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# Country Presentation

on

# **Cambodia Microfinance: Development and Challenges**

on March 15-17, 2010  
at Dhaka, Bangladesh

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# Presentation Outline

**I- Introduction**

**II- Phases of Microfinance Development**

**III- Financial Sector Development Strategy**

**IV- Roles of NBC in Promotion of Microfinance**

**V- Microfinance Performance and Challenges**

**VI- Conclusion**

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# *I- Introduction*

## *1- Brief Background of Cambodia*

- ❖ *Cambodia is a multi-party democracy under a constitutional monarchy.*
  - ❖ *population 14 million people; 85% living in rural areas*
  - ❖ *Main Religion: Buddhism; Official Language: Khmer*
  - ❖ *Area 181,035 square kilometers bordered with Thailand, Laos and Vietnam*
  - ❖ *Annual growth rate 9% 2001-2008*
  - ❖ *GDP per capita about 700 USD in 2008*
  - ❖ *In 2007, 30% of the population is estimated to remain below the poverty line.*
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# I- Introduction



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# *I- Introduction*

## **2- Background of Microfinance Development**

- ❖ *Government had adopted a series of policy measures, supported by international donors:*
    - i. establishment of the Credit Committee for Rural Development (CCRD) in 1995;*
    - ii. introduction of a framework in the Banking Law to enable eligible NGOs and other rural finance providers to become regulated microfinance institutions (MFIs);*
    - iii. creation of a unit in the National Bank of Cambodia (NBC) to supervise and monitor MFIs; and*
    - iv. establishment of Rural Development Bank (RDB) as a wholesale financing for MFIs*
  
  - ❖ *Among Southeast and East Asian transition countries, Cambodia has put in place the most supportive fundamentals as to policy framework for microfinance development, though local capacities and institutions are to be yet substantially developed.*
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# *I- Introduction*

## *2- Background of Microfinance Development*

- ❖ The Government has committed to the development of rural finance as a tool of poverty alleviation*
  - ❖ The government has announced 2006 as “a year of microfinance of Cambodia”*
  - ❖ Since then, Cambodian microfinance has grown remarkably.*
  - ❖ With its credit and savings services, MFIs help people, especially the poor to relieve their family burdens and improve their livelihood to some extent.*
  - ❖ Currently, there are 20 licensed MFIs of which 4 obtained licenses of savings mobilization, 26 registered rural credit operators and around 60 NGOs freely operating in the whole country.*
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## *II- Phases of Microfinance Development*

### **1- 1990-1995: Start-up phase**

- ❖ *The start-up phase began in the early 1990s, when multilateral and bilateral donors, and international NGOs began financing projects to deliver credit to rural poor and micro-entrepreneurs.*
  - ❖ *International NGOs played significant roles in launching the microfinance programs in Cambodia.*
  - ❖ *Most of these early initiatives were financed as credit components within integrated rural development programs.*
  - ❖ *Latter on, a few of these operators demonstrated an interest in creating sustainable financial services for poor people.*
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## *II- Phases of Microfinance Development*

### **2- 1995-1999: Institutionalization**

- ❖ *The separation of credit components from integrated program structures of NGOs helped microfinance providers to attain financial sustainability.*
  - ❖ *The supporters of microfinance started meeting regularly during this period to share information, align objective, and define a common vision from the sector.*
  - ❖ *On the policy front, IMF and ADB supported the RGC to formulate a comprehensive macroeconomic and structural reform program, including financial system modernization.*
  - ❖ *The Central Bank Law and the Law on Banking and Financial Institutions were enacted in 1996 and 1999 respectively.*
  - ❖ *Given these changes the emerging microfinance community allowed the NBC to assume responsibility for regulating and supervising microfinance businesses.*
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## *II- Phases of Microfinance Development*

### **3- 1999- Present: Commercialization**

- ❖ *The success of NGOs in providing credit to the poor and largely rural population encouraged the NBC to issue regulations establishing a special license for MFIs and a registry for NGOs.*
  - ❖ *The issuance of new regulations marked a move toward the commercialization of microfinance.*
  - ❖ *In October 2000, the ACLEDA transformed from an NGO into a specialized microfinance bank. This transformation created an important precedent for other financial providers.*
  - ❖ *Today, ongoing commitment and decisiveness from all stakeholders is needed to ensure that poor people continue to be the focus of Cambodia's financial system.*
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## *III- Financial Sector Development Strategy*

- 1. The FSDS 2001-2010 identified rural finance as a critical sector requiring development and support.*
  - 2. Five key areas have been highlighted in the FSDS 2001-2010 using a phased and sequencing approach for rural finance development :*
    - ❖ Implementing and enhancing rural credit policy;*
    - ❖ Strengthening supervision and regulation;*
    - ❖ Building financial infrastructure for microfinance;*
    - ❖ Creating institutional capacity; and*
    - ❖ Ensuring pro-poor orientation*
  - 3. Overall responsibilities have been divided between MEF and NBC. NBC is responsible for issuing the appropriate policies and regulatory frameworks and supervision and MEF involved with supporting policy and physical infrastructure development and funding coordination with foreign countries and international agencies.*
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### *III- Financial Sector Development Strategy*

- 1. The FSDP 2006-2015 has updated the FSDP 2001-2010 as “Rural Finance”, to become more inclusive, and considers the sector as “Microfinance”.*
  - 2. This encourages the diversification of risks and growth of diverse products, as well becoming more inclusive for those in urban areas.*
  - 3. The objective is thus a viable, pro-poor and effective microfinance system to provide affordable financial services to enable the poor to enhance income and reduce poverty.*
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## *IV- Roles of NBC in Promotion of MFIs*

### 1- Regulation and Supervision

- ❖ Rural finance is a major element of the financial system of the country and sound supervision and regulation of banks and MFIs is essential.
  - ❖ To implement law on banking and financial institutions, all financial services operators need to be licensed from NBC.
  - ❖ With microfinance operation, supervisory authorities are confronted with conflicting targets:
    - ❖ On the one hand, MFIs must be regulated to avoid the incompetence, and in some cases the dishonesty, which can undermine the system.
    - ❖ On the other hand, if regulation is too harsh, and in particular if capital requirement is too high, MFIs might exhibit the same behavior as banks, flee from rural areas and concentrate their activities in major cities. Therefore, the NBC has released a set of regulations according to the size of MFIs.
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## *IV- Roles of NBC in Promotion of MFIs*

### **1- Regulation and Supervision**

- ❖ For financial transparency and disclosure, uniform chart of accounts and the disclosure requirements are in line with the international accounting standard.
  - ❖ All MFIs are required to have annual audited financial statements. The NBC also has to conduct both on- and off-site supervision.
  - ❖ In 2000, NBC issued regulations on the classification of MFIs into three categories according to the level of their operations, and created criteria for licensing and registration.
  - ❖ Licensed MFIs, Registered NGOs as rural credit operators, and non-registered NGOs
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## *IV- Roles of NBC in Promotion of MFIs*

### Licensing Criteria for MFIs

- ❖ Register as a commercial enterprise or cooperatives
- ❖ Minimum registered capital requirement KHR 250 million
- ❖ NGOs having loan outstanding more than KHR1,000 million and clients more than 1,000
- ❖ Annual license fee KHR1 million; Apply uniform chart of account
- ❖ Monthly reports to NBC
  - Assets and liabilities statement
  - Profit and loss statement
  - Loan classification report
  - Solvency calculation report., etc

### Prudential Requirements for MFIs

- ❖ Registered capital guarantee 5%
  - ❖ Reserve requirement 5%
  - ❖ Solvency ratio 15%
  - ❖ Liquidity ratio 50%
  - ❖ Large exposure not more than 10% of owners' equity
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## *IV- Roles of NBC in Promotion of MFIs*

### Registered Criteria for Rural Credit Operators

- ❖ Register as an association or NGO at Ministry of Interior or Ministry of Foreign Affairs
- ❖ No minimum registered capital requirement
- ❖ NGOs having loan outstanding less than KHR1,000 million and clients less than 1,000
- ❖ No registration fee
- ❖ quarterly reports to NBC

### Criteria for MF Deposit Taking Institution

- ❖ hold a MFI's license at least 3 years;
  - ❖ have a good financial condition and sound management at a safety level for at least two years before submitting the application;
  - ❖ have a minimum paid up capital equal to KHR10,000 million;
  - ❖ have an effective Management Information System (MIS);
  - ❖ implement NBC's uniform chart of accounts; and
  - ❖ have sustainable profitability of at least two consecutive years in primary operations.
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## *IV- Roles of NBC in Promotion of MFIs*

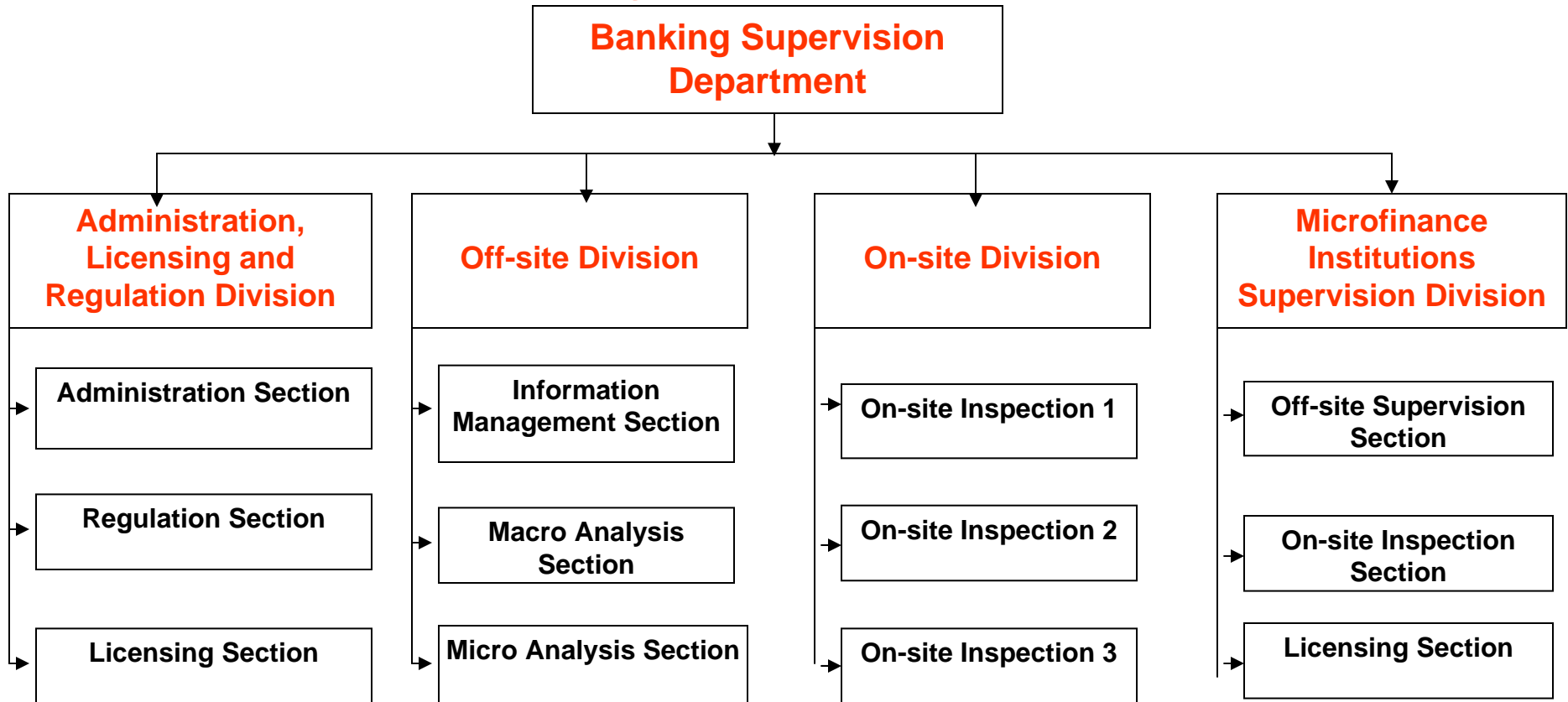
### Criteria for MF Deposit Taking Institution

After obtaining MDI license, MFIs shall meet the following requirements:

- ❖ *only collect savings and fixed deposits; the amount of savings of an individual client shall not exceed 3% of Institution's net worth;*
  - ❖ *loan to an individual and group of related clients not exceeding 2% and 3% of Institution's net worth respectively;*
  - ❖ *maintain at all times a solvency ratio of not less than 15%*
  - ❖ *maintain liquidity ratio of at least 50%;*
  - ❖ *maintain capital guarantee of at least 10% of its registered capital at an account with NBC; and*
  - ❖ *maintain the reserve requirement of at least 8% of its client deposits into an account with NBC.*
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# *IV- Roles of NBC in Promotion of MFIs*

## 2- Structure of Banking Supervision Department

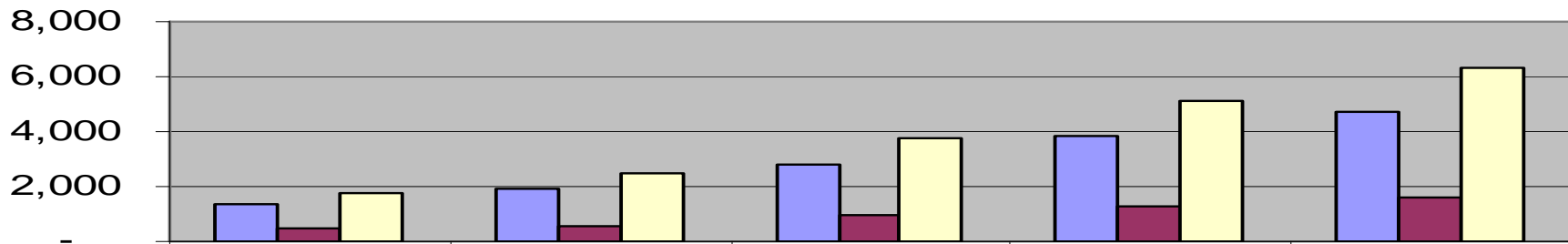


# V- Microfinance Performance and Challenges

## 1. Microfinance Performance

	2002	2003	2004	2005	2006	2007	2008	2009
Licensed MFIs	3	5	10	15	16	17	18	20
Registered NGOs	27	29	28	23	24	25	27	26

**Total MFIs' Staff**

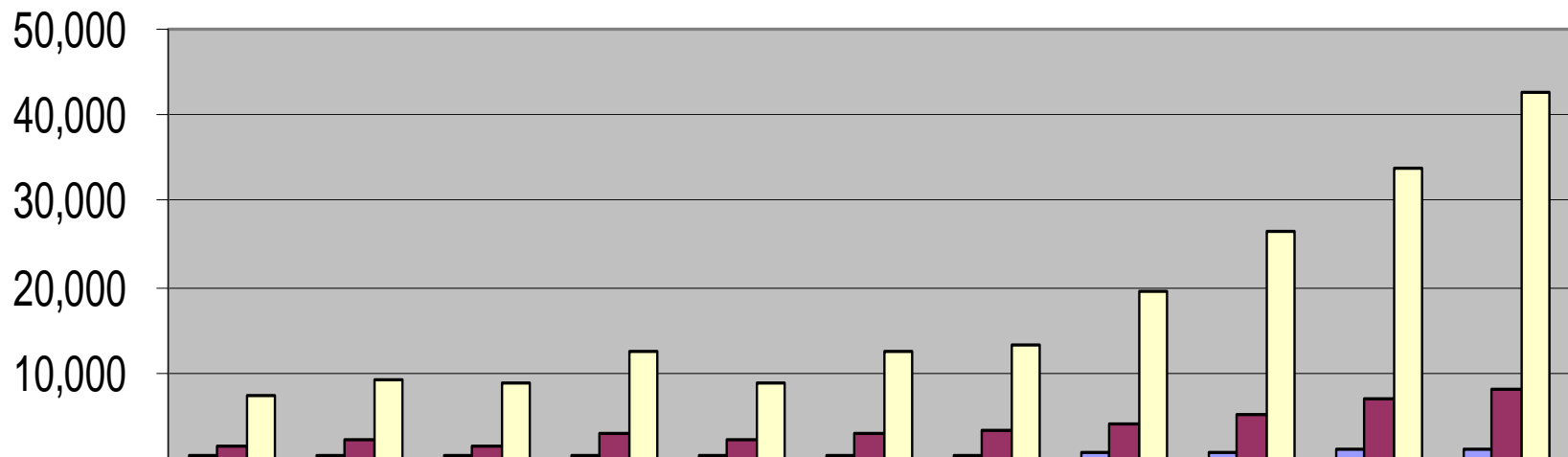


	2005	2006	2007	2008	2009
Male	1,332	1,906	2,810	3,873	4,701
Femal	461	597	988	1,275	1,629
Total	1,793	2,503	3,798	5,148	6,330

# V- Microfinance Performance and Challenges

## 1. Microfinance Performance

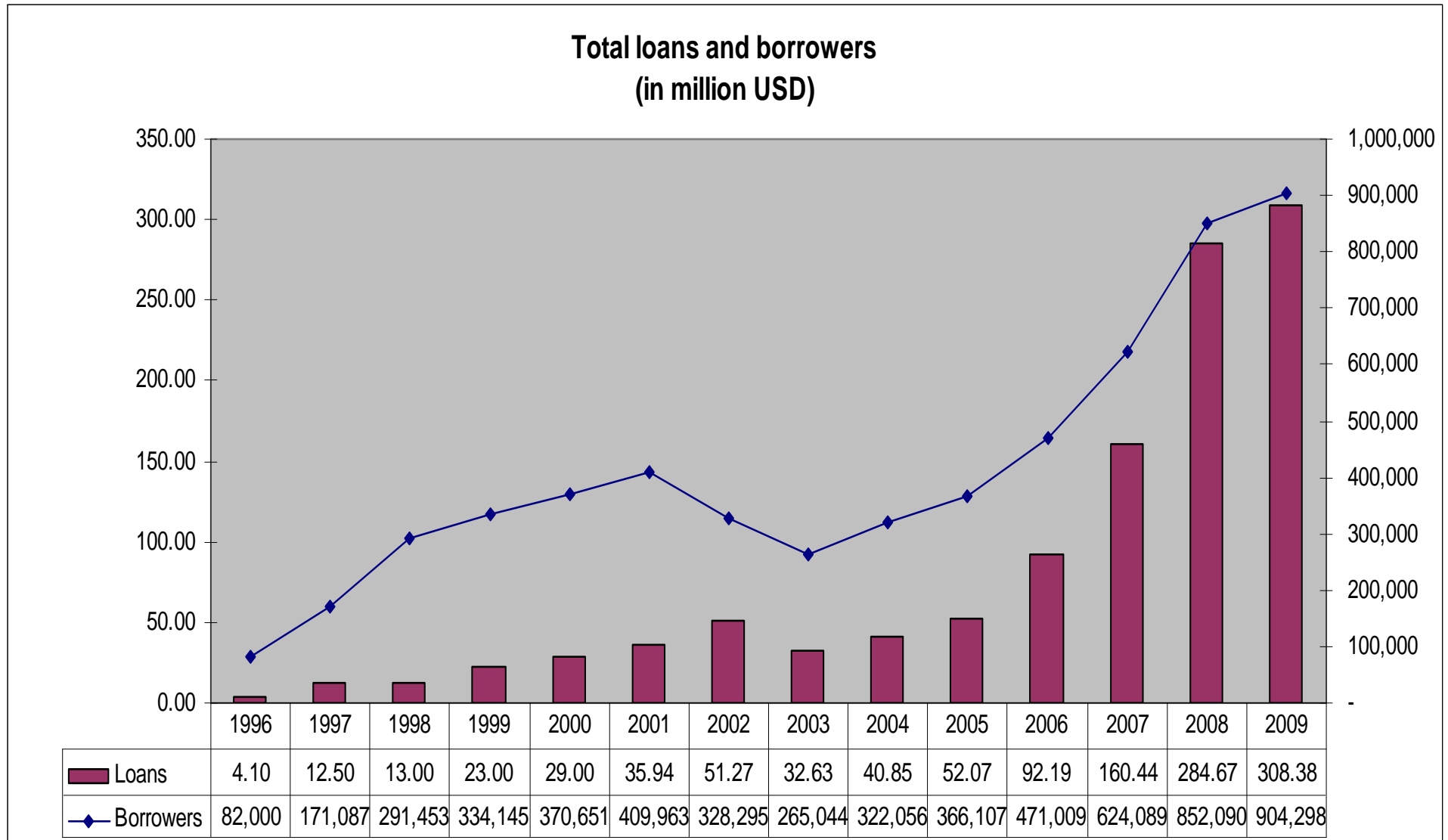
**Microfinance Operational Network**



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
District	347	474	469	510	449	532	533	655	838	1,046	1,277
Commune	1,490	2,099	1,536	2,912	2,299	2,924	3,128	4,152	5,314	6,820	8,189
Village	7,316	9,016	8,916	12,594	8,841	12,373	13,316	19,450	26,471	33,963	42,729

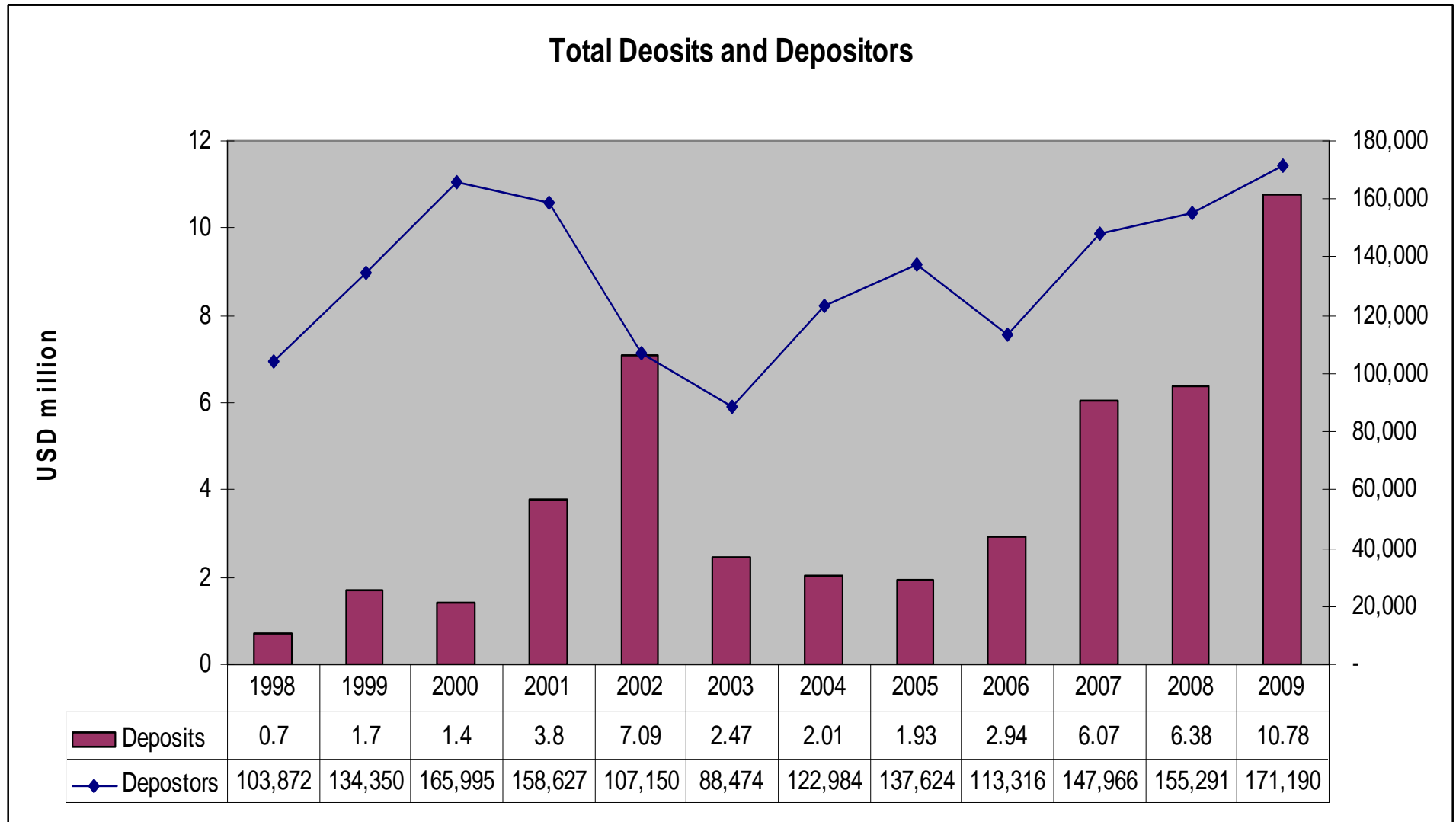
# V- Microfinance Performance and Challenges

## 1. Microfinance Performance



# V- Microfinance Performance and Challenges

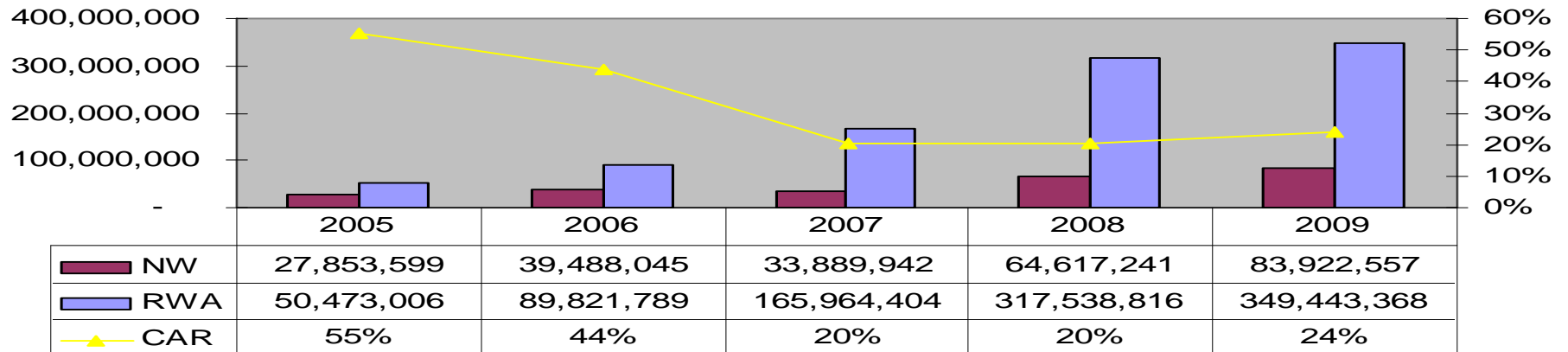
## 1. Microfinance Performance



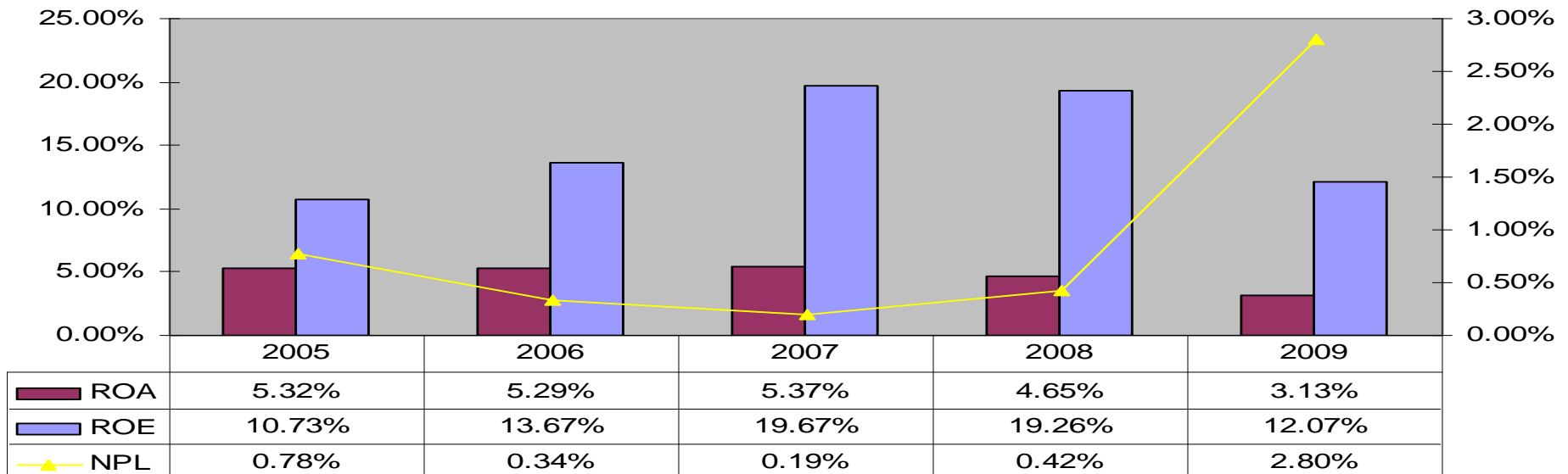
# V- Microfinance Performance and Challenges

## 1. Microfinance Performance

### Capital Adequacy Ratio



### ROA, ROE, and NPL



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# *V- Microfinance Performance and Challenges*

## 2- Challenges

- A. New Product Development**
  - B. Enhanced commercial microfinance**
  - C. Improved financial sustainability of microfinance operators**
  - D. Corporate governance**
  - E. Credit Information System (CIS)**
  - F. Supervisory Capacity**
  - G. Regulation and supervision**
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## *VI- Conclusion*

1. Microfinance activities and outreaches have contributed benefits and good experience for the development and poverty alleviation.
  2. Microfinance sector has been internationally recognized and highly rated since it commenced its path towards a sound regulatory, supervisory, and managerial environment.
  3. Regulated MFIs have the advantages of sound management and compliance of all regulations, which in turn contributes to its operations and builds more confidence in the microfinance sector and then can access to funding sources.
  4. Adherence to all guidelines and regulations issued by the NBC would lead MFIs to effectively conduct sustainable rural financial services.
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## *VI- Conclusion*

5. These achievements cannot be separated from the support of international donors and investors that encourage the microfinance sector through both technical assistance and funds.
6. In addition, the government's well-directed policy in the Rectangular Strategy and Financial Sector Development Strategy has proven crucial in leading to the successful development of the financial sector, especially in the role of microfinance for poverty reduction.



*For more information about banking and microfinance of Cambodia please check our website: [www.nbc.org.kh](http://www.nbc.org.kh)*

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