

Amret Microfinance Institution—Cambodia

PROJECT RESULTS AND LESSONS



Project Overview

The objective of AgriFin's partnership with Amret was to support the establishment of an agricultural lending unit at Amret's head office and strengthen the institution's capacity to serve a wide range of agricultural clients in Cambodia. The project focused on three key components: developing the agricultural lending skills of Amret's staff; designing new loan products to respond to farmers with larger financing needs; and enhancing Amret's service delivery to reach remote farmers and rural populations.

This document summarizes the initial results and lessons learned from the project, contributing to an improved understanding of the opportunities and challenges that financial institutions may face when expanding their services to agricultural sectors.

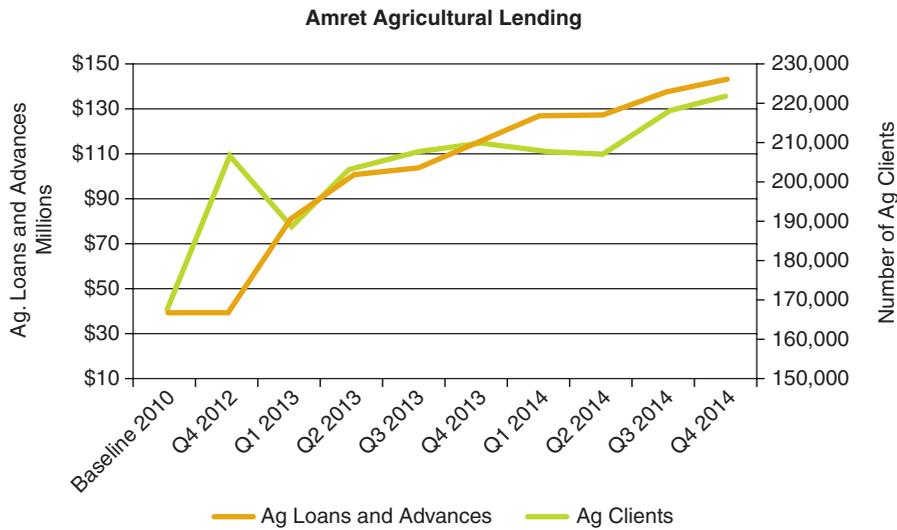
Results

Establishment of an agricultural lending unit which has led the growth of Amret's agricultural loan portfolio. The agricultural lending unit was established at the beginning of the project within Amret's credit department. One of the key challenges that many financial institutions face when establishing a new unit is finding qualified banking staff that also have a solid understanding of agriculture. Faced with this issue, Amret decided to fill key positions in the unit with internally recruited personnel that were specialized in product development and lending operations and were subsequently trained in agriculture. The institution also decided to use existing lending staff, many of whom had already been lending to agricultural clients, but lacked agricultural expertise. In order to address this, Amret appointed two permanent trainers within the unit who would train and coach lending staff at the branch level during the product pilot stage on how to lend to agricultural clients and how to apply new policies and procedures and another eight trainers to coach staff during the rollout stage. In addition, an agricultural expert was recruited to provide sector expertise and manage Amret's relationship with agricultural value chain partners. The new unit directed and managed the expansion of agricultural lending, taking responsibility for product design; staff training; and development and implementation of agricultural lending guidelines, policies, and procedures. The lending unit has played a key

role in strengthening Amret's capacity to extend financial services to farmers and acquire new clients (see Figure on the next page).

Development of the AgriFin loan product which allows Amret to serve farmers with larger financing needs in Cambodia.

Amret has traditionally focused on providing microloans to farmers. Typically, however, microfinance loans have not been sufficient to meet the needs of farmers because of their small value, inflexible repayment schedule, and their relatively higher interest rates. During the project, Amret developed the AgriFin loan, a cash flow-based loan product that was designed to meet the growing demand for larger loans among farmers who are not served by other financial institutions in Cambodia. With the launch of the new product, the average agricultural loan amounts to approximately US \$6,000, compared to the average microloan offered to farmers before, which was US \$1,300. The main advantage of the AgriFin loan is that it provides flexible repayment terms in line with farmers' seasonal cash inflows. In addition, the interest rate on the new loan product is on average 0.10% lower as compared to the average interest on microloans during the pilot period. The product has been piloted gradually in fourteen branches in various parts of Cambodia and the nationwide rollout is now taking place. Loans are disbursed by specialized credit officers who are trained on the new cash flow-based lending



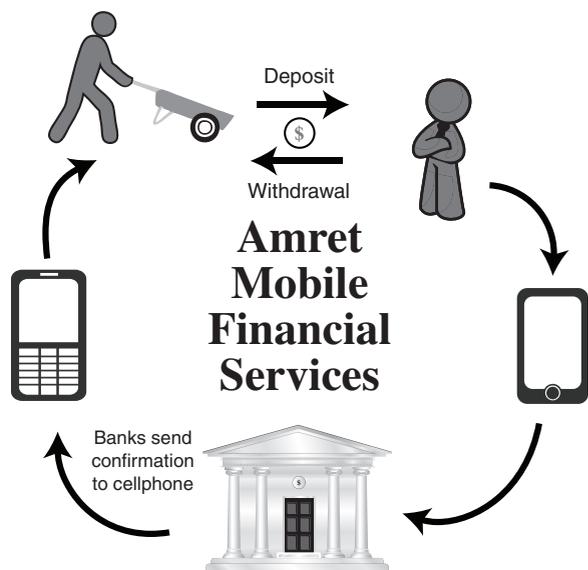
methodology. As of October 2014, AgriFin loans amounted to \$US 11.6M (equivalent to 4% of Amret’s total loan portfolio).

Development and implementation of mobile banking services which has enabled Amret to expand rural outreach and mobilize deposits.

Like in other similar markets, banks have a limited presence in rural areas given that the low population density does not justify the cost of running a branch network. In Cambodia, Amret needed to find a cost-effective means of reaching rural clients. To achieve this, Amret took advantage of Cambodia’s high mobile phone penetration rate and launched a pilot mobile banking service, the goal of which was to test the new service in terms of cost and acceptability to users. This involves mobile tellers—Amret’s field office employees who visit rural clients to facilitate financial transactions. Currently, such transactions are limited to deposits, withdrawals, new savings accounts, and account balance confirmation, but the bank plans to include other services in the future, including loan applications. The transactions are completed by mobile tellers using 3G equipped smartphones (see illustration in the Figure). For each transaction, clients receive an SMS confirming completion of the transaction. In addition to the SMS receipt, mobile tellers manually write a duplicated receipt to which the customers’ thumbprint is attached.

This is a temporary practice to reassure clients who are not yet accustomed to SMS receipts.

While mobile banking services are still in the pilot phase, Amret is learning more about the cost of providing them and their acceptability to users. Initial results show that Amret’s mobile banking services have a strong potential to help the bank acquire new clients and mobilize significant amounts of deposits, helping the institution raise capital and increase lending business at a lower cost. Based on these initial





results, Amret is keen to offer a wider range of mobile banking services beyond deposits and withdrawals.

Development of agricultural sector cards that enhance the ability of loan officers to assess risk when lending to farmers.

Lending to agricultural clients requires in-depth knowledge of the specificities of numerous agricultural sectors. To bolster the institutional knowledge in various sectors, Amret developed sector cards for six agricultural commodities including: duck, pepper, cassava, rubber, and wet and dry season rice. These cards educate lending staff about the crops, the skills and equipment required to farm such crops, crop cycles, risks, and commercialization opportunities. Sector cards are designed to serve as tools that help validate the information provided by farmers as well as enable loan officers to provide basic farming advice to clients. Given the value the agricultural sector cards have provided to date, Amret plans to create more cards and keep the original ones up to date.

In-depth technical training provided to staff on agricultural lending. Amret provided training to over 600 loan officers to apply the AgriFin cash flow-based lending methodology that underscored the new loan product developed

by the project. The loan officers received additional on-the-job coaching in order to practice skills obtained during the training. The training sessions focused on the agricultural lending strategy, assessing risk, and conducting cash flow analysis. As part of the project, senior Amret staff visited Sri Lanka to learn about agricultural lending practices of financial institutions there, which they then utilized to update their product, training, and agricultural lending processes.

Lessons Learned

Developing new products and services that better meet clients' needs, does result in increased business, but also requires additional capacity to manage growth effectively. Under the AgriFin project, Amret started serving a new market of farmers with larger financing needs. Given the high demand for its new product during the pilot phase, Amret is implementing appropriate measures to ensure its staff is able to manage new client take-on effectively. Measures include continuous staff training in agricultural lending methodologies and operational improvements to effectively manage increased cash volumes. In order to enable more rigorous and appropriate credit risk assessment of larger agricultural loans, Amret developed a detailed risk assessment methodology and trained its lending staff on how to use this methodology when appraising loan applications. In addition, coaching provided to the lending staff has enhanced staff's ability to serve larger clients, with more complex requirements by building upon their relationship management skills. The institution is also testing the use of both an agent distribution network and the use of mobile tellers as cost effective means for expanding and scaling up services to agricultural clients.

Brand recognition and the use of mobile tellers have played a critical role in building trust and ensuring take-up of mobile banking among Amret's rural clients. Amret is a well-known financial institution in Cambodia. Its

strong brand has enabled it to overcome concerns with clients about using mobile technology for financial services, as seen by the dramatic take-up of its mobile services. In addition, Amret's mobile tellers—field office employees who visit rural clients to facilitate deposits and withdrawals—played an important role in increasing client confidence in using mobile banking services; punctuality, friendliness, and ability to explain well how mobile banking works, were important factors in building client confidence.

Creating a lending team that specializes only in agricultural lending is not cost-effective because of the seasonal nature of agriculture. Having the right level of agricultural expertise is critical to drive a sustainable growth of the agricultural loan portfolio. Yet, many

financial institutions find it extremely challenging to find staff that possesses an in-depth knowledge of agriculture as well as lending experience required to serve clients effectively. As a result, banks often face the question of whether it is better to hire agricultural experts and train them to lend exclusively to agricultural clients, or provide agricultural training to the existing lending staff who would then be able to provide agricultural lending effectively. The first option implies that agricultural lending staff would face periods of low productivity given the seasonal nature of agricultural lending. As a result, Amret decided to provide full agriculture training to its entire lending staff in order to enable them to be productive year-round providing services to non-agricultural clients in addition to agricultural clients.

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