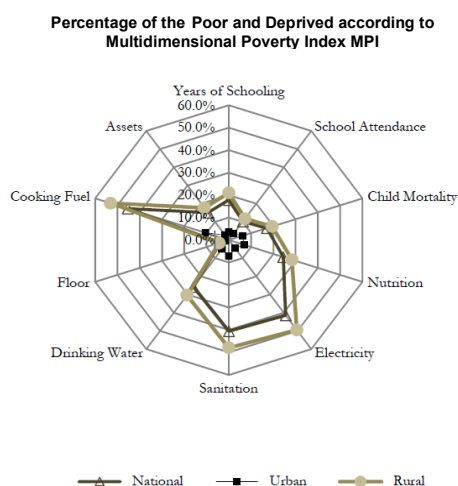
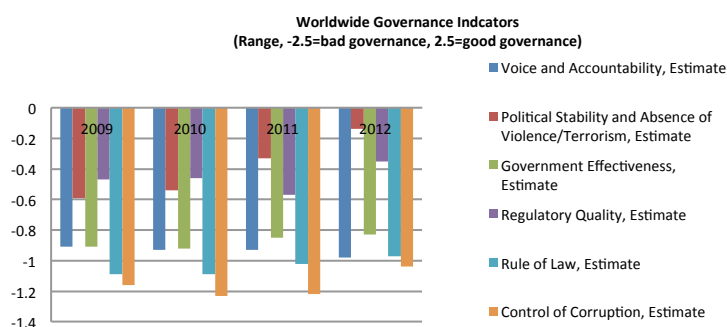


Up-scaling of Cambodian Housing Microfinance Products by Hattha Kaksekar Limited and Thaneakea Phum Cambodia

1. Development relevance

Economic and Poverty Context: Cambodia has experienced 6-10% growth per year over the last decade, mainly driven by garments, construction, agriculture and tourism since 2004.ⁱⁱ Thanks to strong exports, private investment, agriculture, and underpinned by a solid macroeconomic position, the economy is expected to further grow in 2014.ⁱⁱⁱ Still, it remains predominantly informal with a young, rural population. The country struggles with political and human rights issues; recent elections resulted in protest. The Economic Freedom Index of 2014 ranks the economy as the 108th freest, and at the 23rd place out of 42 countries in the Asia-Pacific region. Since 1997, progress in economic freedom has been uneven and modest. Substantial challenges remain.^{iv}



microfinance sectors, regulated by the National Bank. The Cambodia Microfinance Association is promoting global standards and best practices and has recently established a credit bureau to mitigate over-indebtedness among borrowers. Over the past 15 years, 27 MFIs have emerged, including 6 Microfinance Deposit Institutions. In March 2014, Cambodia's MFIs (reporting to the MIX) served 1.8 million borrowers with an average loan balance of USD 1'860.^{vii} 80% of clients live in rural areas – where 40% of the population is considered to be poor – and most of them are involved in the agricultural sector. Product diversification is increasingly important as the sector grows and matures.

Population and Economic indicators	
Population (2012) millions	14,86
GDP growth (average: 2009-2012)	5,125
Inflation (average: 2009-2012)	3,08
Trade balance (% of GDP) (2012)	-7
Foreign Direct Investment (net) (% of GDP) (2012)	11
Net ODA & official aid received (% of GDP) (2012)	6
Workers' remittances (% of GDP) (2012)	1,8
Economic Freedom Index ⁱ (Rank among 185 countries)	108

Poverty indicators	
GDP per capita (current USD) (2012)	944
Gini Index (0= equality 100= inequality) (2009)	36
Multidimensional Poverty Index (1=poor 0=not poor) (2010)	0,212
National and rural poverty headcount ratio in % (2011)	20,5; 23,6

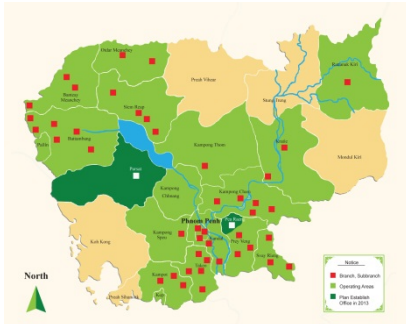
According to the Multidimensional Poverty Index (figure), poor rural Cambodians struggle to access electricity, sanitation, and clean drinking water. 29,4% of households reside in dwellings constructed with soft or temporary wall materials.^v 53,6% of households have no access to improved drinking water. 55,8% of households nationwide do not have latrines within their residential premises. There is a shortage of housing for low-income immigrants seeking work in the capital city of Phnom Penh. About 25'596 residential units were constructed in Phnom Penh between 2004 and 2008, of which only 64% were sold at an average price of USD 81'697.^{vi}

The role of safe and decent housing in economic development is well recognized. Investment in housing and related infrastructure and services has a significant impact on national income and can revitalize growth. The demand of Cambodians for improved sanitation, access to safe water facilities and housing offers a market opportunity for well-positioned, client-oriented MFIs which can offer demand-driven housing microfinance (HMF) products.

Financial Sector Context: Financial inclusion has evolved considerably in the past few years, driven primarily by microfinance, which began in the early 1990s as a result of nation building efforts by the international development community. The country today has one of the most developed

Partner Financial Institutions: The SCBF intervention targeted two MFIs: Thaneakea Phum Cambodia (TPC) and Hattha Kaksekar Limited (“Farmers Hand” in Khmer, HKL).

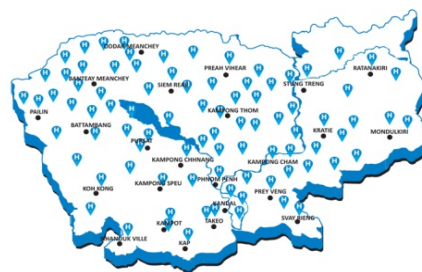
TPC Branch Network



TPC was established by the Catholic Relief Services in 1994 to help rural women finance microenterprise activities by providing them access to financial products and support services such as business planning advice and family financial management. It has 27 offices, offers fair and transparent product pricing, and pursues a strong social mission with 89% of its clients being low-income rural women. TPC is the 5th largest MFI in the country in terms of gross loan portfolio and number of borrowers. It offers solidarity group loans, microbusiness expansion loans, seasonal loans and home improvement loans. It is committed to client protection standards, has endorsed the SMART campaign principles and introduced the Progress out of Poverty Index in 2013. TPC is well positioned to be a market leader in housing microfinance (HMF) due to its early entry in 2012.

TPC (data in USD)	2009	2012	2013
Total assets	28'229'555	61'686'002	94'733'780
Gross loan portfolio	17'467'999	48'342'251	74'946'541
Total clients	91'170	122'077	153'952
Total staff	368	695	874
Total branches	23	39	46

HKL Branch Network



HKL started as a food security project by Oxfam-Quebec in 1994. It transitioned to a private limited liability company in 2001 licensed by the National Bank as an MFI. HKL operates in all 24 provinces through a 136-branch network. It is the 4th largest MFI in Cambodia in terms of portfolio size with a market share of 11,4%. It offers a range of financial products and services that include individual loans, insurance, money transfer, planned savings account, time deposit account, and an ATM network. HKL is committed to client protection standards and social performance, has endorsed the SMART campaign principles and is reporting the Progress out of Poverty Index. In 2006, HKL started offering a construction loan for commercial, residential and other construction purposes. The loan product represented 11% of its portfolio (2012).

HKL (data in USD)	2009	2012	2013
Total assets	33'444'160	122'972'865	179'631'899
Gross loan portfolio	31'180'474	102'838'107	145'667'482
Total clients	41'110	74'559	83'416
Total staff	510	1278	1613
Total branches	54	122	136

performance, has endorsed the SMART campaign principles and is reporting the Progress out of Poverty Index. In 2006, HKL started offering a construction loan for commercial, residential and other construction purposes. The loan product represented 11% of its portfolio (2012).

2. Intervention approach and additionality

Capacity Building Need: Both MFIs were in the pipeline for an investment of MicroBuild Fund, an investment vehicle focusing on housing that aims to demonstrate the viability and scale opportunity of HMF via longer-term capital. In preparation of the investment and with support of the SCBF, **TPC** wanted to increase the number of HMF loans disbursed and test whether construction technical advice would help clients improving their living conditions. **HKL** wanted to improve its general construction loan and create two separate products that respond to client needs and specifically target residential non-commercial re/construction activities. Therefore, Habitat for Humanity Cambodia together with Habitat's Center for Innovation in Shelter and Finance (thereafter referred to as ‘Habitat’) supported TPC and HKL in:

- Institutional diagnostic assessment
- Development and training of a HMF core team within each MFI
- Product development, including training in market research. Research focused on the demand and housing preferences in the key target areas. It included key informant interviews with other housing value chain actors, such as masons and suppliers.
- Pilot support and monitoring, including development of product manuals, marketing plans/materials, MIS adjustment, and providing training to branch and management staff.

- **TPC** conducted a 3-month pilot of its adjusted Home Improvement Loan in the Bati branch with 11 promotional financial education activities reaching 226 potential HMF clients. Detailed technical

Figure 1: Focus Group Discussion with HKL potential clients.



assessment was provided to 26 clients.

- 50 credit officers were trained on HMF, technical components of housing and new product features. 20 credit officers participated in a training-of-trainers course on financial education for housing clients and now offer financial education in 7 provinces to prospective clients.
- **HKL** conducted a 6-month pilot of its new products. In each of the 5 pilot branches, a civil engineer assisted credit officers and clients, who received basic technical assistance (see figure). Clients can avail a higher level of construction technical assistance for a reasonable fee.
- 118 branch staff were trained on construction technical assistance, loan policy, and basic construction. Follow-up trainings will be provided at the close of the pilot period.

Additionality: Habitat's global toolkit for housing microfinance was customized to Cambodian conditions and a partnership with the Cambodian Microfinance Association shared experiences with all its members so as to promote housing microfinance beyond HKL and TPC. A survey of 15 MFIs revealed that 11 MFIs currently lend for home improvement and that approximately 30% of clients are interested in housing products.

HKL service provided	Provider	Cost	Visits
General Information	Credit Officer	Free	0
Pre-construction advice (Technical visit, sketch, bill of quantities)	Civil Engineer	Free	1
Construction Technical Assistance (cost estimate, drawing/plan, information about materials, suppliers, support purchasing materials, labor recommendations, construction monitoring)	Civil Engineer	Fee based on assessment	3-6

3. Results achieved

3.1. Client level

TPC: 19 full-house (79%) and 5 home improvement loans (21%) were delivered during the pilot. The pilot revealed that technical assistance was well received by clients, particularly for those who wanted to make more structural or complex improvements. Particularly useful was up-front financial education with a technical component. This helped potential applicants ask questions and create a pipeline of housing applicants who were prepared for home improvement. Clients also appreciated construction advice during the application stage, where skilled workers validate that the improvement plans can be completed with the loan amount requested. Additionally, by focusing on incremental improvements that the clients can afford, completed in stages, the skilled worker and TPC were helping clients work toward improved housing. These results confirmed the market study, which had revealed that 65% of those who want to build a new house and 68% who plan on home improvements see value in technical assistance bundled with a loan product.

Outreach of TPC	2009	2012	2013
Number of borrowers	91'170	122'077	153'952
% female borrowers	90	87	85
Rural/urban borrowers (%)	98	98	98
Avg loan balance /borrower	192	396	485
Number of depositors	4'048	3'733	--
Number of female depositors	3'707	3'413	--
Avg deposit balance /depositor	25,04	10,43	--
Clients according to income level			
Below 2,5 USD/day (%)	n/a	n/a	63
Below 3,75 USD/day (%)	n/a	n/a	83



Meas and her husband Eam live in Angk Romeas, a farming community near Phnom Penh. They grow two rice crops a year. Between crops, Eam works as a taxi driver. Meas and Eam have three grown children – all of whom work for a nearby

garment manufacturer – and one grandchild. In August 2013, the couple took a loan of USD 4'500. Meas received construction technical assistance allowing her to learn about materials and construction techniques. The family's new house is made of concrete and treated lumber with a metal roof. It has a separate sleeping room for the single daughters, who now have more security and privacy. The brightly painted house is built on stilts, following tradition, so that during the rainy season the living rooms stay dry. During the dry season, the space under the house provides a cool, shady spot. "This is a big house, compared to our old one," Meas said. "Our lives have improved. It feels good to have more room and to be safe."

Finished home



Et lives with her three unmarried children in Angk Romeas. Her six other children have married and have their own families. Et's husband died a year ago. One of her sons works in construction, and a daughter is employed at a garment factory. Both contribute to the household income. Et has eight grandchildren; she often tends to them while their parents are working. Et took a USD 4'000 housing loan to repay over three years. She used it to complete her new home and received construction technical assistance, which helped her improving her home. "In Cambodia, we like to help our children get houses when they get married. So I have helped my children as much as I can. My house is for all of us."

Et's completed home



HKL: As of close of the pilot in December 2014, HKL had disbursed 598 HMF loans totalling USD 3'483'090. 68% of clients took a home improvement loan.

Outreach of HKL	2009	2012	2013
Number of borrowers	41'110	74'559	83'416
% Female Borrowers	77	76	72
Avg loan balance per borrower	758	1'379	1'746
Number of depositors	47'835	108'037	143'519
% Female Depositors	77	74	70
Avg deposit balance/ depositor	31,50	409,63	581,01
Clients according to income level			
Below NPL	NA	3%	3%
Below 2,5 USD/day	NA	31%	30%
Below 3,75 USD/day	NA	56%	55%

Vit and Leang's family of three children and three grandchildren grows rice and corn, and raises fish, pigs, and cows. Two daughters work in garment factories. The family lives in Por Village in a new house built on stilts, financed through a HKL's housing loan of USD 9'000. A civil engineer provided technical assistance for a reasonable fee. He designed the house, helped purchasing materials, and provided advice to the skilled workers. Moreover, he was available by phone when Vit and Leang had questions. "We used to live in a old wooden house, and were always afraid that the wind would destroy it because it was old and damaged by termites," said Leang. Today, the family uses this space as kitchen and for animal storage. "Now we are happy. We can marry our children now that the house is complete." The family plans to lay a concrete floor and build a balcony space in the future.

Completed home



Old house used as productive space



3.2 Partner financial institutions level

TPC: As of end of June 2014, TPC had disbursed 1'781 HMF loans and USD 3,7 million. A civil engineer at the head office plans the sustainable growth of HMF. Furthermore, regular class and on-the-job training is offered to all HMF officers. Randomized on-site follow up and spot check to HMF clients ensure continuous exchange with clients and being up-to-date on client demand.

The Overseas Private Investment Corporation made a USD 5 million term loan to fund expansion of TPC's portfolio in 2012, in which TPC allocated at least 50% of the funds for expanding its House Improvement Loan product. TPC remains in the pipeline for the investment of the Microbuild Global Fund.

HKL: The new products include a home improvement product for repair and renovation of existing housing, targeting the poorer market segment, and a housing product for either building or purchasing a new house. Both housing products include a non-financial technical service that assists clients in making better improvements.

HKL received a USD 2 million investment from Microbuild Global Fund in January 2014, which will enable it to increase its housing portfolio.

3.1. Financial sector level

The intervention anticipates tracking the development of the HMF sector over time and will report more fully on its effects in the SCBF post-3 year report.

4. Lessons learnt and further challenges

The intervention was delayed by 9 months due to the loss of a strategic partner. This emphasizes the importance of board and senior management buy-in prior to expanding any product offering, particularly into HMF. Another learning is that national elections in politically unstable countries can lead to significant delays in project execution.

It is important for Habitat to capture and keep track of the learnings overtime to ensure that field experiences serve as input for strategically and successfully scaling housing microfinance products in Cambodia and to feed these learning into its global operations.

TPC HIL Indicators	2012	2013	2014
# of HIL disbursed	467	996	687
% of total portfolio - HMF Loans	1	3	4
Loan disbursed - HMF Loans	761'545	2'367'334	1'811'837
Loan outstanding - HMF Loans	656'259	2'264'929	3'472'240
# Branches offering HMF	8	38	51
Average loan size - HMF Loans	1'793	1'966	2'099
PAR % > 30 days housing clients	0,00%	0,00%	0,00%

HKL's HIL Indicators	2014 (Dec.)
# of HIL disbursed	598
% of total portfolio - HIL Loans	1,25
Loan Disbursed - HIL Loans USD	3'483'090
# Branches offering HIL	5
Average Loan Size - HIL Loans	3'763
Average Loan Size - Housing Loans (USD)	10'182
PAR % > 30 days housing clients	0,00%

ⁱ Heritage Foundation, 2013 Index of Economic Freedom, <http://www.heritage.org/index/ranking>

ⁱⁱ <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html> (retrieved 28.07.2014).

ⁱⁱⁱ <http://www.worldbank.org/en/country/cambodia/overview> (retrieved 28.07.2014).

^{iv} <http://www.heritage.org/index/country/cambodia> (retrieved 28.07.14).

^v Cambodia Socioeconomic Survey 2011.

^{vi} Cheam Phanin, 2009.

^{vii} http://www.mixmarket.org/mfi/country/Cambodia/report/Cambodia_FS_2014_Mar