

# How can MFIs and Banks Better Serve Agricultural Clients?

## Lessons from AgriFin Study Tour in Cambodia



January 2016

## Executive Summary

Amret is a leading financial institution serving agricultural clients in Cambodia. Historically, Amret has been providing microloans to individual farmers and farmer groups averaging US\$572 per loan. While its microfinance lending business served some segments of agricultural clients, AMRET's ability to reach commercially-oriented farmers was constrained by its microfinance lending approach. The small size of the loan, coupled with monthly repayment requirements and short tenor were not suitable for larger farmers.

To improve upon its product offerings to commercial farmers, Amret partnered with the World Bank's Agriculture Finance Support Facility ([AgriFin](#)) to design new agricultural loan products and expand its agriculture finance business line. To this end, Amret received technical assistance support from AgriFin that resulted in new agricultural products and improved institutional capacity to serve commercially-oriented agricultural clients. In June 2013, Amret designed and rolled out the new "Agri-Loan" product which finances the working capital needs and investment requirements of commercial farmers. Key features of the new loan product included: larger loan sizes, longer loan tenures, and flexible repayment schedules tailored to cash flow.

By the third quarter of 2015, Amret's "Agri-Loan" portfolio had exceeded US\$58 million contributing to a 48% growth of its total agricultural loan portfolio, with average loan sizes of approximately ten times that of Amret's traditional agricultural sector loans. The new loan product has helped Amret significantly expand its agricultural lending portfolio, while reducing transaction costs per loan, and simultaneously maintaining excellent loan quality/portfolio performance.

Several factors have contributed to Amret's success in launching its new agricultural loan product, including thoughtful product design based on market assessment, a revised lending methodology, development of new delivery channels including mobile banking, and investment in the training and capacity building of its staff to assist them in working with agricultural clients.

Amret's experience demonstrates that it is possible for MIF's to expand their product offerings to serve larger agricultural clients through tailoring of new products to these segments. In order to share these experiences more widely, AgriFin collaborated with Amret to facilitate a study for agricultural banking and MFI professionals from eleven countries. This document, provides an overview of the visit and details on the key lessons learned.

## Background – AgriFin Amret Study Tour – July 2015

The World Bank's Agricultural Finance Support Facility (AgriFin) in cooperation with Amret, a microfinance institution in Cambodia, organized a study tour for microfinance institutions (MFIs) and banks from outside Cambodia interested to learn about innovative agricultural finance practices in order to expand their agriculture finance business line. The study tour was held from July 20-24, 2015.

Twenty agriculture financiers from eleven countries participated in the study tour. The event offered an opportunity for participants to learn in detail about Amret's agricultural lending activities and the process it undertook to develop its newly launched agricultural loan product. Participants visited rural branches and also observed how Amret has been utilizing mobile technology to expand its rural penetration. Attendees had the opportunity to meet Amret's agricultural clients to discuss their experiences of utilizing Amret's financial services. The event provided participants with the opportunity to engage not just with Amret and their clients, but also with other participants, and thereby build new relationships with a global group of finance professionals.



Photo: Amret's Head Office, Phnom Penh. Study Tour attendees introduced to Amret staff

### *Summary of the Study Tour Program*

The study tour began with a full-day workshop featuring presentations on Amret's agricultural lending model, its performance, and their recent investment in mobile technology designed to expand rural outreach. The workshop was followed by two days of field visits to Amret's rural branches where participants met with staff and clients. The event concluded with a final day of discussions, with participants exchanging lessons and considering how such lessons might be applied on their return home.

## Opening Workshop: An in-depth Look at Amret's Products and Services

Participants were welcomed by Amret's CEO Mr. Chea Phalarin and the World Bank's Country Manager Mr. Alasane Sow. Senior Amret staff delivered technical presentations about Amret's products and services. The major themes covered included: 1) Amret's products and financial performance; 2) Amret's agricultural lending; and 3) Mobile financial services.

### I. Overview of Amret's Operations

Amret started operations in 1991 as an NGO and was later licensed as an MFI in 2001. Amret serves a broad range of retail and business customers in both urban and rural areas, and is one of the top three financial institutions serving clients in rural Cambodia. Amret has a network of 131 branches, serving a total of 341,668 borrowers, with a credit portfolio of US\$348 million, comprised of both individual and group loans, with three quarters of Amret's clients (78%) being women. Going forward Amret aims to become a retail commercial bank, and further expand its operations in rural areas.

### II. Amret's Agriculture Lending

Amret plays an important role in providing financial services to agricultural clients. Traditionally, it has serviced agricultural borrowers using its standard micro-credit loan product, although recently this has been complemented by its new lending product targeting larger more commercial farmers.

There are 36 commercial banks in Cambodia, yet less than 10% of their lending goes to the agricultural sector. As such MFI's tend to have their strongest presence in rural areas. There are a total of 42 licensed MFI's in Cambodia, complemented by an estimated 400 unregulated MFIs. A significant share of total MFI lending (37%) is directed towards agriculture.

#### a. Traditional Micro-lending Approach

Amret has traditionally provided agricultural clients with its standard micro-credit loans—either direct loans to individual farmers or loans made to groups of farmers. The average size of an individual farmer and farmer group loan is about \$572 and requires monthly repayments of both interest and capital. The loans have a relatively short tenor and as such are primarily for working capital requirements (seasonal inputs and labor) rather than investment. The relatively small size and large number of these loans spread out over a large geographical rural space does create challenges for Amret in terms of profitability due to the relatively high transaction costs involved in dispersing, monitoring, and recovering such loans.

#### b. New Agricultural Lending Approach

As a result of increased investment in irrigation, water management, and improved production practices, Cambodian agriculture has registered steady growth, and a relatively new segment of commercially-oriented farmers has begun to emerge, requiring larger amounts of finance to facilitate investment in their enterprises. The current variety of lending products offered to farmers by

financial institutions are not suitable given their relatively low loan sizes and short durations, coupled with monthly repayment requirements which fail to take into account the seasonality of agricultural production incomes.

Starting in 2013, Amret partnered with the World Bank’s AgriFin program to develop a new lending strategy that would enable the institution to expand access to finance for farmers with larger financing requirements. Through this partnership, Amret designed and rolled out its “Agri-Loan” product. The new lending strategy development involved four key stages (see: Figure 1).

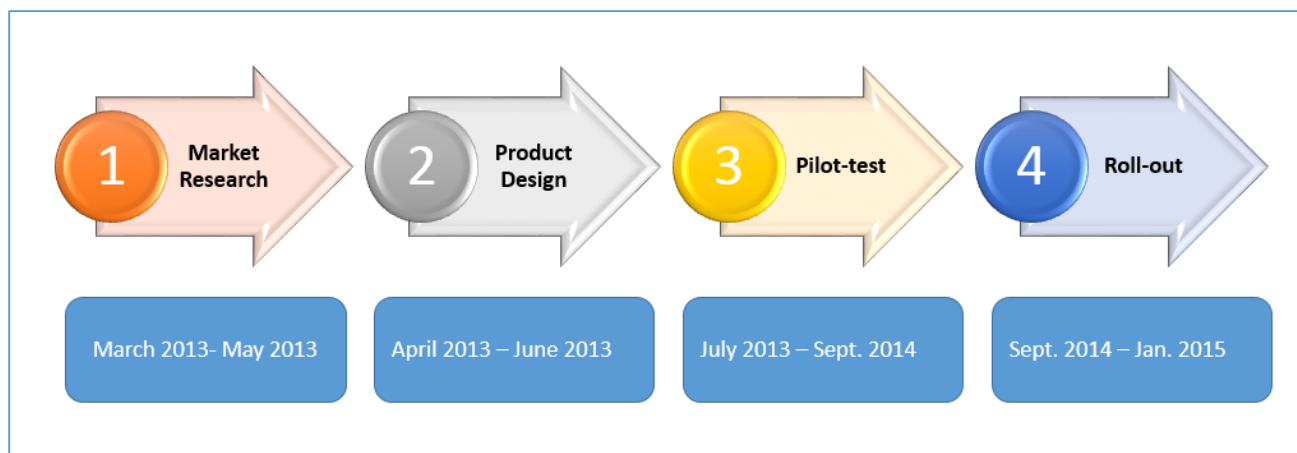


Figure 1 – Introducing a new loan product for agriculture – stages in the process of development and implementation

- **Market research** – conducted over a period of three months during 2013, this process assessed demand for agricultural finance and identified new business opportunities by better understanding client-specific needs specifically those related to client cash flow, seasonality of agricultural activities, and value chain relationships.
- **Product Development** – lessons from the market research study were used to inform the development of a new loan product called the “Agri-Loan”, which included a revised lending methodology. The new loan product was developed over a period of three months, between April and June 2013, and offered larger loan sizes based on farmer needs and flexible repayment schedules determined by the seasonality of agricultural activities.
- **Pilot** – conducted over a one year period from July 2013-September 2014 in 14 branches. Tested the take-up of the new loan and its profitability and repayment levels.
- **Roll Out** – the new “Agri-Loan” product was rolled out commencing September 2014 to January 2015 across all Amret branches.

#### *Introduction of a revised cash-flow based lending methodology – and revised loan terms and conditions*

Amret’s “Agri-Loan” product required an updated approach to credit risk assessment and loan monitoring – to reflect the loans ability to match disbursement and repayment schedule to the cropping cycle (and therefore cash flow) of a farmer. To support loan officers in conducting credit risk assessments Amret developed a series of crop-specific client analysis tools that enable loan officers to assess the expenditures and incomes of each agriculture activity, these include detailed analysis of the crop calendar, inputs required, estimated income and expenditures, details on the

market for the commodity, the risks associated with the activity and how to determine a client's competence in production and farm management. These tools assist loan officers in assessing client creditworthiness, structuring the loan terms, and determining conditions.

### *"Agri-Loan" Product Details*

While the new loan requires capital repayment only once farmers have received the income from selling their crop, interest continues to be charged and paid on a monthly basis, this ensures that Amret continues to monitor a client throughout the period of the loan, and is able identify any issues early. Working capital loans are a maximum duration of 36 months (determined by the specific crop cycle), while investment loans may run up to 48 months. Farmers continue to provide collateral for each loan. Loan eligibility requirements necessitate borrowers to have more than one year of farming experience and two distinct sources of income (either two different crops or one farming and one non-farming activity), although an exception can be made in which case the loan will only cover half of the financing needs while the other half will be covered by the client.

### *Revised Lending Process for "Agri-Loan"*

The newly introduced loan product required Amret to revise its process for client assessment, appraisal, approval and monitoring, due both to the larger loan sizes and the scheduling of repayments to farmer cash flows.

**Client visit to establish crop calendar.** The process starts with a client visiting an Amret branch to submit a loan application. Following the application, a visit is arranged by a credit officer, who is trained on agriculture lending to meet with the client in the field and validate the farmer's specific crop calendar. The crop calendar details the schedule of the crop from planting to harvest. Amret developed a tool called "Activity Card"<sup>1</sup> to give guidance to loan officers during their client visits. Activity cards include information on the profile of the crop, the respective value chain, required client competency, mandatory environmental and farm conditions, risks, input supply arrangements, farming practices and market and profitability data.

**Loan appraisal.** Upon completing the field visit, the loan officer inspects the borrower's collateral and verifies ownership and determines the value of the security. The borrower information, including the collateral value will be entered into the loan appraisal tool. Ratios are analyzed to ensure the clients' ability to repay as is their ability to effectively manage their business and its associated risks.

**Loan approval.** The credit file along with the proposed terms and conditions of the loan are presented to the credit committee for approval.

**Loan monitoring.** One month after disbursement, a loan officer visits the borrower to check whether the loan has been used for its stated purpose and have a general discussion to address any concerns the client might have. In addition, Amret has a system generated series of early warning reports to speedily identify issues and take corrective actions. Customers appearing on such reports are

---

<sup>1</sup> A detailed description of the Activity Card supported by a short introductory video is available on the [AgriFin website](#).

contacted immediately by their respective loan officers and corrective actions are taken. Periodic visits per the crop calendar (at least twice a year) are scheduled for all borrowers.

### Results of the “Agri-Loan”

The “Agri-Loan” has enabled Amret to expand its agricultural loan portfolio substantially since pilot and launch, while reducing per-loan transaction costs, and maintaining a near perfect portfolio performance level (0% portfolio at risk (PAR30)). The product has been popular with clients requiring both working capital (for agricultural inputs, animal feed and labor), and for investment purposes (agricultural equipment, land, and construction).

As of Q3 2015, Amret’s combined microloan and “Agri-Loan” portfolio amounted to approximately US\$185 million serving 231,595 agricultural clients. This represents a 91% increase in agricultural lending since the product was first piloted in July 2013. In addition, its portfolio at risk (PAR 30) has been impressively low at 0.15% for microloans, and 0.01% for the “Agri-Loans”.

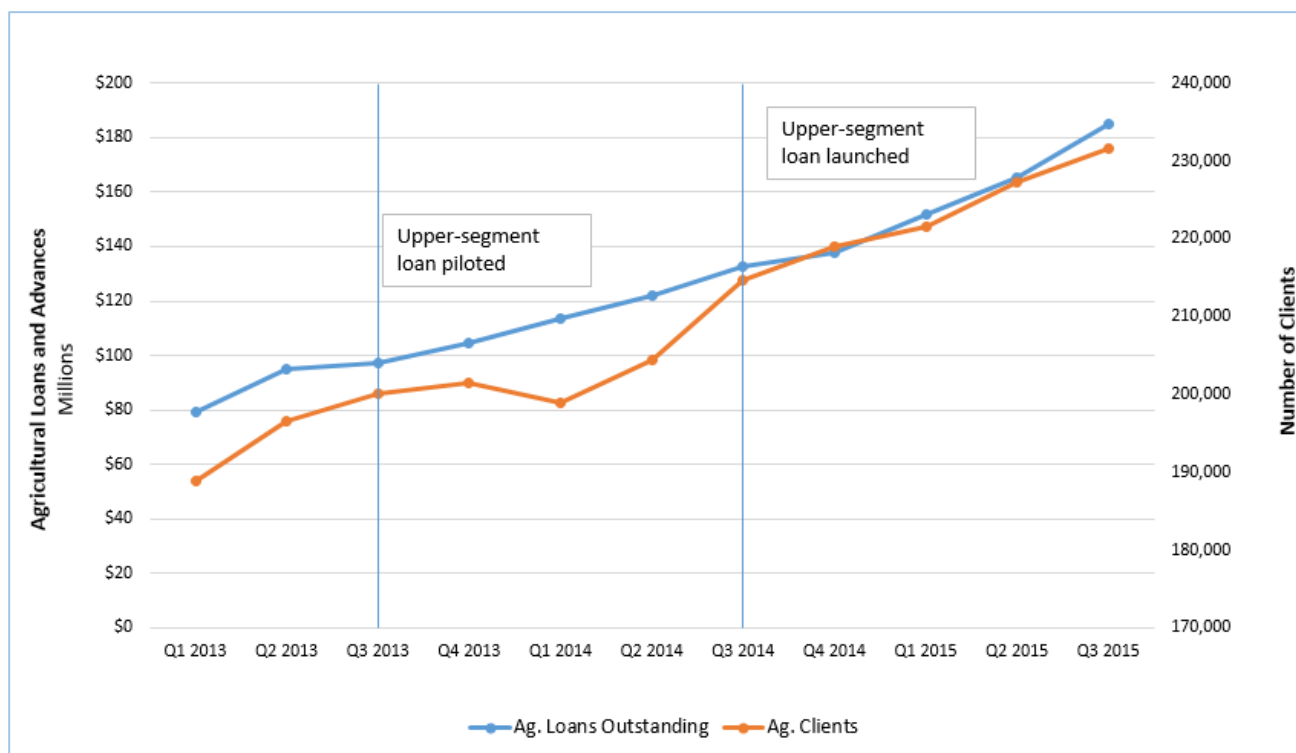


Figure 2 - Amret’s Agricultural Lending, including “Agri-Loans” loans (2013-2015)

It is notable that the average “Agri-Loan” value is \$US 5,316. This is more than ten times higher than the average agricultural microloan US\$572 (Figure 2). The higher loan values appear to reduce per-loan transaction costs and imply a more profitable product set, especially when combined with the lower NPL levels.



Figure 3 - Average Loan Size - Microloans vs Agri-Loan

### III. Amret's Mobile Financial Services

In addition to offering a new loan product, Amret has also developed a strategy to expand rural outreach through three different mobile financial service delivery channels: 1) Mobile Tellers who visit clients in order to collect deposits, make withdrawals, and open new client accounts; 2) third party agents who provide general banking services (deposits, withdrawals, fund transfer, loan repayment); 3) self-service mobile banking, where clients use their mobile devices to manage their accounts. Of all three channels, mobile tellers appear most unique.



Photo: Amret's mobile teller services, Kampong Cham

#### Amret's Mobile Tellers

Mobile Tellers have enabled Amret to greatly expand rural outreach where clients are far away from branches. The service enables such remote clients to deposit and withdraw cash and open new



savings accounts, and obtain account balance confirmation. As a new service Amret has worked hard to build client awareness and trust primarily through small group promotion and through village associations.

The Mobile Teller Service operates as follows: 1) the process starts the client phoning the bank to schedule an appointment with a mobile teller; 2) the mobile teller visits the client at their residence, or place of work, and carries out transactions using 3G equipped smartphones; 3) for each transaction the client receives an SMS text message confirming 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. The graphic below illustrates how the transaction is undertaken.

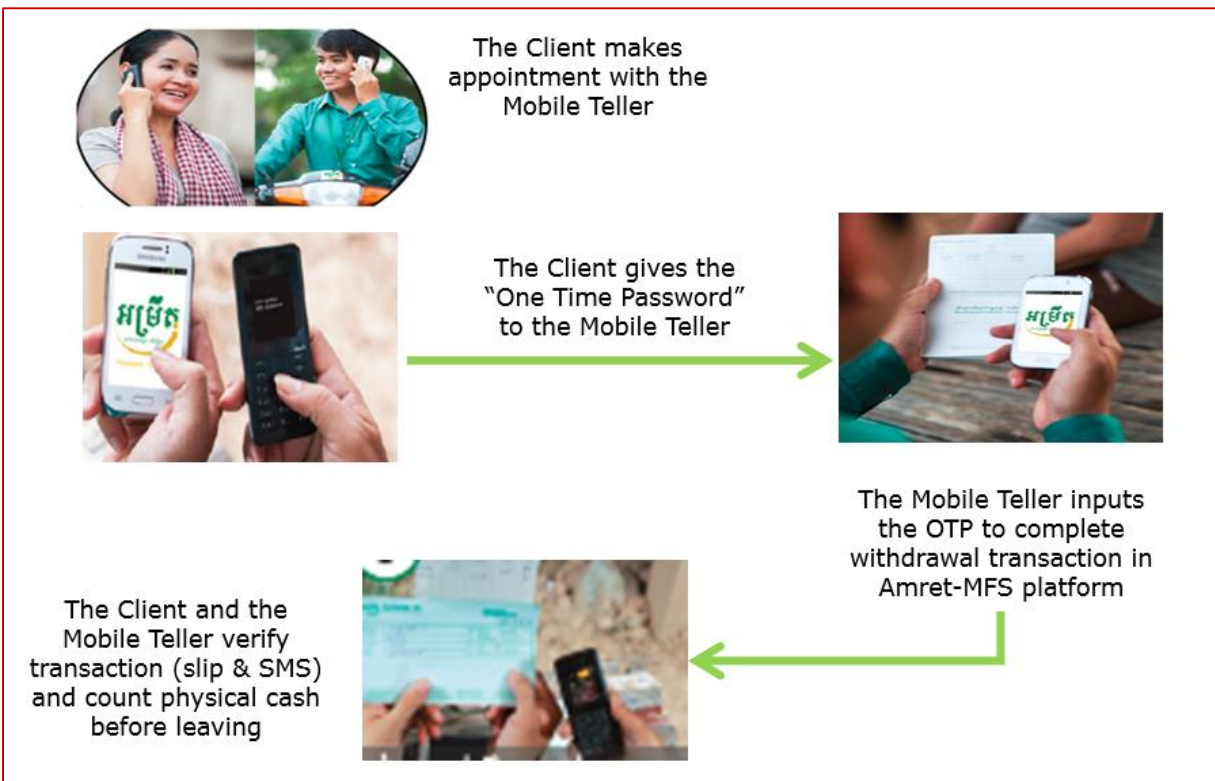


Figure 4 - Mobile Transaction Flow (source: Amret)

Initial results show that the Mobile Teller service has significant potential in helping Amret acquire new clients and mobilize rural deposits. As of Jul 2015, 12 active mobile tellers have reached over 3,700 depositors and carried out close to 80,000 transactions. The majority of the users are new to Amret and have been recruited by the service. Amret believes the service is an important means for increasing rural penetration and expects many of these new clients, who enter as depositors, to subsequently become borrowers.

While Amret views mobile financial services as an important strategy to acquire new clients and mobilize deposits, it remains to be seen whether these services are sustainable and cost-effective in the longer term. In the meantime, Amret is exploring the possibility of establishing a third-party agency network that would complement the services currently offered by Mobile Tellers.

## Field Visits

The study tour included two-days of field visits to Amret branches and clients. The first field visit was to Phnea Kraek district of Kampong Cham province, 160 km northeast of Phnom Penh. Participants visited the Krong Suong provincial office, which serves an area with a population of over 1 million. Amret is among the top three MFIs serving the region.

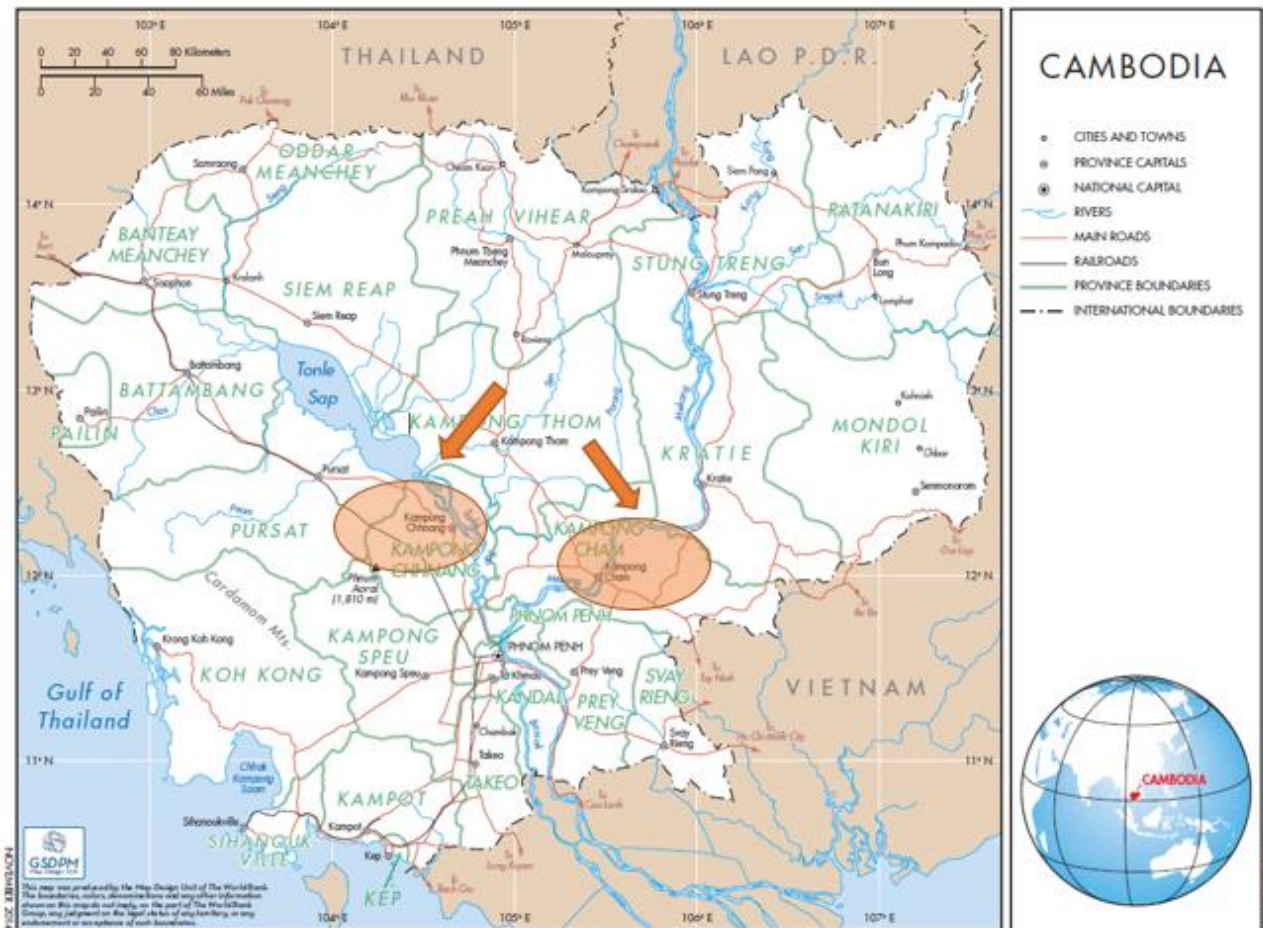


Figure 5 - Study Tour Field Visits

Amret explained that the original strategy had a small team of 36 specialized agricultural credit officers delivering the new developed “Agri-Loan” product. However with much greater demand than anticipated, Amret had changed their strategy and trained up their full complement of 1,212 general credit officers to provide agricultural loans.

Training provided to credit officers to enable them to lend to agricultural clients focused on applying the new cash flow-based lending methodology and assessing agricultural risks. Loan officers received additional on-the-job coaching to assist them in applying the skills following the training.



Photo: Provincial branch office in Tbong Khmum

The branch visit was followed by a visit to Amret clients operating a pepper farm and a rubber plantation. Visits exposed participants to both technical and financial aspects of the crops produced. Clients shared with the study tour participants how Amret’s loans have assisted them in expand their agricultural enterprises and activities.



Photo: Pepper Farm in Tbong Khmum



Photo: Rubber plantation in Tbong Khmum

The second field visit included a trip to Kampong Tralach in Kampong Chhnang Province, 90 km northwest of Phnom Penh where participants had the opportunity to visit Kampong Chhnang branch.

The provincial office serves an area with a population of over 1 million. Amret is one of the top four financial institutions by lending in the province, and ranks second in terms deposits held.

Participants were provided with the opportunity to observe Amret's Mobile Teller service in action, accompanying Amret's Mobile Tellers on client visits, and witnessing them undertake transactions including account openings, withdrawals, and deposits. Clients shared their personal experiences of utilizing the services with the study tour attendees with many noting that this was their first experience of using formal financial services.

## Lessons Learned

Key lessons learned by the attendees on the study tour related to four broad themes: designing customized products and portfolio quality; staffing; a flexible enabling environment; and building client trust in mobile financial services.

**Customized agricultural products and portfolio quality.** Critical to Amret's success has been its ability to expand its agricultural sector lending while maintaining portfolio quality. Amret's portfolio at risk (PAR 30) for all agricultural loans is 0.15%, yet even lower for the "Agri-Loans" at 0.01%. A combination of factors that have contributed to this including: i) product tailored to clients' needs; ii) an agriculturally specific credit risk assessment methodology; iii) and increased staff capacity.

**A new loan product.** For more than ten years, Amret has been successfully providing small individual and group loans to farmers. Amret recognized, however, that there was an increasing demand for larger agricultural loans among a growing segment of commercial farmers in Cambodia, which was not being met by financial institutions operating in rural areas. As such Amret responded by designing, piloting, and rolling out a customized loan product tailored to the specific needs of this customer segment. Careful product design, underpinned by up-front market research, ensured product appropriateness and subsequent uptake. Amret demonstrate that it is possible for a MFI to expand its product offering in order to meet the demand for larger agricultural loans while continuing to serve its existing clientele.

**A new client assessment methodology.** Amret developed a more sophisticated client assessment methodology which included a detailed analysis of the clients' cash flow and the structuring of loans based upon such cash flows. Additional risk mitigating features including the need for clients to have additional sources of income reduced reliance on production of just one commodity. Monitoring requirements are built into the lending process ensuring that clients make monthly interest payments to Amret, with an effective early warning system in place to identify issues early in order to take timely corrective action. In addition, data from the Cambodian Credit Bureau assists Amret in ensuring that clients are not over-extended.

**Strengthening capacity of credit officers to implement the new lending methodology.** Amret ensured the sustainability of the new lending approach by training and coaching its credit officers on the new lending methodology and coaching them to ensure they utilized the training effectively.

**Staffing strategy.** Study tour participants raised numerous questions regarding Amret's recruitment, training, and staff retention activities.

Recruitment: Amret has a rigorous vetting process, considering the experience, work history, and education of candidates and also expects candidates family members to act as guarantors as a fraud prevention measure. Amret noted the difficulties of securing staff skilled in both finance and agriculture, as such they have an in-depth training and coaching program for all newly hired staff lasting between 3 and 4 months. Amret has learned from experience that it is not cost-effective to have a dedicated agricultural finance team (i.e. dedicated agricultural loan officers) due to the seasonal nature of agriculture, where such staff face periods of low activity. As a result, Amret relies on all loan officers being able to deliver agricultural loans, as well as loans to other sectors, providing all lending staff with full agriculture training so that they are able to service such clients. A final point of interest was to note the competitive market for suitable finance staff. The presence of multiple MFIs makes staff retention challenging, with Amret experiencing an annual staff turnover rate of 12.86%. One proven measure for staff retention is to hire staff who live locally, as this is often a disincentive to move to a further afield competitor, however Amret recognizes, and is working on, a more strategic approach to staffing in order to increase retention rates.

***Benefits of a Flexible Enabling Environment.*** Participants identified that the Cambodian regulatory environment appears conducive to developing larger loan products for MFI clients, especially when compared to other countries regulatory regimes. Specifically, study tour participants noted that Amret and other Cambodian MFIs do not face a maximum loan size or tenor, and as such are free to develop a larger loan product for agriculture, whereas this is not the case in some countries.

***Building trust.*** Trust is a critical factor that determines client take up of Mobile Teller services. To aide in building trust, Amret enforces strict policies about uniforms that mobile tellers wear in order to reinforce brand recognition, ensuring that staff arrive at the time scheduled to service the client, and having a fully charged mobile phone to perform transactions. The newness of mobile-based transactions for clients requires some sensitivity and to overcome doubts about security Amret provides paper-based receipts as a means of reassurance. To assist with new customer recruitment Amret rely on senior staff, who have more experience in dealing with customers, to advertise and market the service.