



NATIONAL BANK OF CAMBODIA

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BRIEFING NOTE ON THE DEVELOPMENT OF THE MICROFINANCE SECTOR



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Agenda

- Comments on Uganda
- Policy, Legal and Regulatory Framework in Cambodia
- Challenges for Supervision
- Conclusion

Comparison with Uganda

- Tiered approach in Cambodia too
- Cambodia microfinance model is more credit-based but supervisor is very prudent
- Few deposit based institutions in Cambodia except ACLEDA bank
- Freedom of interest rate

Development Policy

- Allow foreign ownership and access to overseas fund
- Adopt free market interest rate to promote favorable environment for private sector participation
- The government is not intervened the microfinance operations
- Strengthen institution development and transformation
- Create a favorable environment for infrastructure to reduce transaction cost
- Promote agriculture development and capacity building of rural farmers
- Enhance access to financial services for investment

Rapid Development

	2000	2002	2007	2008	VARIANCE 2007-08	
					2000-08	2007-08
# Registered MFIs	n/a	n/a	26	27	N/A	+ 4%
# Licensed MFIs	0	4	17	18	N/A	+ 6%
# Borrowers	370,651	328,295	600,486	825,652	+ 123%	+ 37%
Loans Outstanding	\$ 29 millions	\$ 49 millions	\$155 millions	\$ 277 millions	+ 855%	+ 79%
# Savers	147,441	107,150	104,712	108,788	- 26%	+ 4%
Deposit Outstanding	\$ 1.5 millions	\$ 6.8 millions	\$ 5.3 millions	\$ 5.4 millions	+ 260%	+ 2%

Legal Framework

- Law establishing the National Bank of Cambodia in 1996: end of mono-bank system.
- *Law on Banking and Financial Institutions* in 1999: basic legal framework for the Cambodian financial system, *including microfinance*.
- In 2000, NBC issued regulations to facilitate transformation of NGOs into formal MFIs.
- Since 2001, NBC has issued regulations (Prakas) on prudential norms and other issues applicable to MFIs.

Legal Framework (Con't)

- Depending on scope of operations and size of outreach, MFIs must either register with NBC or obtain a license.
- *Registration is compulsory* for MFIs if they meet the following conditions:
 - For those engaged in credit: their loan portfolio outstanding is equal to or greater than KHR 100 million (US \$ 24,700).
 - For those engaged in savings: the savings mobilized from *the general public* amount to KHR 1 million (US \$ 247) or the number of their depositors is 100 or more.

Legal Framework (Con't)

- *Licensing is compulsory* for MFIs if they meet the following conditions:
 - For those engaged in credit: their loan portfolio is equal to or greater than KHR 1,000 millions (US \$ 247,000) or having 1,000 borrowers or more.
 - For those engaged in savings mobilization: the savings mobilized from *the general public* amount to KHR 100 million (US \$ 24,700) OR the number of their depositors is 1,000 or more.
- In both cases savings limited to compulsory savings collected from members or clients.

Legal Framework (Con't)

- December 2007, NBC created new category of MFIs allowed to mobilize savings from the general public: *Microfinance Deposit-taking Institutions (MDIs)*. The minimum capital requirement for MDIs is KHR 10 billion (US \$ 2.5 million) , compared to only KHR 250 million (US \$ 62,500) for MFIs.
- As of January 2009, no MDI license had yet been granted, but five applications were being processed.

Regulatory Framework

- Regulations and prudential norms applicable only to licensed MFIs (and MDIs)
- Main regulations at the end of 2008:
 - *Minimum capital*: KHR 250 million (US \$ 62,500), increased to KJR 10,000 million (US \$ 2.5 million) for MDIs.
 - *Solvency/capital adequacy ratio*: net worth at least 15% of risk-weighted assets.
 - *Capital guarantee*: 5% of capital deposited with NBC (10% for MDIs)

Supervisory Activities

Off-site Supervision

- Licensed MFIs submit monthly reports
- Registered MFIs submit quarterly reports to keep NBC informed

On-site Inspection

- On-site inspections complement off-site supervision:
- Visit each licensed MFI every 12-18 months

Challenges for Supervision

- Identifying and addressing risk
- Improving financial institution operations and increasing intermediation through human capital development, education and appropriate regulation and supervision
- Increase confidence through financial institution and supervisory functioning and education
- Formalizing financial through increasing confidence

Challenges for Supervision

- Linking commercial banks with microfinance through increasing confidence in regulation, supervision and enforcement and developing appropriate financial infrastructure especially a wholesale national payment, money/inter-bank market including short-term government securities and improving financial information quality and transparency
- Treating providers of similar financial services similarly to provide a level playing field and avoid regulatory arbitrage and providing a progressive development system for non-bank conducting banking activities

Prospect for the Future

- Increase access of the poor to microfinance
- Increase diversify of institutions
- Improve financial sustainability of microfinance operators
- Enhance commercial microfinance
- Flexible regulation and supervision
- Establish legal framework for micro insurance
- Set up credit bureau for banking sector

Q & A

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Thank you!!



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