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SMARTLESSONS

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GREAT EXPECTATIONS BUT DISAPPOINTING RESULTS
WHAT WENT WRONG WITH THE CAMBODIA INSTITUTE OF BANKING ?

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There were great expectations of success in January 2004 when IFC's multidonor advisory initiative, the Mekong Private Sector Development Facility (IFC MPDF) launched the Cambodia Institute of Banking (CIB), Cambodia's first training center for the finance industry. There was obvious need, the Association of Banks in Cambodia was backing CIB with members' own money, and IFC advisory staff were well qualified to help launch and advise CIB after three years of advising a similar, successful institution in Vietnam. So, with many good reasons for success, why was CIB a disappointment, and what lessons can be learned from this?

Background

There were good reasons for thinking the Cambodia Institute of Banking would succeed.

First, Cambodia's fledgling commercial finance industry was growing fast. But after decades of war and isolation that only ended in the 1990s, banks and microfinance institutions (MFIs) were held back by a lack of qualified staff.

Only 40 percent of Cambodians were served by the finance industry, and services were limited to individual loans secured by property of much greater value, group loans, deposits, and transfers. As a result, small and medium enterprises (SMEs), which make up more than 95 percent of Cambodia's private sector, lacked the financing and financial services they needed to improve and expand their businesses and make a greater contribution to job creation and economic development.

With surveys of SMEs listing access to finance as their chief constraint, IFC MPDF made increasing access to finance a priority. Along with improving governance and managerial systems in leading institutions, and helping to attract longer-term international financing, advisory staff also provided on-the-job training for loan officers.

Second, CIB would have no real competition. Periodically, one donor or another ran a short course on some aspect of banking, but there were few of these courses, they reached only a fraction of potential trainees, and with high-priced foreign consultants giving the courses, and donors subsidizing these costs, the approach was not sustainable. By using international experts to develop curricula in partnership with local trainers who would then give the courses, CIB expected to offer international-standard training at a price that local banks and MFIs could afford.

Third, CIB had strong government and industry support. The National Bank of Cambodia and the Ministry of Finance both saw the need for a permanent institution with capacity to train all levels of banking staff. In addition, seven prominent members of the Association of Banks in Cambodia (ABC) each pledged $10,000 to launch CIB, and

ABC itself gave the new institution free office space in its building.

Fourth, IFC MPDF had prior bank training experience. In 2001, in collaboration with a consortium of nine Vietnamese commercial banks, IFC MPDF helped launch—and continued to advise—the Bank Training Center (BTC) in Ho Chi Minh City. After three years of operations, there was strong and growing demand for BTC courses, and it was progressing well toward spin-off (July 2006). BTC not only showed the way for CIB, but also had curricula that potentially could be adapted for Cambodia at a very reasonable cost. The experience with BTC versus the ongoing work with individual institutions in Cambodia also showed that “wholesaling” through a bank training institution was far more cost-efficient and sustainable than developing capacity in a few institutions.

The final reason for optimism was the availability of a capable adviser who had experience with banking, curriculum design, and training delivery. His role was to help CIB recruit staff and consultants, set up office procedures, install an accounting system, and oversee needs assessment, curriculum development, training of trainers, and marketing and delivery of courses.

CIB was set up with two objectives: 1) to introduce international-standard bank training that would be locally affordable and subsidize the development of the curriculum and local trainers; and 2) to build a sustainable institution that would become self-sufficient after a few years of advisory services.

CIB had three core functions:

- **Product development**: developing or localizing international-standard but locally affordable training materials, software applications, and certification programs.
- **Trainer development**: identifying capable, locally based trainers and developing their capacity.
- **Market development:** promoting CIB’s brand through industry events and media relations.

With so many promising reasons for success, why didn't CIB succeed?

Board members must be chosen with care, understand their responsibilities well, and commit to fulfilling them.
Initially, members of CIB’s board were very committed to participation. But they were all busy CEOs of large banks and had little time to devote to CIB. They were also unwilling to contribute more money in order to pay the salary required to recruit a competent general manager. Instead, board members continued to manage the institute as best they could. With no strong direction from the top, CIB lacked a strategic plan, a business plan, or secure financing, and little was done to promote CIB to the banking community.

Lesson learned: The role and time requirements of board members must be made very clear upfront.

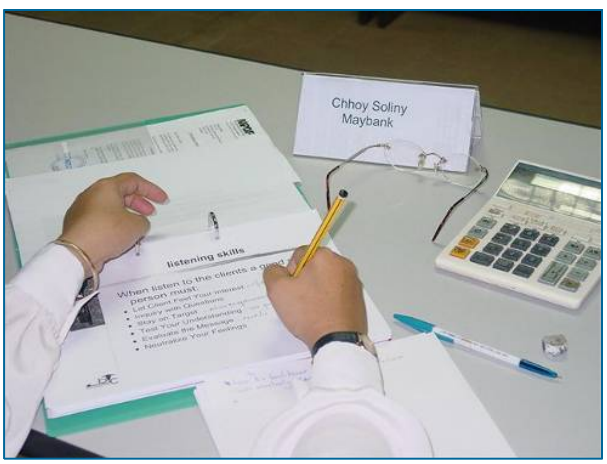
Lack of qualified staff was a challenge for CIB.
Finding a qualified local manager and trainers turned out to be much more difficult than expected. Although a capable local manager was finally identified after several rounds of recruiting, the salary offered was too low and the recruitment fell through. CIB also found it difficult to recruit capable trainers. The Bank Training Center in Vietnam had much better success in recruiting both a manager and associate trainers, because the overall level of education in Vietnam is much higher and the finance sector is much larger and better developed.

***Lesson learned*:** Although CIB’s board preferred to have the institute managed by IFC MPDF’s adviser, in retrospect, to achieve sustainability, CIB should have been managed by a Cambodian from

the start, with coaching from the adviser. Also, the salary needed to recruit a capable manager should have been in place from the beginning, and ABC should have played a greater role in finding a manager. In addition, CIB should have more actively drawn on its shareholders to develop a local network of associate trainers and invested more in training the trainers.

Replication of a good model is no guarantee of success, if demand assumptions are wrong.

CIB appeared to have very good prospects for success. The IFC-MPDF–supported Bank Training Center was showing success in Vietnam, a bank-training needs assessment conducted in Cambodia in July 2003 showed great need, and the banking industry appeared to be committed to sending their staff. For these reasons, IFC MPDF concluded that there would be sufficient demand, even in a relatively small market. This conclusion turned out to be wrong. In 2003, banks and MFIs in Cambodia employed a total of 2,300 people, with top and middle managers accounting for only about 8 percent of all employees. Although the number of employees was growing, it turned out not to be realistic to project that all banks would send 65 percent of their employees to at least one three-day training program, or send a smaller percentage of employees to a number of programs.



Although some banks patronized CIB and sent staff to all 27 courses offered, not all banks were willing to do so. Some sent staff only a few times, and other banks never participated at all—particularly rural banks, whose costs for participation were significantly higher. In addition to course fees, rural banks had to pay trainees' travel and accommodation costs. With enrollments well below expectations, CIB was far from breaking even after three years, and this finally led IFC MPDF to withdraw its support. CIB is still operating under the Association of Bankers in Cambodia, and if donors are willing to provide the funding, training materials, and staff resources, CIB will organize courses on an ad hoc basis.

Lesson learned: Be realistic about demand and the willingness of target beneficiaries—in this case, banks—to pay market prices and other associated costs. This is particularly important in a market flush with donor funding that will subsidize the costs of training.

CIB's pricing policies were not realistic.

It was a mistake for CIB to apply the same $30 fee per training day for all courses regardless of the type of employee being trained. Banks were much less likely to spend $120 for a four-day course for tellers or clerks who earned only $960 per year. On the other hand, $120 was too low for training a senior loan officer whose annual salary was over $4,000. Unfortunately, although a tiered pricing structure was planned as the project evolved, it was implemented too late.

Lesson learned: CIB should have introduced a tiered pricing structure from the beginning and charged much higher prices for senior staff, because these prices would still be far below the cost of sending senior staff abroad for training. Tiered pricing would have taken into account the high costs of overseas training as well as the local salary structure.

CIB's projections for reaching the break-even point were overly ambitious.

The business plan projected that CIB would break even in its fourth year, based on the assumption

that CIB would offer 60 three-day courses for a total of 1,500 training participants, each paying $30 per training day. This target was not reached for two reasons. First, with its pricing, the organization was not covering the variable (direct) costs of training, let alone its fixed costs. Increasing throughput would only *increase* the deficit. The plan envisaged slowly increasing prices over time; however, this was blocked by CIB's Board. They felt that their banks had already contributed enough by capitalizing CIB. A second problem, as already stated, was the limited size of the market.

Lesson learned: Given the much smaller market in Cambodia, the deadline for achieving financial self-sufficiency should have been much longer for CIB than it was for the Bank Training Center in Vietnam. Even BTC did not reach the break-even point on a cash-flow basis until a full six years after its establishment. Also, CIB should have tried harder to lower its costs early on by developing the capacity of local trainers, rather than relying so much on costly international trainers.

Conclusion

Establishing business development service providers such as CIB is a good use of donor money, because many more enterprises can be served. But the approach is based on several important assumptions that should not be underestimated. The market must be large enough; financing must be sufficient; and the sponsor must be committed and provide enough funding. Also, Board members must have the right skills and enough time, and be willing to serve for several years. And in a frontier, postconflict country like Cambodia, where qualified staff are in short supply, the time frame for spin-off must be much longer.

In retrospect, given the Cambodian situation, IFC MPDF would have been better advised to focus on its first objective for CIB—that of developing the demand for international-standard finance industry training at locally affordable prices. Rather than spend time establishing an institution, IFC MPDF should have focused on bringing demand-driven professional training to Cambodia by effectively promoting the need for training to the finance industry as a crucial investment. Finally, industry commitment should have been achieved from the start through an appropriate cost-sharing arrangement, while institutional sustainability should only have been considered once the market was well established.

Relevant Resources: Go to www.mpdf.org to download the fact sheet and the financial sector diagnostic for Cambodia. Additional information is also available from Transaction Leader Pak Sereivathana (PSereivathana@ifc.org).

About the Author

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