DEVELOPMENT THEME SERIES

IMPROVED FINANCIAL SERVICES IN CAMBODIA

The Enterprise Challenge Fund (ECF) for Pacific and South East Asia is a A$20.5 million AusAID-led Australian Government initiative. It gives businesses in ECF participating countries a competitive opportunity to obtain grants for help in commercialising business projects. To date A$11.5 million in grants has gone to 22 business projects across eight countries: Cambodia, Laos, Philippines, East Timor, Vanuatu, Papua New Guinea, Fiji and Solomon Islands. The key rationale of the grants is to have a sustainable impact on poverty through employment, income generation and access to goods and services.

From technical research by Microinsurance Learning and Knowledge Centre and Riskfrontiers Consulting.

Microinsurance clients in rural Cambodia

Financial services for the poor: An inclusive financial system is like basic infrastructure (e.g. a country's road network or power system): it is not an end in itself but rather an enabler of progress on a range of development objectives. Microfinance can support entrepreneurship, leading to higher incomes (MDG 1). Savings, credit and other financial services can empower women (MDG 3) and help poor families pay school costs (MDG 2); respond to health concerns (MDGs 4–6); and afford clean water and sanitation technology (MDG 7). The UN Capital Development Fund helps least developed countries achieve the Millennium Development Goals by ensuring that formal financial systems include products and services appropriate and accessible for poor people.

UNCDF 2013
http://uncdf.org/en/millennium-development-goals

Background

Limited access to financial services in the developing world is one of the main obstacles to income generation and social protection. Over 4 billion people lack access to basic financial services such as credit, savings, money transfers, leases and insurance.

AusAID recognises that increased access to financial services by the poor in developing countries is an important factor in poverty reduction and the Enterprise Challenge Fund (ECF) goals are consistent with AusAID's poverty alleviation and sustainable economic development strategies. ECF adopts the direct intervention options of AusAID's Private Sector Development Strategy (June 2012), which include improving access to technology and market information; and technical assistance to improve market access for the poor to technical services.

Two ECF business projects in Cambodia are directly improving access to financial services and provide useful lessons on the benefits that can be directly and indirectly provided to disadvatanged communities.

About the ECF

The ECF, an A$20.5 million program funded by the Australian Government and managed by AusAID, supports projects unable to access investment funds through financial services in the Pacific and South East Asia. It provides a competitive opportunity for businesses to obtain grants from A$100,000 to $1.5 million for commercialising business projects to address local market failures and is currently funding 21 projects in seven countries.

The key intended impact of ECF grant funding is to reduce poverty through employment, income generation and access to goods and services, sustainability of initiatives, and creating wider systemic change.

The pilot ECF initiative reveals lessons in developing and managing private sector programs in the region as well as lessons for the individual sectors where projects have been funded.

The ECF funded two projects in Cambodia that created financial products designed for the rural market. WING Cambodia designed a mobile payment system for clients unable to access the formal banking system for transfers or payments; and an innovative microfinance institute offered microinsurance – loan insurance for their clients. Both projects have reached many clients over the three years of implementation with the help of a substantial amount of public education and relationship building. Independent research into the two different approaches has been conducted and reveals interesting findings summarised in this paper.

For more information please visit www.enterprisechallengefund.org.

WING Cambodia – Mobile payment services in Cambodia

WING is a provider of payment services and allows customers in Cambodia who previously had little or no access to financial services to use their mobile phones to transfer, store and cash-out their money.

In 2009, WING Cambodia (through parent company ANZ Royal) bid for and was awarded an ECF grant of A$1.5 million to help expand these services to rural provinces of Cambodia. WING allocated over A$4 million to the rural outreach and the total value of funds that ANZ has contributed to WING is over A$11 million.

The ECF grant provided funds for training of rural businesses to operate WING, greater awareness for rural customers and financial literacy training. Association with the ANZ bank provided expertise and strong processes to support the establishment of WING.

Early customers were recruited through broad scale marketing campaigns using 'WING pilots'.

WING advertisement targeting greater awareness for rural customers in Cambodia

The project and how it worked

When WING was first launched in January 2009, the target market was workers on the payroll of corporate clients such as textile factories. Initially the operation was limited because:

legislation allowed transactions only in Khmer Riels but all medium to large companies were paying staff in US dollars (changed in October 2010)

a relationship with the largest mobile phone network operator was not secured until January 2013.

Early customers were recruited through broad scale marketing campaigns using 'WING pilots'. Uptake was very high in early stages with WING reaching 100,000 customers within the first 6 months. Most were young, urban and primarily students and this affected the profile of early WING users – they were technologically advanced but provided a low value of transactions.

WING's initial service offering focused on the use of the mobile phone of the customer. In Cambodia, this had limitations as handsets can only show the payments menu in English and very few (an estimated 3–4% via USSD protocol) use the Khmer alphabet. The Cambodian market, particularly outside the big cities, finds it very difficult to read English, which definitely inhibits local people, in particular the very poor, from using the service.

The company focused on expanding the use of its payment platform through individual transactions but began offering bulk payments to help business and non-government organisations undertake transactions such as payroll and supplier payments, and offer bill-pay services.

In late 2011, ANZ sold WING to Inter Logistics, the parent company of the Mobile Refresh payments business. ANZ Cambodia is focused on the corporate and upper end retail segments of Cambodia as a target market.

Refresh Mobile is an airtime sales technology company that provides and supports point of sale machines to approximately 7,000 agents all over Cambodia from which they can print airtime (time spent talking on the mobile) vouchers. Refresh appears to provide WING with solutions to some of their very real ongoing challenges around market preferences for Khmer language and paper receipts as well as bringing a large additional distribution network of agents. The resulting product apparently has fewer barriers for the poor such as language, technical understanding of mobile phones and the intangibility that mobile or internet products tend to include.

WING has evolved over time, adapting to the needs of the market in Cambodia and the opportunities in the regulatory environment. WING has also revisited early operational models, such as outsourcing of its technology platform, and is making use of the additional technology available through new parent company Refresh.

WING has achieved significant results despite the many challenges and is poised to continue market expansion even as current management largely focuses on the urban and semi-urban market and optimising current service offering and operational efficiency and profitability.

The results

As at December 2012, WING has over 380,000 customers signed up to the payment platform with 14% regular users. WING has trained 850 merchants (small business owners) to provide WING cash in and cash out functions (called WING cash express) operating in both rural and urban areas. Remittance income transferred by WING has trebled since December 2011 from US$3 million monthly to US$9 million and projections in 2013 are to gain an increasing part of the US$300 million per month national remittances in Cambodia.

An independent review found 'WING is reducing the transaction costs for rural beneficiaries and this will generate development impact in urban and rural areas and is likely to have significant impacts on the behaviour toward savings and rural business activity.'

WING operates in all provinces of Cambodia and is available in 169 of Cambodia's 185 districts. Research by the International Financing Committee in 2012 shows WING is reaching previously unbacked customers with 80% previously having no bank account; 80% of WING customers are outside of Phnom Penh and 60% are in non-urban areas. A small majority of customers are men (65%).

WING estimates that an average domestic transfer – usually conducted by a network of money changers or sending funds physically via taxis – would cost US$2.50 whereas the price of a WING transfer varies between 50 US cents and US$1. This is an average saving for clients of US$19 per year on transactions, which has some significance to those earning low wages.

WING has also had a large impact on the potential for small businesses in rural areas to innovate as well as for individuals to access financial services.

The impact of WING financial services on the social and entrepreneurial potential of Cambodians is the subject of a PhD thesis by Jeff Fang. A comment from the brother of a SME business owner, obtained during field work, gives an important insight into the use of technology for small businesses. 'In the past, I was angry and often complained to my brother on the inconvenience and frustration to wait for taxi driver in hot and wet weather to

WING has trained 850 merchants (small business owners) to provide WING cash in and cash out functions.

collect money for buying the [supplies]. But using WING makes it easier to cash out my brother's money from my WING account to pay for the [supplies]. As a result, my relationship and communications with my brother has also improved. Because of WING, my brother now sends me money more often than before and I feel his family warmth and love to support my university studies and living expenses in Phnom Penh.'

Lessons for future programs

Lessons from WING's implementation complements industry findings. Further analysis of these lessons compared to wider industry practice have been assessed in Riskfrontier's Lessons from WING Cambodia (2013) and some key points are summarised here:

- Innovation versus profits – Innovation, product development and diversification of the customer base are more possible with patient capital in the earlier stage of the establishment of a business. However, as a business matures, and there is more pressure to become profitable, the business may consolidate, focus on serving its more profitable customer base with proven products, increase efficiency and cost effectiveness. In the mobile money business, this may mean that for a particular period in the life of the business there is less innovation, less market research, differentiation, product development and lower outreach to under-served clients.
- The benefit of offering mobile money through banks – Mobile money businesses can benefit from a bank host on several levels: investment capital, technical expertise, brand recognition, initial source of customers via the bank's corporate clients such as their employees and other moderate income clients. Perhaps most significantly, the bank can provide confidence to the regulators and can perform key regulatory issues.
- The benefit for banks of offering mobile money – The bank may not benefit its core business significantly if its focus on high-income customers. The corporate payroll business may not generate sufficient income to sustain a mobile money operation and the function may be too far outside the bank's core business. These banks may benefit from transferring lower-end customers away from costly and unprofitably bank accounts, towards more appropriate basic mobile money services.
- WING provides cost savings as a key benefit – WING demonstrates the kind of benefits customers can realise from mobile money and/or electronic payments: significantly reduced cost, faster access to money, better security (reduced risk). Cost saving seems the easiest to measure and serves as a good proxy for general positive impact because clients cite cost-savings as a key benefit of the service.
- Where can grant funding fit in this – Grants and/or social investment can provide an incentive and reduce risk for mobile money businesses to reach under-served markets ; but as the business matures and there is the inevitable pressure to reach profitability, such businesses may consolidate in their service offering and customer base, at least temporarily.

An alternative strategy is for grant funding to be used for public goods such as market research, research and dissemination of good practices, financial literacy, advocacy for supportive legislation, and broad awareness raising campaigns that develop the industry as a whole.

SAMIC microinsurance in Cambodia

The Cambodian company SAMIC provides microfinance services through eight provincial branches. In 2009, SAMIC was awarded an ECF grant of A$199,450 to pilot a microinsurance program for its borrowers to protect immediate family members in the event of accidental death. The policies are paid by small premiums included in the loan repayments and cover the outstanding loan amount.

The Cambodia-Laos Regional Assessment Panel approved the grant on the basis of the innovation of the insurance products and their potential impact on the clients of SAMIC microfinance. This project is the first of its type in Cambodia to be undertaken by a business and it was expected to be a good model for others in the country.

SAMIC used ECF funds to create MEADA – a microinsurance program to expand its reach, increase the total number of SAMIC borrowers covered by insurance and offer an education program for clients on health matters, family planning and insurance benefits.

The project and how it worked

MEADA offers two insurance products for two distinct client segments – loan protection coverage for borrowers of loans up to US$1300 and basic life coverage for borrowers and their spouses who have loans above US$1300. The current benefit includes a write-off of the outstanding loan amount (principal and interest) as well as a reimbursement of the loan repaid to SAMIC by the borrower, excluding interest.

Clients pay a premium equal to 1.5% of the loan amount per year, collected upfront in cash at the time of loan disbursement. On aggregate, MEADA's claims ratio is around 15% each year, which bodes well for the product's profitability and sustainability but is low in comparison with industry standards and expectations of microinsurance product value. The longer-term trend, however, with claims ratios increasing to 20% (mostly attributed to the drop in premium) is promising from a client-benefit perspective though still far from what would be expected of valuable microinsurance in the aggregate.

During implementation, MEADA expanded their business and has since established a separate small business for offering insurance. MEADA officers trained staff from 16 branch offices of SAMIC and provided materials for the new insurance products. Microinsurance officers trained clients to understand the insurance and the benefit of securing loans and businesses with microinsurance.

The microfinance sector in Cambodia is highly developed with a large number of providers. In late 2011 legislation was introduced to regulate microinsurance which provides opportunities for microfinance institutes to consider diversifying their insurance products. In 2013, this fledgling industry has only three institutions operating credit life or life insurance products and therefore MEADA is in a good position for expansion.

The results

To date, uptake of insurance is relatively high: 75% of SAMIC's borrowers have purchased the loan protection coverage and 22% have purchased basic life coverage. As of December 2012, 10,215 lives were covered under the loan protection product and nearly 4,851 clients and their spouses were covered under basic life. To date, SAMIC and MEADA have settled 155 claims.

In late 2012, the ECF funded the Microinsurance Learning and Knowledge (MILK) Centre to conduct research on whether loan forgiveness on its own could provide value to clients facing a wide array of financial burdens, and whether it could provide value over and above traditional community-based support.

The research found the financial value of the loan cancellation averaged US$199, which represented 100% of the SAMIC loan but less than half of the total debt burden that respondents faced. The loan coverage component of the insurance helped to eliminate the cost of servicing their SAMIC loan, though it did not address some of the additional debt burden of the deceased. Assuming that the other sources of lending did not write loans off, SAMIC clients benefitted by de-leveraging their families by US$199 through having insurance.

The cash refund, which averaged US$129, was very small compared to the immediate costs of around US$700–800 that families faced after the death. This suggests that, overall, the magnitude of the cash benefit of the insurance seems to be too small to substantially alleviate costs or impact the overall

Microinsurance is offered to microfinance clients of SAMIC microfinance.

Clients pay a premium equal to 1.5% of the loan amount per year, collected upfront in cash at the time of loan disbursement financial response of beneficiaries, who still had other, non-SAMIC loans to service as well as expensive funeral costs to pay. While the cash refund had small financial value, it did add to the product's expected value. By refunding this nominal amount, MEADA offers a tangible and psychological benefit to clients, which can improve their perception of the product's value, even if it does not substantially mitigate household costs.

Finally, the service value of the product is high. Interviewed beneficiaries report that the claims process was easy and efficient: on average, beneficiaries reported receiving the benefit just seven days after the death, and just one day after submitting their documents. By providing immediate relief, the MEADA product quickly reduces uncertainty after a shock.

Lessons for future programs

- Public education is vital – Insurance is a new concept in Cambodia and in many developing countries. As a whole there is considerable mistrust of the financial services industry based on previous poor practices; the poor were often more comfortable with informal financial systems. The financial services industry and insurance as a new product requires client education and public awareness campaigns as well as clear regulations in order to rebuild trust and understanding.
- Working in partnership with an existing company with an existing client base – In developing their product, MEADA worked through SAMIC microfinance and had access to an existing client base. The strong network of clients with financial literacy and small branch offices in many locations, staffed by local people, proved useful.
- Demonstrating good service is critical to uptake – Client participation in MEADA insurance was optional and initially only 40% of clients took out insurance until claims started being processed. The demonstration of the claims process – settled expediently 1–2 days after the authentication documents showed the value of the insurance – increased levels of trust with clients and participation rose to 71%.
- Over-indebtedness and the benefit of wider coverage of microinsurance – The research found that loan forgiveness quickly relieved a debt and offered a useful cash refund during a time of crisis. It also notes 'the product fell short of beneficiaries' immediate and long-term needs. The size of the insurance benefit is quite small compared to the costs, and even smaller compared to the total array of financial strategies used by respondents.' Additional research has found that over-indebtedness is an important issue in Cambodia particularly for the poor who are often balancing 2–4 additional loans. The Cambodian Government in partnership recently launched the Cambodia Credit Bureau. Combined with a wider offering of microinsurance with loan products, this is a very important step to reducing financial stress on the poor.

The research found that loan forgiveness quickly relieved a debt and offered a useful cash refund during a time of crisis; however, needs were higher than the product could provide.

Australian AID

The ECF is a competitive opportunity for businesses to obtain grants that assist in commercialising business projects in ECF participating countries. ECF is an Australian Agency for International Development (AusAID)-lef Australian Government initiative. For more information please visit www.enterprisechallengefund.org

ENTERPRISE CHALLENGE FUND
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