

Building capacity to strengthen access to housing microfinance in Cambodia by LOLC Cambodia and Habitat for Humanity International

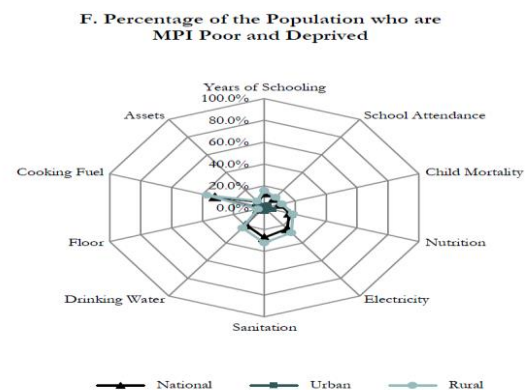
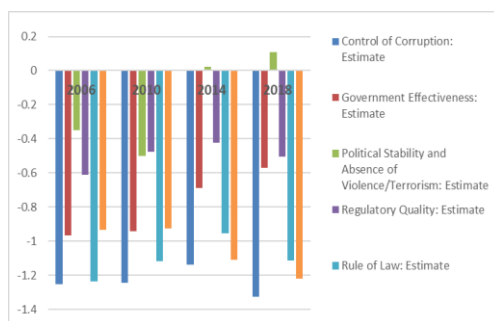
1. DEVELOPMENT RELEVANCE

Economic and poverty context¹

Economic growth in Cambodia has remained steady, averaging 8% between 1998 and 2018, driven by garment exports and tourism. It has been one of the fastest growing economies in the world, positioning the country among lower middle-income countries in 2015. Between 2004 and 2011, the proportion of people who live in absolute poverty (on less than US\$1.15 per day) fell from 53% to 21%. A large number remain close to the poverty line and therefore vulnerable. The number of people who live on less than \$2.30 per person per day grew from 4.6M in 2004 to 8.1M in 2011.

Cambodia ranks 5th amongst all countries in achieving the Millennium Development Goals (MDGs), though the progress in meeting MDG is uneven. Health and education however remain important challenges and development priorities. 1 in 3 children under the age of five suffer from stunting and only 36% of three-to-five-year-olds are enrolled in early education. As of 2015, 25% of Cambodia's population (3.8M) do not have access to improved water, and 44% (6.8M) did not have access to improved sanitation. Greater connectivity, increased investments in urban and rural infrastructure, sustainable management of natural resources, diversification of economy and accountable and responsive public institutions are needed to sustain the pro-poor growth.

Table 1 ⁱ : Population and economic indicators	
Population in million (2018)	16.2
GDP growth (2018)	7.5%
Inflation (2017)	2.9%
Trade balance (% of GDP) 2018)	-1.7%
Foreign direct investment (net) (% of GDP) (2018)	12.6%
Net ODA received (% of GNI) (2017)	4.1%
Remittances received (% of GDP) (2018)	5.8%
Economic Freedom Index ⁱⁱ (Rank among 186 countries) 2019	105
Poverty indicators	
GDP per capita (USD) (2018)	1510.3
Gini Index (0= equality 100= inequality) (year)	NA
International poverty rate (year; at 1.90 USD/day)	NA
National poverty rate (2012)	17.7%
National rural poverty headcount rate (2012)	20.8%



Governance indicators chartⁱⁱⁱ, (Cambodia, 2006-2018) Multidimensional poverty index chart^{iv}, (Cambodia, 2017)

Financial sector context²

Cambodia has a diversified financial sector with 44 commercial banks, 15 specialised banks, 7 microfinance deposit-taking institutions, 74 microfinance institutions and 254 rural credit operators (2018 report by National Bank Cambodia). Except for the Rural Development Bank, the country's banks are all privately-owned and most are controlled by foreign shareholders. Only 22% of Cambodian adults were estimated to have a bank account in 2017 (Global Findex Database, 2017). Approximately 59% of adults in Cambodia have access to

¹ Adapted from the World Bank's website
² Adapted from Findex database and the World Bank's website

formal financial services (17% in banks and 42% in other financial institutions). The microfinance industry has played a significant role in the financial inclusion progress of the country. The Cambodian microfinance sector has grown significantly in the past few years and is regulated by the central bank. The microfinance sector is mainly dominated by two types of Microfinance Institutions (MFIs): A) MFIs registered with the central bank (deposit and non-deposit taking MFIs) and B) the other non-registered MFIs such as NGOs. As of December 2019³, the collective outreach of 73 MFIs include total portfolio outstanding of \$7.3 billion with 2.2M borrowers and \$3.7 billion in deposits with a depositor base of 2.8 million. The portfolio quality of these MFIs has also been within acceptable standards. Few of the deposit-taking microfinance institutions cover 100% of the districts and communes and total operational coverage includes more than 90% villages. Few of the MFIs are increasingly relying on use of technology such as point-of-sale devices / terminals and mobile technology to increase the operational radius of their branches. After the National Bank of Cambodia has put a cap on the interest rates, most of the microfinance institutions are relying on adoption of technology to reduce their cost structure and increase their operational coverage. Overall, Cambodia has one of the most developed microfinance sectors and is regulated by the National Bank. Cambodia has the highest average microloan debt per borrower in the world at around \$3,370 - a figure more than double the country's GDP per capita⁴. To promote global standards and best practices, Cambodia has established a credit bureau to mitigate over-indebtedness among borrowers and has strengthened the regulatory framework by imposing interest rate caps.

Almost 9.8M Cambodians lack access to decent housing; however, 8.8M of low-income workers can afford cost of house but lack access to adapted housing finance⁵. Cambodia's banks usually require down payments of at least 30% and involve lengthy checks on credit history and repayment ability, limiting access to low income households⁶. The role of microfinance institutions is pivotal to addressing this market gap as many low income families which are traditionally served by the microfinance industry also lack access to decent housing.

Partner financial institution

The project involved working with LOLC Cambodia on **developing a new housing product = micro mortgage product**. LOLC (Cambodia) Plc. ("LOLC") is a rapidly growing, regulated microfinance institution with a focus on serving entrepreneurs and families at the base of the socio-economic pyramid with the economic opportunities to transform the quality of their lives. LOLC is recognized as one of the top five Microfinance stakeholders in Cambodia. LOLC offers credit, savings and money transfer solutions to economically active low-income population of Cambodia and is present in rural and urban locations. As of December 2019, LOLC operates in all of Cambodia's 25 provinces through 79 branches powered by 2,757 committed staff. LOLC has a USD 778M gross loan portfolio serving 294,152 borrowers through several diverse loan products. Since obtaining its deposit-taking license from the National Bank of Cambodia in 2015, LOLC has shown promising growth with its depositor base. As of December 2019, LOLC had a total savings mobilization of \$ 448M with a depositor base of 336,002.

2. INTERVENTION APPROACH

Capacity building needs

After having successfully launched the home improvement product and building internal capacity on the product, LOLC planned to enter into a mortgage lending, as part of their overall growth strategy and business plan, which would involve providing higher sized loans for longer loan terms to low income families. Decision to introduce the new housing product was also in line with the overall demand of housing in the country and the emerging competition landscape in which other financial service providers were also becoming active in the housing finance space. Habitat for Humanity's Terwilliger Center for Innovation in Finance (Habitat's TCIS) team have had a preliminary discussion with the senior management team of LOLC Cambodia at the time of renewal of a loan from the MicroBuild Fund (a debt fund, owned and managed by Habitat for Humanity, which provides wholesale lending to microfinance institutions for on lending towards housing microfinance purpose) and based on that discussion, this project proposal was submitted to SCBF. **This project involved providing advisory services to LOLC Cambodia for developing a new micro mortgage product. LOLC required specific expertise in housing finance for understanding the best practices in product development and**

³ Data from Cambodia Microfinance Association's website

⁴ according to 2017 Mix Market figures

⁵ <http://www.buildingtrustinternational.org/UNSIF.pdf>

⁶ <https://www.khmertimeskh.com/50635423/cambodias-total-mortgages-near-3-5b>

policies and procedures and wanted to partner with the Habitat’s TCIS in order to also leverage upon the previous work conducted in the home improvement financing space.

Main activity areas (goals, targets, resources & time frame) and outputs

Habitat’s TCIS worked with the Frankfurt Institute of Finance and Management as the consultants for this project, as they bring extensive experience. Our team also got involved in all the project components with the Frankfurt Institute and ensured the quality assurance of all deliverables and administration of structured approach and methodology to the housing finance product development. Overall, the following deliverables were accomplished in the project:

- 🏠 **institutional assessment of process mapping report;**
- 🏠 **market research;**
- 🏠 **design of a micro mortgage product;**
- 🏠 **draft policy manual for the proposed product;**
- 🏠 **training on housing finance and the new product;**
- 🏠 **pilot plan document (with projections);**
- 🏠 **pilot dashboard;**
- 🏠 **pilot launch;**
- 🏠 **midterm and end term evaluation of the product performance.**

Purpose	Purchase of home, apartment, condominium (both primary and secondary market) - Construction of residential home*
Loan Amount	Up to USD 30,000 for home construction Up to USD100,000* for home purchase
Collateral	Financed property
Loan Term	Up to 10 years
Interest	1.2% per month
Processing fee	1% of loan disbursement (one-time off)
Loan disbursement	Lump-sum (for home purchase) Lump-sum (for construction loans up to a certain amount) In tranches (for construction loans above a certain amount)
Loan to Value	No more than 70%
Loan to Collateral Value	Maximum of 70% of house price. Loan to collateral value is calculated on the lower value between appraised value and purchase price.

In addition to the SCBF funding (covering majority of the staff and personnel costs), Habitat’s own funding (from the Hilti Foundation) was also used in this project for meeting logistics costs and few of the personnel/staff costs.

With the help of our advisory services, the new micro-mortgage product was developed and finally approved by the Board of LOLC and launched across the institution in the second week of June 2019.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

LOLC’s client – Rous Sart - lives in the Kandal Province, Cambodia and earns approximately USD 400-500 monthly through corn farming. The client learned about LOLC’s new housing loan product through a door-to-door marketing approach, conducted by a LOLC loan officer. The client saw this new loan product as an opportunity to build a new house, as he would want to have a second floor for his family’s home and improve the overall condition of the house. The client cited a trouble-free experience while applying for the loan as the requirements were minimal and the loan was approved well in time. The client received a USD 5,000 loan for new construction payable in 4 years which translates to a USD 150 monthly payment.

His old home had to be demolished as they would be using the same piece of land to construct the new home. A makeshift home was built using materials from their old house to function as their temporary shelter during the construction period.

His new home, funded through the LOLC’s Housing Loan was still undergoing construction during the time of visit (November 2019). The client together with the help of his family members built it themselves as they had previous construction experience. The home construction was expected to be completed at the end of November/December 2019. Through LOLC’s Housing Loan, the client was able to have access to finance and work towards having a new shelter for his family.



Figure 1: Temporary shelter of LOLC's client



Figure 2: Home under construction



Figure 3: Home finalized

Partner financial institution's level

With the help of Habitat's advisory support, LOLC Cambodia was able to improve internal systems and policies for the new micro-mortgage product as the previous ones were suited for unsecured home-improvement financing products. As the institution planned to enter into **mortgage lending for low-income families** and offer higher loan amounts, the main challenge was to integrate this within the existing branch infrastructure. The MFI benefitted with necessary tools and manuals and also recommendations on staffing aspects and organizational structure at the branch level. In addition, the capacity building of the internal team was carried out who then trained their branch staff during the product rollout phase.

Number of active borrowers	11,518
Thereof, number of active women borrowers	7,560
Thereof, number of active borrowers living in rural areas	10,955
Total number of loans disbursed	9,950
Total value of loans disbursed (in Local Currency or USD, please specify)	\$59.8 million
Average loan size (in Local Currency or USD, please specify)	\$6,010
Portfolio Quality (PAR 30)	0.16%
Total number of clients with payments due for over 30 days	37
Retention Rate	N/A
Number of clients trained in financial literacy and/or trained on SCBF-supported product	N/A – LOLC staff trained

The institutional assessment process mapping mission assisted the MFI to better understand the complications with mortgage lending and rent-to-own lending model. Since the rent-to-own model brings in greater complexity with financing, real estate management and liquidation, to name a few, the MFI decided to focus on micro-mortgage product development as both internal and external systems are not in place in Cambodia to manage rent-to-own financing models. LOLC appreciated the clarity the team brought with regard to various secured lending methodologies (for the new product) to the senior management and the associated risks.

After the product design was finalized, we conducted a training of LOLC's key management staff on the new mortgage product and the fundamentals of mortgage financing and built their capacity in successfully delivering this type of training to their branch staff. The fact that 38 branches offer this new product as of February 2020 also highlights the capacity of the product / middle management team (in training their branch staff) who worked with us closely during this product development journey.

During the midterm evaluation of the product, the team observed that the new product is resulting into negative impacts on the existing home-improvement product as the branch staff did not have uniform understanding of product features, policies and procedures. With the help of these findings, LOLC was able to clearly define and segregate the product features of the new housing product with that of existing home improvement product and was able to hire a dedicated staff to manage the implementation of the new product. This new person, Home Loan Specialist (HLS), was on-boarded to join the Business Development Department and his/her role is to mainly oversee the implementation and performance of the new Home Loan (HL). The HLS is also responsible for capacity development of the branch staff, which is responsible for sales and origination of the product.

LOLC Cambodia has already surpassed the impact numbers that were estimated during the project conception stage. The project duration was from August 2018 to February 2020 and in terms of potential impact, we had estimated that 2,520 families (2,400 families from Home Improvement Loan and 120 families from the New Mortgage Loan) would gain access to housing microfinance services with an estimated capital mobilization (value of loans disbursed) of \$8.4 million. Under home

improvement loan, LOLC reached out to overall 9,700 families with a total capital mobilization of \$57.3 million from July 2018 to December 2019 (please note that for the home improvement loan, we generally receive quarterly numbers from LOLC instead of month wise figures, and hence the impact numbers are shown from July 2019). Under the new mortgage product, LOLC has served 250 families with a total capital mobilization of \$2.5 million as of Jan 2020. Overall, LOLC has served a total of 9,950 families with a cumulative loan disbursement of \$59.8 million towards housing finance solutions.

4. LESSONS LEARNT

The advisory support to LOLC Cambodia fully met the objectives as the institution was able to successfully launch the new product across all the branches. The design of the advisory package was finalized in consultation with the management team of the MFI, which was also an essential step in delivering market based solutions. The management team of LOLC played a crucial role in the success of this project as they assigned a product champion, who worked with us very closely throughout the engagement and ensured the internal coordination. LOLC's risk and credit team took the lead in drafting the policies as they had to integrate this process in their existing mechanism and our team later conducted the peer review of the document and provided inputs for further strengthening of the policies and procedures.



Habitat's TCIS also roped in Frankfurt Institute of Finance for acting as a lead advisor in this project as they carry a good experience in mortgage lending. The Habitat's TCIS ensured that the product development approach followed the systematic process and it also provided the context to the overall relationship as the Habitat's TCIS already had a good working relationship with LOLC, which also included development of the earlier home improvement product.

The project launch was overall delayed by more than two months due to the late approval of the new product by the Board of LOLC. This delay was mainly because of other priorities at LOLC during the period. Despite this, we were able to finish all the project components by February 2020, which was also the timeline of the project based on the amendments to the contract. The midterm evaluation of the product performance was conducted in November 2019 and the end term assessment was planned for January/February 2020 depending upon the MFI's availability. However, the end term assessment had to be conducted off-site because of the outbreak of the Coronavirus and restrictions imposed on travel. We received very good support from the MFI during this stage as they were able to complete our data requests and provide us the updates since our last visit in November 2019.

One of the initiatives that could have been done differently is to launch a product on pilot basis in a few branches instead of an organization-wide rollout. LOLC Cambodia proceeded with their existing practice of launching a new product simultaneously in all of its branches. However, we had recommended to launch the product on pilot basis in a few branches, as this practice would allow us to find the right operating model for the product and standardize its features, policies, and procedures and simultaneously control risks and inefficiencies before proceeding with the full scale roll out.

Habitat's TCIS recommended to cap it at \$30k as the maximum loan amount considering that it was the first time LOLC wanted to offer loans for new construction and home purchase. However, LOLC decided to keep the maximum loan amount as \$100k and kept the product design flexible as they also want to target middle income households. As of January 2020, only three loans have been disbursed which are beyond \$30k. LOLC is now working towards developing tie ups with real estate providers/companies to attract a new customer base that may require higher sized loan amounts for their housing needs.

LOLC Cambodia's new housing product is now already part of the business strategy and the institution has developed the financial projections up to year 2024 showing the gradual growth of the portfolio in the long run.

ⁱ The World Bank Group 2018. World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed Feb 2020

ⁱⁱ Heritage Foundation 2019 Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed Feb 2020

ⁱⁱⁱ The World Bank Group 2018 Worldwide Governance Indicators database. Washington, DC. <http://databank.worldbank.org>. Accessed Feb 2020

^{iv} Oxford Poverty and Human Development Initiative 2017. Global Multidimensional Poverty Index Databank. OPHI, University of Oxford.

http://www.dataforall.org/dashboard/ophi/index.php/mpi/country_briefings Accessed Feb 2020