

NPRS-PRF

Helping Accelerate Poverty Reduction in Asia and the Pacific

INCREASING THE SAVINGS OF CAMBODIA'S RURAL POOR

A technical assistance was initiated with the aim to catalyze the process of increasing the level of savings in rural households and increase the availability of funds for MFIs so they can expand rural lending.

Asia is home to 1.9 billion poor people in some 380 million households that survive on less than \$2 a day. If the \$1-a-day poverty yardstick is used, it is estimated that over 690 million poor people live in the region.¹

Despite being in poverty, the poor and low-income households and their microenterprises have a strong demand for deposit services. The positive response of the poor to voluntary savings programs of a number of rural and microfinance institutions (MFIs) clearly demonstrate this demand. The rapid growth in small deposits in rural financial institutions such as the Bank Rakyat Indonesia's Unit Desa system, cooperative rural banks of Sri Lanka, and the Association for Social Advancement (ASA)—a microfinance nongovernment organization in Bangladesh—provide strong evidence of this demand.²

It has been proven that poor people can save and want to save because they need cash buffers to meet life-cycle needs (e.g., religious or social celebrations, child education); to cope with emergencies (e.g., sickness, theft, or loss of job); and to grasp opportunities to acquire assets or develop businesses. Accumulating savings—in the form of money or other assets—prepares the required buffer for these expenditures. When the poor do not save, it is because of lack of opportunity rather than lack of capacity.³

State of Deposit Services for the Poor in Cambodia

Most Cambodian rural households, especially the poor and low-income, lack access to deposit services mainly because of the dearth of formal institutions that offer such services. Only one MFI—Association of Cambodian Local Economic Development Agencies (ACLEDA) Bank⁴—has expanded the scope of its services to include taking deposits as well as offering credit. No other MFI has added voluntary deposit services to its credit operations.⁵

The Consultative Group to Assist the Poor (CGAP) noted in a recent review that the development of deposit services has significantly lagged behind credit services, despite recognition by the National Bank of Cambodia (NBC) that developing deposit services in rural areas is critical to building inclusive and demand-driven financial systems for the poor.⁶

As in other developing Asian countries, Cambodia's rural households rely on informal mechanisms for saving. Some participate in rotating savings and credit associations (ROSCAs), but most save cash at home. Rural households also save in assets such as gold and livestock. An increasing number of rural households participate in informal community financial groups, despite the fact that many such groups are not providing safe or convenient saving services. In recent years, most licensed MFIs have realized the significance of providing voluntary deposit services to rural households. However, no licensed MFI has been able to introduce client-driven, voluntary deposit services effectively.⁷

The deposit market in rural areas has a number of demand-side issues. First, most rural households lack experience in dealing with the financial sector. Second, most low-income households do not trust banking institutions to keep their savings safely. A program to enhance financial literacy is needed. Without demand-side interventions of this kind, reliance on a supply-led approach to deposit service development is unlikely to produce significant results.⁸

Developing Deposit Services

While a number of MFIs operating in Cambodia's rural areas have expressed the commitment and willingness to engage in voluntary deposit services for the rural poor, they do not have the capability to manage deposit operations—including the marketing of deposit products—since they have been credit-

only institutions for many years and have no institutional culture of deposit taking.

On the other hand, the NBC's position on regulation of voluntary deposit mobilization has not been fully explained to MFIs since it has not issued detailed regulatory requirements for deposit operations. Likewise, the limited capacity of the supervision department of NBC to regulate and supervise licensed MFIs effectively becomes a critical issue when they begin to expand their deposit operations.

Technical assistance (TA) 4755, Developing Deposit Services in Rural Cambodia,⁹ aimed to catalyze the process of increasing the level of savings in rural households and increase the availability of funds for MFIs so they can expand rural lending. The major activities of the TA included: i) assisting NBC in developing its regulatory and supervisory capacity for deposit-taking MFIs; ii) supporting MFIs for the provision of deposit services; and iii) implementing a financial literacy program to increase awareness for rural households.

Work on the TA has so far yielded the following:

- Development of Regulation and Supervision Capacity in the National Bank of Cambodia

One objective of the TA was to assist NBC in creating a regulatory environment under which MFIs can securely and effectively take deposits from poor households in Cambodia. To meet this objective, current microfinance prudential regulations—specifically on deposit mobilization—were reviewed and impediments to current regulations were identified. Recommendations for improving regulations were sent to NBC.

In addition, regulatory policies that pertain specifically to minimum financial, institutional, and managerial requirements for microfinance deposit-taking institutions (MDIs) wishing to collect and intermediate voluntary public deposits were finalized under the TA. Training on implementation of the proposed MDI *prakas*¹⁰ was also conducted. A workshop was organized to present and discuss NBC's proposals for the MDI regulation with all stakeholders from the microfinance sector.

MFI on-site and off-site supervision manuals were revised and skills training were provided to MFI supervision staff members. Likewise, workshops on microfinance regulations for MFI supervision staff were conducted. An institutional chart for NBC's microfinance supervision division was also finalized.

- Support to MFIs for Providing Deposit Services

The TA was intended to assist selected MFIs in developing their capacity for savings product development and management. Key activities included the conduct of nationwide qualitative and quantitative surveys on savings practices, preferences, and the demand for deposit products by rural households.

The national study on the saving habits of poor people in rural and urban Cambodia covered 801 households. Those interviewed were from eight provinces;¹¹ most interviewees were women in their early 40s, with none to little primary education. Among the main findings of the quantitative¹² and qualitative¹³ surveys are:

- households with positive savings (62% or 497) as well as negative savings (38% or 304 households);
- type of income source is the key factor influencing the level of savings and savings were roughly 20% of the household income;
- of the total potential savings of \$350,680, 67% is stored in gold, jewelry, and/or cash; almost one third of the total potential savings is in the form of livestock assets, such as cows and pigs; only 3% of the amount is placed in *Tongtin*;¹
- poor people prefer to save in informal savings mechanisms over which they feel greater control because of inherent distrust in formal institutions;
- respondents identified a variety of savings goals (i.e., to send children to school, weddings, house building, purchasing real estate, and preparing for funerals and retirement); of particular importance is the need to establish reserves for emergency needs such as illness, accidents, or difficult births;
- a dearth in people's knowledge of savings service providers and their products;
- poor households often do not consider the small amounts they hold in cash as worthy of being deposited in formal deposit-taking institutions, and or are embarrassed to take these small amounts to an MFI; and
- poor households show sensitivity to the cost and returns of financial products; product attributes relating to convenience were of more interest to these households than price.

The findings of the surveys were used to inform product prototype development and pilot testing of new savings products.

Three MFIs were selected to participate in savings product development and were provided skills enhancement activities on market research, product costing and pricing, and on the actual pilot testing of product prototypes.

TA Updates

The conduct of National Savings Awareness Campaign, the third major component of the TA, has yet to be undertaken. This component plans to promote the benefits of savings, the protective function of NBC supervision, and to highlight the important role MFIs have played in bringing financial services to rural Cambodia. It aims to address the "lack of trust in financial

institutions” of the rural poor, which has become a big impediment to developing savings services in rural areas.

With the new regulatory structure formally implemented by the Government on December 2007, the conduct of the campaign is expected to commence soon since the specific design of the campaign is hinged on the said structure. Similarly, results of and assessments on the pilot testing done by the three MFIs would further enhance the regulatory environment on microfinance in rural Cambodia.

Mobilizing deposits among Cambodia’s rural poor secures the required buffer for their sudden expenditures and other life-cycle needs, improving their human and social capital throughout their lives. Providing poor people with effective financial services helps them deal with vulnerability and can help reduce poverty. At the same time, it broadens the MFIs’ services and products; thereby, strengthening sustainability of these institutions.

Endnotes

- ¹ Asian Development Bank (ADB). 2004. *Report on Poverty in Asia*. Manila.
- ² Available: www.iadb.org/sds/doc/MicNFernando.pdf
- ³ Rutherford, Stuart. 1999. *The Poor and Their Money: An essay about financial services for poor people*. Available: www.bwtp.org/arc/mfdm/Web%20Resources/General%20MF%20Resources/the%20poor%20and%20their%20money.pdf
- ⁴ ACLEDA started as a nongovernment organization operating in microfinance in 1993. It became a specialized bank in 2000 and a commercial bank in 2003.
- ⁵ Normally, microfinance institutions (MFIs) provide compulsory savings related to loans. Some MFIs provide voluntary savings for their members only, but most voluntary savings products have been unsuccessful. ADB. 2005. Technical Assistance (TA) Kingdom of Cambodia: Developing Deposit Services in Rural Cambodia (Financed by the Poverty Reduction Cooperation Fund).
- ⁶ Flaming, M. et al. 2005. *Country Level Effectiveness and Accountability Review: Cambodia*. Washington DC: CGAP (p. 6).
- ⁷ Endnote 5.
- ⁸ Endnote 5.
- ⁹ TA 4755 (Developing Deposit Services in Rural Cambodia); executing agency – National Bank of Cambodia; approval date – December 2005; completion date – December 2007; and TA amount – \$600,000 was financed by the Poverty Reduction Fund (contributed by the United Kingdom Department for International Development Fund and administered by ADB) and \$120,000 from the Cambodian Government and MFIs.
- ¹⁰ Regulation adopted by a minister (or the governor of the National Bank for Banking Issues).
- ¹¹ Battambang, Kampong Cham, Kandal, Kampot, Pursat, Prey Veng, Siem Reap, and Takeo.
- ¹² Chandararot, Kang PhD, and Liv Dannet 2007. National Survey on Saving Needs and Opportunities for Poor Households in Cambodia. Cambodia Institute of Development Study. (TA:4755-CAM: Developing Deposit Services in Rural and Urban Cambodia).
- ¹³ Hickson, Robert (Microfinance Services Pty. Ltd.), Aniceta Alip (CARD), and Lourdes Medina (CARD). 2007. National Survey on Savings. (Draft Qualitative Component Report): Building Trust: Key to Unlocking Latent Demand for Small Savings Deposit among Poor Households in Rural and Urban Cambodia.
- ¹⁴ mutual savings group

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