Microfinance Regulation & Supervision in Cambodia

Catalyst for Transformation towards Sustainable Microfinance

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1 Introduction
1 Introduction

• The **Cambodian Banking System** was completely destroyed during rule of Khmer Rouge 1975-1979.

• In 1989, **commercial banks** started operations on limited scale, and mainly concentrated their business in the capital Phnom Penh. But they do not offer microfinance services.
1 Introduction

• In early 1990s, **microfinance activities** started by Non-Governmental Organizations with the support of international development partners.

• In 1999 **law on Banking and Financial Institutions** promulgated by National Bank of Cambodia (Central Bank)

• MF regulation (**Prakas**) part of this Banking law and hence part of the broader financial sector, not a stand alone regulation
1 Introduction

• Reflected the general switch from relief work to sustainable economic development in Cambodia

• Only the transformed NGOs, i.e. MFIs (companies) receive license from Central Bank to continue their microfinance business.

• Others were requested to register as “NGO with credit component” (Decision whether to become a licensed MFI or continue as NGO with credit component up to them.)

• Since introduction amendments to the regulation have been done
2 Role of Central Bank in setting up Regulation
2 Role of Central Bank

• Open to consultative process, allowing the input of NGO MFIs and donors at each stage
• Learned from the transformation process of the first three to four MFI NGOs
• Promoted the creation of the Cambodian MF Association (CMA) to ensure continuing input and positive relationship with the practitioners
2 Role of Central Bank

• Clear vision and objectives with priority on safety and integrity of the sector

• Flexibility in the supervision, ensuring that MFIs can grow at their own pace, and ensuring competition
3 Requirements to obtain and keep license as MFI
3 Requirements

- Most important: not every MFI is regulated
- Only those that have applied and obtained the license as MFI
- MFI **CAN** apply for license, but don’t have to
- Different steps to apply for license:
  - Register as NGO
  - Apply for License
3 Requirements

Reporting requirements:

- Licensed MFIs are requested to report monthly while registered MFIs are allowed to report quarterly.
- Central Bank has introduced a uniform chart of accounts for MFIs and disclosure requirements in accordance with international accounting standards.
3 Requirements

Reports to be submitted monthly or quarterly:

- Assets and liability statement
- Profit and loss statement
- Statement of deposits and loans
- Deposits by currency
- Loan classification
- Branch network
- Interest should be calculated on the remaining balance of the loan
3 Requirements

Reports to be submitted annually by licensed MFIs:

- Audited Financial Statements
- Board of Directors Annual Report
- Status of employees and their salaries
- Updated organizational chart with the name of officers
4 Consequences
4 Consequences

For the Sector

• Since the introduction of supervision and regulatory framework for MFIs, the Cambodian microfinance sector has been internationally recognized and highly rated.

• A clear separation between relief work and sustainable microfinance has been reached
4 Consequences

For Central Bank

- Had to regulate and supervise only a limited number of MFIs and could hence better use its resources (17 MFIs licensed since 2001, most of them in the past three years)

- Could learn from the first MFIs to be licensed and subsequently improve their own capacity in regulating MFIs
4 Consequences

FOR MFI

• All licensed MFIs have tremendously expanded their outreach.
• Efficiency in operations has been improved/enhanced to a higher level.
• Faced challenges in transforming (changes in staff, management, operations, etc)
Advantages of MF regulation for MFI:

(i) Allows the MFIs to collect deposits from their members and general public.

(ii) Helps to acquire long term borrowing from foreign and local organizations/banks.

(iii) It gives recognition, promotes reputation among the public and helps for expansion on sustainable basis.

(iv) Provides a legal basis for business, improve the management strategies, reduce dependency, promote self financed systems, efficient cost effectiveness and ensure the sustainability.
5 Conclusions
5 Conclusions

• The *prakas* was the catalyst that enabled the development of a sustainable MF sector

• There was a process of mutual learning: Central Bank, MFI, Network, and Donors

• The regulation can be changed over time, if mistakes are spotted or improvements can be made
5 Conclusions

• Regulated MFI enjoy many advantages and can increase their outreach and financial sustainability.
• Not all MFI need to be regulated.
• Transformation needs commitment, vision, good management and especially a good legal framework.
5 Conclusions

• The benefits are especially for the clients through higher outreach, lower interest rates though competition and trustworthy microfinance services.
Thank YOU!