

CASE STUDY

HATTHA KAKSEKAR LIMITED (HKL)

Investment year: 2007

Sector: Financial institutions

Instrument: Equity and loans

Deal type: Expansion

Ownership: 21%

Committed amount as at 31.12.15:
NOK 100.7 million



INCREASING ACCESS TO CAPITAL FOR MSMEs IN CAMBODIA

According to the Cambodia Industrial Development Policy 2015–2025 issued by the Cambodian government, limited access to capital is one of the key obstacles to continued economic growth, poverty reduction and the development of the country's industrial sector. Hattha Kaksekar Limited, a Norfund investee as of 2007, is contributing to increased access to finance for micro-, small- and medium-sized enterprises in Cambodia.

Cambodia's economic development over the past decade has been rapid. According to the World Bank's Development Indicators, the poverty rate in Cambodia has more than halved, declining from 53 percent in 2004 to 13.5 percent in 2014¹. Access to finance through well-functioning banking and microfinance structures is essential for enterprise growth. In 2015, banks and microfinance institutions continued to expand nation-wide to rural areas that were once without access to financial services. In fact, the number of people who had access to financial services doubled from 19 percent a few years ago to 42 percent in 2014. Today, Cambodia has 36 commercial banks, 11 specialised banks, 58 microfinance

institutions, and more than 1,400 automated teller machines (ATMs) across the country.

However, domestic credit provided by the financial sector accounts only for 47 percent of the country's GDP compared to 75 percent in India and 169 percent in China².

A LARGE INFORMAL SECTOR WITH MICRO-SIZED COMPANIES

According to a report by the Cambodian government's³, 97 percent of all enterprises in Cambodia are micro-sized. However, although these microenterprises are the main employers of the country, they generate only 30 percent of the formal jobs and 12 percent of the country's total turnover. A few large

enterprises generate 76 percent of the total turnover and 63 percent of the formal jobs. This results in a fragile industrial structure. Strengthening profitable and transformative small enterprises and converting them to formal registered medium-sized companies will contribute to increased economic growth and poverty reduction in Cambodia.



¹ World Bank, World Development Indicators

² World Bank, World Development Indicators

³ Government of Cambodia (2015)

Many small- and medium-sized enterprises in Cambodia (SMEs) fall into what has been termed ‘the missing middle’ category; while microfinance institutions are too small to offer the types of loans required by SMEs, commercial banks often perceive the costs and risks of serving SMEs as being too high. Data from the World Bank Enterprise Survey shows that only 27 percent of medium-sized firms in Cambodia had credit lines in 2015⁴.

NORFUND’S INVESTMENT IN HATTHA KAKSEKAR

Hattha Kaksekar Limited (HKL) was founded as an Oxfam food project in 1994 in response to the hunger challenges Cambodia faced at that time. The institution has committed itself to contributing to long-term social and financial sustainability in Cambodia and to improving the income of its clients. HKL provides loans, savings, and other inclusive financial services countrywide, particularly to women and low-income families in rural areas.

The institution has grown rapidly from being a small NGO in 1996, to being the fourth largest micro-financing institution in the country. Norfund made its first USD 1 million loan investment in HKL in 2007. This was followed by an equity investment in 2008 together with Oikocredit and Triple Jump. The objective was to help increasing the access to financing for Cambodia’s micro-, small- and medium-sized enterprises (MSMEs). Even though this was a fairly small investment at that time, Norfund managed to add value and help to contribute to HKL’s growth by active shareholding and board seat.

In the period from 2007 – 2015, Norfund invested additional loans and equity in the company and Norfund’s shareholding increased from 14 percent to 21 percent.

Prior to Norfund’s investment in 2007, HKL had Head Office and one small branch office in Phnom Penh and a loan portfolio of USD 14 million. By 2015, HKL’s loan portfolio had increased 20 fold to USD 363 million, and the company has today 151 branch offices and more than 316,700 clients across all 25 provinces in Cambodia.

Equity investments, loans and Norfund’s active ownership, professional support and long-term commitment have been crucial for HKL’s growth, says HKL President and CEO, Mr Hout leng Tong.

HKL has made extensive developments in terms of its credit products, credit policy and procedure as well as growing its deposits. The rapid growth of the company required a new core banking system. Online core banking system was therefore established in HKL in 2010, and in 2012 HKL upgraded its system further to become the first MFI to offer an online banking system in Cambodia. In 2012, HKL also became the second MFI to launch an ATM system in Cambodia. This provided customers with easier access to cash and saved the time of customers because loan payments could be made electronically instead of only at HKL’s offices.

HKL’S CONTRIBUTION TO DEVELOPMENT

HKL’s primary contribution to development is through the provision of financial services to MSMEs that are largely ignored by commercial banks.

Increasing access to finance

HKL’s target markets are MSME- entrepreneurs in semi-rural and urban areas. Agriculture is one of its key target sectors and ac-

counts for 27 percent of its loan book. Seventy percent of its clients are female entrepreneurs – reflecting the important role women have in Cambodia in managing family cash.

HKL’s geographic outreach has also expanded substantially. In 2008, the company reached just 19 percent of Cambodia’s villages and 43 percent of the nation’s provinces. By 2015, HKL had reached 66 percent of the villages and covered all the country’s provinces.⁵

Providing employment opportunities

HKL has experienced tremendous growth. The company had 248 staff in 2007 and now employs more than 2,300 workers across the country. Almost 30 percent HKL’s staff are women.

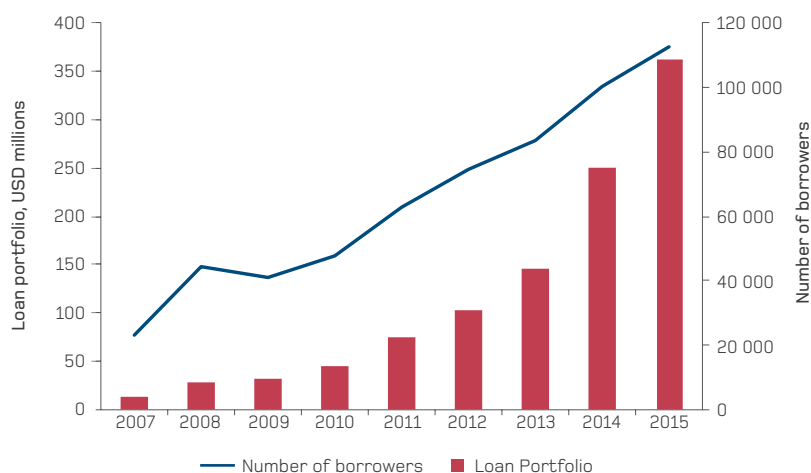
However, HKL’s main contribution to job creation in Cambodia has been the job opportunities created as a result of its expanding loan portfolio. The number of active borrowers has increased from 23,253 in 2007 to 112,930 in 2016.

HKL’s planned growth will be driven by branch expansion, and will facilitate more job opportunities in Cambodia.

Providing financial education

HKL’s large network of credit officers works closely with the company’s customers. Train-

Figure HKL has increased access to capital in Cambodia



ing is provided by HKL to enable credit officers to deliver financial education programmes designed to help people manage loans effectively and avoid indebtedness. Credit officers travel by motor cycle to customers in rural areas to discuss business ideas, the market potential and credit alternatives. The contact allows credit officers to evaluate the suitability of clients, validate customer loyalty, and to increase the ability of clients to make repayments. The Client Protection Principles for microfinance are important guidelines in this work.

"HKL is growing with its customers. Small entrepreneurs lack finance. Access to microfinance gives customers the opportunities they need to create and expand their business ideas. HKL tries to minimise customer drop-out and helps them to increase their standard of living. In our experience, loyal clients borrow bigger and bigger loans – that's a good sign that client businesses are growing". - Mr Hout leng Tong, President and CEO, HKL.

HKL has adopted a Progress out of Poverty Index (PPI) Tool to chart the progress of its clients out of poverty, by measuring the percentage of its customers whose income is less than USD 2.5 a day.

Contribution to environmental and social protection

Environmental and social protection is an integral part of HKL's business operations and the company has established a Social and Environmental Policy to evaluate the borrowers and enterprises they consider to finance. In 2015, HKL assessed the environmental and social impacts of the businesses of 42 percent of its new borrowers. Its loans are evaluated based on the level of risk the loan may represent (factors that are considered include the risk of pollution, and the quality of the working conditions in each business) against an environmental and social exclusion list. Only businesses or activities that are not threatening either environmentally or socially can be considered for financing.

HATTHA KAKSEKAR: THE WAY FORWARD

HKL aspired to become a fully-fledged



financial institution for micro, small- and mid-sized enterprises (MSMEs), and needed an experienced strategic partner and shareholder from the banking sector. Norfund and the other shareholders thereby decided to sell their shares. Through a competitive bidding process, Bank of Ayudhya - a top tier bank in Thailand with a clear leadership position in consumer banking - was selected as a preferred partner.

HKL's employees have extensive experience in microfinance and considerable knowledge in maintaining continuity when working with customers. When HKL converts to a bank, it will keep these same strategies: credit officers who know the customers they work with, who understand the business of HKL, and who will continue to spend time in the field to ensure that clients are receiving the best financial support and services.

"When we become a bank we will be able to expand to new segments and offer financial services to larger SMEs too", says HKL President and CEO, Mr Hout leng Tong.



SUPPORTING ENTERPRISE GROWTH

Khen Pally is a mushroom-farmer and has been an HKL client for more than 10 years. Before she started receiving micro-loans from HKL, she only had one plantation. Today she has three plantations and hires 4-5 seasonal workers every year. Mushrooms are very marketable in Cambodia and Khen Pally plans to expand her business further because she is currently unable to keep pace with demand. Pally's HKL credit officer Sok Chenda advised her to expand her business 10 years ago. He still visits her every month and is an important business-discussion partner.



⁴ World Bank, Enterprise Surveys

⁵ HKL (2015)