use to listen to music after work. »**

- Sy, 28 years old, iCare client

# FACILITATING A RESPONSIBLE FIRST STEP TOWARDS FINANCIAL INCLUSION

## FINANCIAL INCLUSION AS A TARGET

Although not technically providing a financial product, iCare offers an innovative way for an underserved group of clients to take a first step towards their financial inclusion. The company provides its clients with a short-term credit experience whilst ensuring strong client protection. Because key to its offering is the credit financing, iCare places emphasis on making the offering responsible and inclusive. The rules and standards which iCare has in place protect the client against over-indebtedness as well as help iCare to manage its own risk. For example, iCare clients are permitted to purchase a product for up to 1.8x their monthly salary at 0% interest. The repayments are taken directly out of their pay check by the Human Resource (HR) department of the respective factory and are capped at 30% of their monthly salary. These clear rules enable the clients to pay off their loans within a maximum of six months and ensure the clients are not borrowing beyond their ability to repay.

## FINANCIAL LITERACY AS A PREREQUISITE

As the majority of iCare's target clients have not had access to any formal financial services before, iCare provides financial education workshops at the partnering factories during the lunch breaks. During 2017, almost 6,000 workers participated in workshops led by iCare team members. In addition, the iCare team clearly explains the process to clients alongside the sale of each item. This guidance contributes to expanding the client's financial perspective, as well as ensures the products purchased are affordable to the individual client. A recent survey by iCare showed that 65% of iCare clients had previously only used informal lending methods, where it is likely they would have ended up paying 2-3x the price of the product, when interest and fees are considered.

« I visit factories every day, and I carefully discuss the iCare process with the workers. I really like connecting with them and sharing about the different products which are available. »

– Chhi Sineat, iCare Business Development



# LOOKING TOWARDS THE FUTURE

## **FROM HOUSEHOLD TO EDUCATION AND HEALTH PRODUCTS AND SERVICES**

In the future, iCare plans to expand the range of products and services beyond what is currently offered in the “Comfort Living” category, which are consumer and household goods aimed at making life easier and more comfortable. Future categories include “Healthy Living” and “Smart Living” to increase the benefits for iCare clients and their families. “Healthy Living” will comprise essential healthcare products and medical services such as vaccines, blood pressure monitors or medical checkups. “Smart Living” will consist of educational products and services such as physical and online classroom learning, office supplies, or even driving lessons.

## **CATERING TO GRADUATING NEEDS AND INTERESTS**

iCare clients have first shown interest in products within the “Comfort Living” category. Once their more basic needs in that category will be covered, iCare expects them to become more interested in the other two product ranges. However, this process will take time. iCare estimates that it will take a client two years to cover their short-term needs in the “Comfort Living” area before he or she would be interested in products and services from the healthy or smart living categories, which naturally involve more long-term benefits. Due to the cap iCare places on purchase amounts and the related minimum salary required, in two years a client would have been able to purchase up to six items, for example, a phone, a fan, a mattress, a rice cooker, a bicycle, and a TV. Steady and long-term relationships are an important factor in iCare’s business model, as this strongly contributes towards iCare’s ability to offer products and services from the healthcare and education categories, including more complex products such as microinsurance.

## **RAISING INTEREST FROM BRANDS AND SUPPLIERS**

As iCare grows and increases its reach, the company is increasingly becoming known to brands and suppliers, who recognize iCare’s large target market and potential. Brands and suppliers have begun to contact iCare to offer or create suitable products for iCare clients. For example, a well-known consumer health and hygiene company has proposed to include bulk-size hygiene products in iCare’s product offering. Constrained by their limited immediate budget, factory workers usually purchase single, individual products as they are needed. Being able to buy bulk-size products, paid off over the course of their use via iCare, not only saves the clients money but also ensures customer loyalty for both iCare and the supplying companies.

## **FOCUS ON IMPROVING THE STANDARD OF LIVING**

iCare expects that over time clients will be demanding additional products and services and will keep complementing its offering with innovative goods and solutions specifically designed to benefit the workers and their families in the long-term. Whether it be hygiene products, microinsurance or English lessons online, iCare is focused on serving its clients with affordable products and services having in mind the ultimate goal of increasing their quality of life.





**« I don't have a lot of money, but through iCare I have been able to purchase a mattress and a phone. I bought through iCare because they don't charge interest and their products are of good quality. I can repay the loan in smaller amounts every month instead of saving all of the money in advance. »**

- Savy, 36 years old, iCare client





## A GROWING PLATFORM PROVIDING INNOVATIVE FINANCIAL SOLUTIONS

« We have a clear mission and a clear vision to improve the lives of iCare clients and their families. The iCare platform provides a sustainable alternative to black market financing, which has previously been the only option for more than 60% of our clients. Part of our work is educating people on the topic of financial literacy which is key to improving their own future. »

- Molika Meas, iCare CEO



## BUILDING ON ITS EMPLOYEES

Building up iCare's operations in Cambodia in the last few years has required a careful hiring process to find the right people to support the company's growth and mission. iCare currently has approximately 50 employees in total – 20 of which are based at the head office and warehouse in Phnom Penh and serve the factories located near Phnom Penh. The remaining 30 are positioned around the more rural factories, and in doing so iCare has been able to provide local jobs in rural areas. iCare's business model targets setting up local centres in rural areas to increase efficiency and localize its operations where possible. iCare staff are trained by a local bank, empowering them to accurately and clearly explain the financial implications of acquiring products to iCare clients.

## MAINTAINING GOOD RELATIONSHIPS WITH THE GARMENT FACTORIES

For iCare, the relationship between them and the factories which they serve is key to their success. Trust between the two entities is important to build the long-term relationship which allows iCare to gain and retain access to its clients, and in the long-term offer more complex products. iCare is in a privileged position, as currently no other company has access to iCare's target market within a factory setting.

Employers also benefit from iCare, as it is a valuable service they can provide to their employees and it gives them a competitive advantage on the labor market. An iCare partnership further contributes to employee retention because credit is only provided to employees who have worked at a given factory for at least 12 months. Employees clearly see iCare as a benefit – some of iCare's relationships have been instigated by the factory because employees petitioned their factory manager to introduce the services of iCare.

**« I joined iCare three years ago when it was still a very young company. I am responsible for organizing the deliveries from our suppliers and the further dispatch to our iCare centres and the factories. I also support the Business Development team in visiting the factories, not only to sell the products, but also to help customers set up or install their products correctly. For example, many of the customers have not used a smartphone or washing machine before, and it is important that we take care of these customers to ensure that they can get full use out of their product. I'm really happy working with iCare because the business has grown so much. I enjoy working with the customers and caring for them after a sale. »**

- Nem Phyrun, iCare Logistics  
(pictured opposite page, right)



# CHALLENGES FOR ICARE

## INCREASING PROFITABILITY AND MANAGING RISK

There are challenges which are inherent to new companies growing and developing, and iCare is not exempt. iCare’s business model is based on economies of scale, primarily because the margins made on each sale are small. To increase its profitability, iCare needs to increase the number of partnering factories, as well as keep non-performing loans (NPL) under 1.5% of its portfolio. In comparison, the national reported average of NPLs in Cambodia is approximately 2%. To meet this challenge, iCare recently developed a Risk Detection Framework to systematically monitor the performance of the factories they are working with, including the assessment of closure risk which would translate into NPLs for iCare. Although new, this framework has already shown great potential for iCare’s risk management.

## SECURING FINANCE

iCare must also ensure its own financing. SMEs in Cambodia are usually too large to obtain financing from microfinance institutions and at the same time considered to be too risky by banks – a situation which is commonly referred to as the

“missing middle”. As part of this “missing middle”, it has been a challenge for iCare to access sufficient capital to support its operations and growth. As part of its business model, iCare has the financial burden of bridging the gap between the moment it purchases products from its suppliers, to the time its clients fully pay off their products. As iCare does not have any hard assets on its balance sheet to offer as collateral, it is difficult to substantiate its eligibility for finance to financial institutions. The support from CLMDF II has been essential for iCare’s beginning years, and with time and a positive track record, iCare expects to be able to obtain financing from larger banks or other institutional lenders.



# SUPPORT BY THE FUND MANAGER

EMERGING MARKETS INVESTMENT ADVISORS PROVIDING  
CAPITAL AND NON-FINANCIAL SUPPORT



In 2017, iCare was invested in by Cambodia-Laos-Myanmar Development Fund II (CLMDF II), a fund with a focus on providing access to goods and services to low-income populations, managed by Emerging Markets Investment Advisors (EMIA). For EMIA, the alignment between both the social and business factors of iCare was very compelling, as well as the element of financial inclusion for an underserved market. Although iCare had operations already in Vietnam, CLMDF II was the first institutional investor in iCare Cambodia.

In addition to providing the capital for iCare's expanding operations, EMIA has facilitated additional short-term local debt financing at reasonable rates. Whilst iCare is still a relatively new company, EMIA has been operating in Cambodia since 2009 and brings with it a more established network. This has been helpful for iCare in accessing additional finance due to its atypical business model (and balance sheet).

Represented by two members on the iCare Board, EMIA has also contributed by providing feedback on company policies and encouraging increased reporting standards. When the Risk Development Framework was created in late 2017, EMIA assisted with the review of this. In addition, establishing the tax obligation arrangement for iCare has been a complex process due to iCare's hybrid business model, operating as both retailer and financier. CLMDF II is providing further support via its Business Improvement Facility to work with a legal consultant in assisting iCare to correctly position itself. These steps have been part of a larger endeavor to properly set up iCare's Corporate Governance Framework.

EMIA's feedback has also specifically supported iCare's involvement in the financial inclusion sector. To both evaluate and further improve iCare's contribution to financial inclusion,

EMIA's ESG Officer presented the Smart Campaign initiative to iCare, specifically the Client Protection Principles (CPP)<sup>1</sup>. In early 2018 iCare endorsed the CPP, making a commitment to implement the core principles throughout its operations where applicable. iCare conducted a self-assessment of their current practices and together with EMIA reviewed the results and adopted an action plan to address gaps and further formalize best practice standards. For example, within the principle "Appropriate Product Design and Delivery", the opportunity to formalize feedback from iCare clients was identified, including requests for new products or issues with sales. Previously this was done relatively informally during client interactions at the iCare booths; by developing a template to receive client feedback, iCare expects to better analyze and record the feedback and improve client satisfaction.

<sup>1</sup> The Smart Campaign supports microfinance institutions to provide responsible financial services to all clients. Responsible financial inclusion encompasses core Client Protection Principles including appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, and mechanisms for complaint resolution. Organizations other than MFIs are able to officially endorse the Principles to support the initiative and raise industry standards of best practice. For more information, please see [www.smartcampaign.org](http://www.smartcampaign.org)

## **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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