

Cambodia

Financial Sector Diagnostic

2008



CAMBODIA

Financial Sector Diagnostic

Author: Pak Sereivathana, Houn Thy, Margarete Biallas

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Introduction

Political

Environment:

Cambodia is still in many ways a post-conflict country, and though the Paris Peace Accords formally established a truce in 1991, political-military violence continued until 1997. Many important public sector management institutions that were destroyed during the Khmer Rouge period are only just starting to be rebuilt. Previous decades of conflict and isolation have resulted in weak governance and perceived high levels of corruption, as demonstrated by the Transparency International (TI) Corruption Perceptions Index, which shows perceived corruption levels in Cambodia to be worsening. Cambodia ranked at 162 in 2007 compared to 151 in 2006. Poor governance is one of the primary constraints on development in general.

Despite the problems, Cambodia's economic growth has resulted in significant poverty reduction. The latest household survey found that in 2004, 35 percent of Cambodians lived below the national poverty line, down from an estimated 47 percent a decade earlier. However the gap between rich and poor increased. The severity of poverty is most felt in rural areas. One reason is that economic growth has been based on such industries as garment exports, tourism and construction, which are largely urban. Improvements in policy, however, continue to be undermined by serious institutional weaknesses, resulting in difficulties in translating good intentions into good outcomes for Cambodian citizens. Though public sector performance has improved in some sectors, serious problems remain. The bureaucracy often is inefficient and ineffective in meeting the needs of citizens, particularly those who live below the poverty line. Royal Government of Cambodia policy is generally conducive to private sector development. In order to implement its development agenda and to meet its World Trade Organization commitments, the RGC recognizes that it will have to make much more progress on three principal fiscal, fiduciary, and institutional challenges.

Macroeconomic **Context**

After three years of double digit growth, Cambodia's GDP growth in 2007 eased to 10.1%. The growth is projected to fall further to about 7.5% over 2008 and 2009. The anticipated lower growth in 2008 and 2009 is partly due to a stagnant construction market, which previously had been one of the main economic drivers, and to slower garment exports due to weaker external demands and stronger competition in the region. Consumer price inflation in 2007 increased to 5.85% after its decrease to about 2.8% in 2006. Inflation almost doubled from 4.4% in 2006 to 7.1% in 2007. The last published data showed the inflation rate reached 18.7% in January 2008, reflecting both the external shocks and domestic inflation pressures. Increases in prices of oil, food and imported-materials came at the same time as the rapid growth of domestic demand.

Key Indicators:

TABLE 1	2004	2005	2006	2007
Nominal GDP (millions US\$)	5260.2	6187.5	7275	8627
Annual GDP Growth (%)	10	13.4	10.8	10.1
GDP per Capita (US\$)	381.2	439.7	500	597
Inflation	3.9	6.7	4.4	7.1
Exchange Rate (Riels/US\$)	4016.3	4092.5	4103.3	4056.5
Agriculture (% of GDP)	32.7	34.2	33	30
Industry (% of GDP)	27.7	26.7	25	25%
Services (% of GDP)	39.6	39.1	42	46%
% Populations<\$2/day, PPP	n.a.	n.a.	n.a.	n.a.

Source: EIC

The engines of growth in 2007 were still garments and textiles, tourism, construction, and agriculture. Garments, the country's largest industry and foreign exchange earner, with 70% of its products destined for the United States, is facing big challenges due to the U.S. economic downturn. The end of the U.S. restriction against Chinese textile exports, to come in 2009, along with greater productivity in other countries in the region such as Vietnam, will likely pose a threat to Cambodia's industry. In 2006, the industry increased exports by 21.9% from 2005, for a total US\$2.7 billion. That compared with growth of 17.6% in 2005. But in 2007 the industry grew at only 2.4%, representing \$2.9 billion.

Tourism is still promising. The number of visitors to Cambodia increased by 18.53% in 2007, compared to 19.59% in 2006 and 34.72% in 2005. Despite the current stand-off with Thailand over the border dispute, which is expected to lower the number of Thai visitors, the visitors to Cambodia over the first four months of 2008 increased by 14% compared to the same period in 2007.

Agriculture remained a major contributor to the GDP in 2007, even though the growth rate was down from 15.5% in 2005 to 5.5% in 2006 and an estimated 5.2% in 2007. The growth is projected at 5.0% for 2008.¹ The growth was mainly boosted by the expansion of cultivated areas, aqua-fishing and a continuing increase in livestock production.

The narrow base of growth remains a concern even though Cambodia has made efforts to diversify its economy through development of small and medium enterprises. The bank loan portfolio almost doubled from US\$855.2 million in 2006 to US\$1,695.45 million in 2007. Loans to the agricultural sector increased from US\$36.63 million to US\$75.25 million in 2007. Loans on construction also increased from US\$66.27 million in 2006 to US\$157.94 million in 2007.

As of December 2007, there are 24 banks in Cambodia with the top four accounting for about 70% of the market share.

Government Priorities

Private Sector and SME development is a priority for the government of Cambodia. The government has launched a SME development framework and has approved a Financial Sector Development Strategy 2006-2015.

¹ Source: EIC, Cambodia Economic Watch, April 2008

Demand for Financial Services

Cambodia's financial sector has a low penetration rate. Only 6% of the total population of 14.5 million, or about 2.9 million families, use financial services from banks and microfinance institutions. In 2007, the total number of borrowers was 821,500, up about 30% from the previous year; MFI clients accounted for about 75% of the borrowers. Services, terms and cost of credit have improved over the last three years. Different loan products and medium-term finance are available while costs have decreased.

Cambodia's financial sector experienced dramatic growth for the period 2005 - 2007. The total assets grew from US\$1.4 billion in 2005 to US\$3.5 billion in 2007. Total loans outstanding also increased significantly, from US\$594 million in 2005 to US\$1.7 billion in 2007. However the figure is still low when compared to the GDP. It was about 20% in 2007.

No formal study has been conducted to determine demand for financial services in Cambodia.

Private Sector / SMEs

Cambodia is dominated by private micro, small and medium enterprises (MSMEs) and the largest number of these are found in the rural areas. As of 2006, the number of MSMEs was 41,775 including 13,239 registered with the Ministry of Commerce as commercial enterprises. MSMEs employed about 31% of the labor force (the majority of the labor force is unregistered farmers). Cambodia has few State Owned Enterprises (SOEs). The largest remaining SOEs are Electricite du Cambodge (EDC) and the Phnom Penh Water Supply Authority. Several agricultural enterprises, such as rubber plantations, have been privatized and ownership transferred to local businessmen. In the financial sector, the government still owns and operates Rural Development Bank and Cambodia Re, a re-insurer, but a state owned insurance company, Caminco, has been privatized.

Financial Sector Overview

Cambodia's financial sector showed big gains in 2007; loans and deposit increased 75% and 77%, respectively. The growth saw increased physical access to finance, with 8.3 branches per 100,000 at the end of 2007, compared to 6.7 in 2006. Loan to deposit ratio gradually improved to reach 69% in 2007. The growth is due to the recent economic growth and the increase of public confidence in the banking sector. However the penetration is still shallow, with deposits only 30% of GDP and loans only 20% of GDP (see Table 2).

Money/Interbank markets do not exist. In 2005 Cambodia enacted a law on negotiation instruments and payment transactions, but there is no wholesale electronic payment system. Most payments are made in cash, which is not secured and difficult to handle in large volumes.

The National Bank of Cambodia (NBC) as a supervisory body has addressed many aspects of banking operations, but there are still gaps. Core international principles have not been fully complied with. Its supervisory functions are still weak due to a lack of human resources and infrastructure, including IT systems, and the bank needs to improve its consistency and quality.

The insurance industry also did well in 2007. Gross premiums increased by 44% compared to 12% in 2006. The number of insurers rose from four in 2006 to seven in 2007 with 29,124 total policies. Currently services are limited to non life insurance products. Life insurance is not available in the market.

Financial Depth and Outreach:

Table 2	2005	2006	2007
Total Loans (millions US\$)	594	893.6	1,695.45
Loan Growth (%)	26	50.4	89.7%
Loans as % of GDP	10.8	12.4	19.71%
Total Deposits (millions US\$)	906.9	1312	2,469.84
Deposit Growth (%)	14.1	45	88%
Deposits as % of GDP	16.5	18.2	28.72%
Loans as % of Deposits	65.5	68	69%
% Cash of Total Deposits	38	35	31%
# of Loans per 1000 people	36	44	57.04
# of Deposits per 1000 people	24	28	41.94
# of Fis per 1000 people	0.2	0.3	0.28
# of Branches per 1000 people	2.2	6.7	8.35

Source: NBC

In the last few years, the Cambodian banking system has grown dramatically with the number of banks increasing from 17 in 2004 to 24 in 2007. A few Korean banks were established to support the increasing number of Korean investors in Cambodia, especially in real estate development and construction. Several foreign banks also planned to enter the market in 2008. The strong growth of the banking sector was spurred by the economic growth and the continuing improvement of the regulatory and supervisory body, which leads to increased public confidence in the banking sector. Although the number of banks has increased, outreach is still low with only 456,000 deposit accounts for the whole nation. Financial services are limited and only available in urban areas.

In addition to banks, microfinance institutions (MFIs), have also grown very fast despite the constraints on the availability of local currency for their operations. Their loans in 2007 reached 600,000 borrowers with the total loan outstanding of US\$155 million.

Number & Type of Financial Institution:

TABLE 3	2004	2005	2006	2007
Number of Banks	17	19	20	24
Private Local Banks	12	15	16	20
Foreign Banks	3	3	3	3
State-Owned Banks	2	1	1	1
Licensed MFIs	13	16	16	17
Leasing Companies	0	1	1	1
Insurance Companies	4	4	4	7

Source: NBC and MEF

Commercial Banks

The banking sector consists of 24 banks including 17 commercial banks and seven specialized banks² with 320 branches and offices throughout the country. The sector

² Commercial Banks are required to have US\$13 million paid up capital while Specialized Banks need only US\$ 2.5 million, but can offer only one banking products.

has experienced rapid growth in assets, liabilities and equity and is becoming more competitive and innovative.

Since 2005 all major banks have begun to introduce electronic banking services, ATMs and POS. As of 2007, banks have issued 150,546 debit/ATM cards, 4,953 credit cards and installed 177 ATM terminals in the major cities. But according to NBC data, about 66% of the terminals and 82% of the cards were owned or issued by two banks: ANZ Royal and Acleda. But not all ATM terminals for banks link, and customers cannot withdraw cash by using other banks' ATM machines.

Specialized banks are generally small and limited to one business loan product. They are mainly owned and operated by Cambodians who lack banking skills and experience. They lend mainly based on their capital and therefore their growth is slow. The average portfolio growth for 2007 was about 25% compared to about 90% of the sector.

Commercial banks are now more dynamic. They have moved from a traditional strategy of targeting only corporate clients, to more diverse clients including households. New banking services have been introduced to respond to market demand, but a set of common issues applicable to the banks can be identified:

- **Corporate governance.** Many banks have weak corporate governance because they do not have effective boards that adhere to a professional code of ethics. Some banks lend large amounts to related parties. A few banks are still run by a president/CEO who pioneered the bank. Delegation is still limited and formal structures for good governance and risk management are lacking.
- **Human Resource.** The recent increase in the number of banks has worsened an existing shortage of banking professionals. The supply of human resources in banking is limited, as Cambodia does not have an institution providing professional training in banking. Some basic level banking subjects have been introduced in universities, but currently banks recruit fresh graduates and provide on the job training.
- **Products and services:** A few major banks are now expanding services to include such things as electronic banking, foreign exchange, risk management services, consumer finance. Trade finance is growing in importance. Traditionally this has mainly been import finance. Now export finance is also growing, though from a low level. (About 85% of exports are garments and these are mainly financed off-shore.) Some local banks still provide limited services to clients such as lending products, basic checking and saving services, money transfer, and trade finance.
- **Number of branches:** Competition has led banks to expand their branches and offices, but most branches are either in Phnom Penh or major provincial towns. Only six banks have more than 10 branches; others have between one and four branches. The exception is ACLEDA with about 212 offices in all provinces.
- **Interbank/ Money Market.** An interbank market does not exist due to lack of a payment system and trust. The payment system is underdeveloped because of a lack of infrastructure, limited financial instruments in the market, and a weak regulatory framework and supervisory body.
- **Local currency transactions.** Cambodia is a dollar based economy with approximately 95% of transactions in US dollars. About 97.8% of total banks' assets are foreign currency (mainly US dollar). All bank lending is in US dollars.

Microfinance

The Cambodian microfinance sector has grown tremendously in terms of total loans and the number of borrowers over the last four years, with a marked acceleration in 2006 and 2007.

At the end of 2007 the Cambodian microfinance sector consisted of 17 MFIs licensed and supervised by the NBC as well as 25 NGOs registered with the NBC. The annual growth of loans outstanding in the period 2004-2006 was above 50%, and 74% in 2007. The number of borrowers increased by 34% in 2007. Most of the recent growth in loan portfolios is fuelled by raising the loan ceilings. It is projected that the annual growth for the next two to three years will be at the same level. Median return on equity ROE and return on assets ROA in 2007 were over 25% and 6%, respectively, reflecting improvements in productivity and efficiency. Cambodian MFIs have consistently been among the strongest performers in Asia.

As of December 2007, the microfinance sector reached over 600,000 borrowers representing a total loan portfolio of about US\$155 million or about 9% of total loans in the financial sector, and 150,000 savers. The growth of MFIs has also been driven by the expansion of their operating areas. In the recent past, each MFI concentrated on a separate turf. Their growth plans are meant to expand to true nationwide status. The progression of geographic coverage has seen a huge increase. By December 2007, the 17 licensed operators were in 21 provinces, covering over 1,400 communes, or 84% of the total communes.

Besides the growth, the following are common issues for MFIs in Cambodia:

- **There are too many MFIs and micro credit operators in the market.** With 14.5 million people, the Cambodian market consists of roughly 2.9 million households, which are currently being served by 25 registered MFIs/ NGOs, 17 fully licensed MFIs, one commercial bank and a large variety of donor projects with lending schemes. The large number of players has led to increasing competition and reduced margins for the MFIs. Inability of the MFIs to share information on clients leads to clients over indebtedness, hence deteriorating portfolio quality.
- **Limited Products/Services.** All MFIs offer almost identical products to clients: loans and deposits. Loans offered include fully collateralized individual loans, group loans and village banking that target poor entrepreneurs in the rural areas and small businesses in the urban areas. Only a few MFIs offer consumer and other types of loans to their clients. Individual loans generally require immovable assets as collateral. There is limited/no cash-flow lending in the industry. Saving products are not very well developed. In recent years, some MFIs have tried to develop and offer voluntary savings products to their clients. The attempt has not been successful due to the reliability and accessibility of saving services. Trust in MFIs is still weak in Cambodia, and clients hesitate to make deposits into or purchase other services from the MFIs.

There is no mechanism to protect the interest of clients. NBC has just passed a Prakas to allow major MFIs to mobilize savings. However MFIs are required to apply for a deposit taking license requiring a minimum of US\$2.5 million Tier 1 capital and a set of conditions that MFIs need to comply with. MFIs can do money transfers through their own branches. Cross institution money transfers are not allowed by law.

- **Organizational Development.** As the sector grows in loans outstanding, new products (savings) and outreach, MFIs will need to develop their organizational risk management tools such as foreign exchange, liquidity risks, and appropriate MIS.
- **Access to Capital.** MFIs have limited access to local funding sources, from both commercial banks and savings. A few commercial banks and one state owned bank lend to MFIs, but in small amounts and short term. The majority of banks do not trust

MFIs, and their loans require collateral in the form of land and buildings. Savings services are not well developed and the amount is very small.

International funding is increasingly available, but the cost is high and requires minimum scale. The funding is mainly in US dollar, while some MFIs lend to their clients in Khmer Riel.

- **Support Services.** Access to other business support services is limited, and the quality of the available services is still poor. The only acceptable services available are financial audit, tax advice and legal advice. Rating, consulting, advanced training and MIS support services are not available locally. Two rating agencies, Micro Credit Rating International Limited (MCril) and Microfinanza, have been used by most MFIs. MCril also provides consulting and training services.
- **Infrastructure.** The current Credit Information Sharing assisted by ADB is not helpful to the sector lending as it shares only negative information and MFIs are excluded. With the absence of a proper credit information sharing system, very often an MFI lends money to the same clients and/or bad clients of others.
- **Government policy and supervision.** There is no policy on rural credit. The government has formed the Credit Committee for Rural Development (CCRD) to prepare the policy, and NBC is responsible for regulation and supervision. The regulation and supervision capacity of NBC is still thin. NBC staff lack experience and capacity to facilitate the growth of the sector through proper monitoring and supervision. Continued development of capacities at NBC for effective regulation and supervision of the microfinance sector is needed, particularly given that the sector's requirements are in many ways different from those of the commercial banking sector.

Leasing Companies

Although the leasing law has not yet passed, a few companies offer leasing products. The two known companies offering leasing services are Devco Capital and ANZ Royal Bank, however transactions are limited, as it is at the early stage. Leasing is considered a "banking operation" under the banking law. Anyone conducting a leasing business must obtain a bank license.

Insurance Companies

The Cambodia insurance industry is in the developing stage, and the insurance law was only promulgated in 2001. The total assets for the whole industry were US\$49.6 million in 2007, up from US\$31.9 million. The growth stemmed from the increase of the number of insurers from four in 2006 to seven in 2007 and the gross premium growth. Among the seven companies, only one, Cambodia Re, is still owned by the government. Caminco, the state owned company has been privatized recently, and changed the name to Viriyah BVB Cambodia Insurance Plc. The new major shareholder of the company is Viriyah Company in Thailand, and the Ministry of Economics and Finance (MEF) still hold 25%.

Insurance companies are young and unsophisticated from an international perspective, and the total premium revenue was low, at US\$17.5 million in 2007, even though there was a significant growth of 44% that year. The number of policy holders was small, at only 29,124. The products sold are basic and limited. The main products are commercial fire, motor vehicle and a miscellaneous category that makes up about 70% of the total industry.

There is no life insurance. A joint venture of private insurance companies and government is expected to open Cambodia's first life-insurance company, but they have not yet obtained a license from the MEF.

Micro-insurance is relatively new to Cambodia and the legal framework is being developed by MEF with the support from IFC. Nonetheless, there are some organizations experimenting with micro-insurance services for rural population and the urban poor. GRET one of the first health micro-insurance providers, started its pilot project in 1998 in Kandal and Takeo Provinces to provide health insurance to the rural

people in Cambodia. Other organizations such as Vision Insurance and Meda are piloting credit life insurance for MFIs clients.

MEF is the regulator and also the supervisory body. The supervisory function is still weak due to a lack of human resources. Similarly, the insurance industry itself severely lacks human resources. Specialists including underwriters, actuarial, loss adjusters, and fund managers are not available in Cambodia. There is no institution providing training and developing the capacity of professionals for the insurance sector.

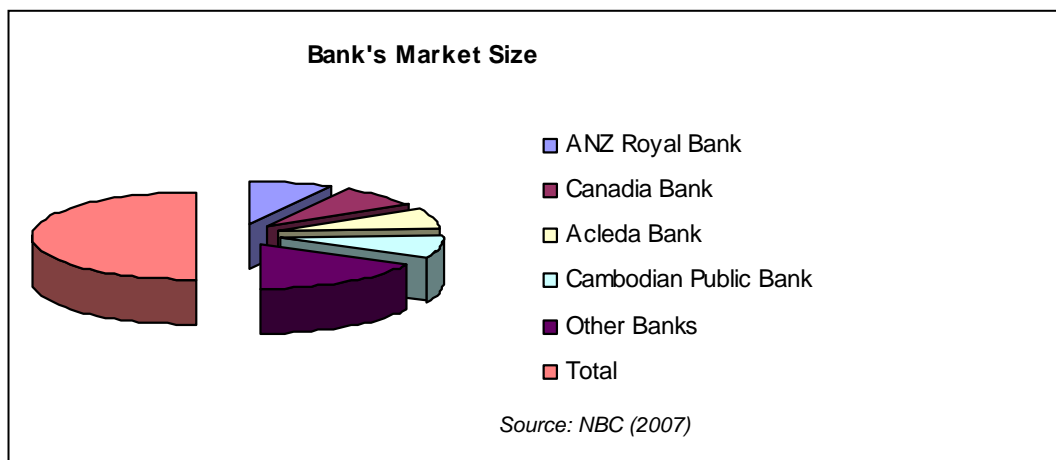
Other NBFIs

The plan to open the stock market in 2009 has encouraged at least five investment funds to establish in Cambodia to look for projects in real estate, tourism and agriculture. There is no government body regulating and supervising this type of operation, as there is no legal framework governing this type of institution. Investment funds and similar types of organizations are expected to grow for the next few years, once the stock market is established, even though Cambodia is seriously lacking in human capital. The investment capital is expected to be raised from overseas.

Market Structure

Assets

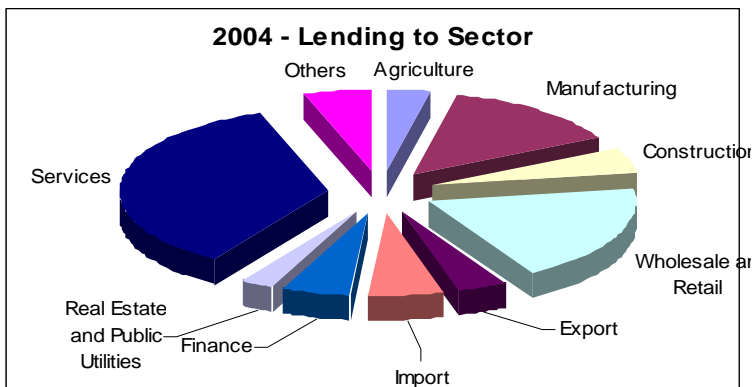
Total assets in the banking industry grew significantly in 2007, showing 78% growth, compared to 44% in 2006 and 16% in 2005. In 2007, total banking assets reached US\$3,494 million due to rapid increases in deposits of about 88%. As the following diagram illustrates, four major banks hold about 65% of the total banking assets and ANZ Royal became one of the largest institutions in terms of market share in 2007.



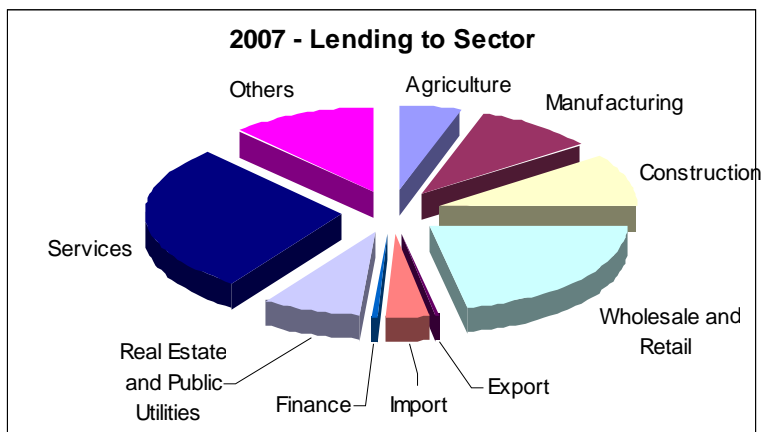
The percentage of total banking assets to GDP has increased from 22% in 2005 to 41% in 2007. At year end 2007, total system lending stood at \$1,700 million, an increase of \$800 million, or 89% from 2006. Clearly, 2007 was the best year for bank lending and this activity surely contributed to growth rate of GDP for the whole economy.

In the last two years, the terms and interest rates of loans to the private sector have greatly improved. The lending term has been extended from a maximum of one year (before 2002) to a maximum of 5 years in 2007, due to availability of long term funds, competition, and better risk management. Interest rates on loans have decreased from a minimum of about 12% in 2004, to a minimum of about 8% in 2007. Over the period from 2004-2007 lending by sector has seen little change. The bulk of loans are to services and trade.

Loans to different sectors for 2004 and 2006



Source: NBC



Source: NBC

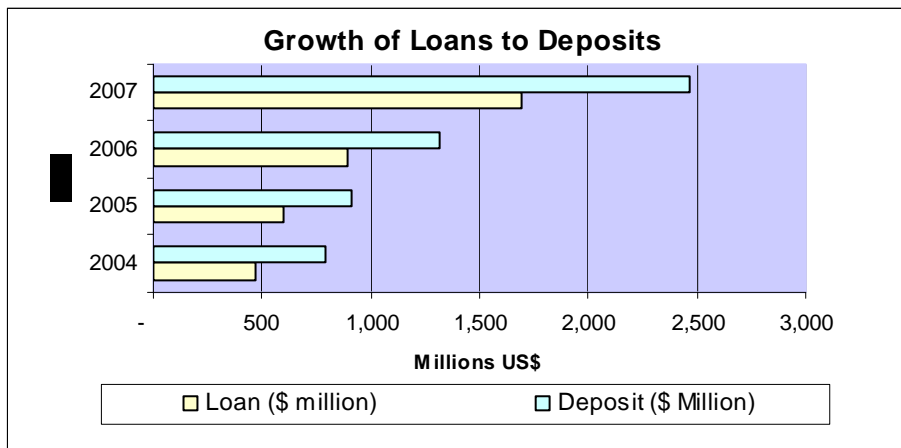
Liabilities

The figures also show that savings is increasing significantly. The increase was 45% in 2006 and 88% in 2007, compared to only 14% in 2005. The deposit to GDP ratio has also greatly improved to about 29% in 2007 compared to about 15% in 2004. The deposits comprise demand deposits, saving deposits and fixed deposit. (See table below). Demand deposits and savings deposits are current, while fixed deposits are mainly short term with a maximum of two years, but on average less than six months. Education savings were also introduced by Canadia Bank with a term of more than 10 years. The deposits are mainly held in foreign currency. Khmer riel deposits have increased from about 4% in 2006 to 10% in 2007.

TABLE 3 Deposit Structure (%)				
	2004	2005	2006	2007
Demand Deposit	25	25	25	24
Savings Deposit	46	45	41	47
Fixed Deposit	28	28	33	28
Other	1	1	1	1
Total	100	100	100	100

Source: NBC

The loan to deposit ratio has increased steadily for the last three years, from 65% in 2005 to 69% in 2007. Asset - liability distribution in the sector is more even for the last two years. Most institutions have loan deposit ratios of over 50%, except a few new banks with a ratio lower than 30%. Because they are new, they are still looking for projects to lend.



Microfinance is becoming an important part of the financial sector, providing great outreach to all geographic areas including rural areas with borrowers numbering more than 600,000. MFIs, in particular, have difficulties in mobilizing funding in the local market. Therefore the funds for MFI lending generally consist of capital (a large share of which is former grant aid) and borrowings from abroad. In 2007, the deposits increased by almost 100% compared to 2006, however **the amount is still very small, about US\$5 million.**

Performance

Bank Performance

Most banks are now profitable, except for newly established banks that have had operations for less than two years. Average ROE for the all banks increased from 14.2% in 2006 to 16% in 2007, while ROA maintained at the same level, 3%. Major banks have ROAE between 25% to 35%, and ROAA at about 4%. The number of non-performing loans for the industry improved significantly to 3.4% in 2007, down from 9% in 2006.

Cambodian banks fall into three different levels or tiers based on profitability and overall performance. Banks in Tier 1 have outperformed other banks on all indicators (assets, loans, deposits, profitability). Tier 3 banks seem to have very little competitive advantage. Most are newcomers or specialized banks. These banks are struggling to survive and gain a position in the market.

Some banks in Tier 2 performed very well over the last three years with assets and profits growing fast. ANZ Royal is newly established and is the fastest growing bank in the sector. With a large investment in infrastructure and an international reputation, the bank has been able to quickly attract deposits and provide loans. It ranked No. 3 in terms of assets and No. 4 in terms of loan portfolio outstanding and it started making a profit in 2007.

Bank Performance

Commercial Bank and Specialized Bank	KEY INDICATORS											
	Total Assets (\$ million)		Total Equity (\$ million)		Total Customer Loans (\$ million)		Growth in Loan Portfolio		Total NPLs (\$ million)		Total Net Profit (\$ million)	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Tier one												
Canada Bank	552.78	380.64	84.56	64.11	343.11	222.83	0.54	38%	23.48	52.99	25.21	15.80
Cambodia Public Bank	557.23	245.99	87.19	44.82	358.22	160.58	1.23	92%	0	0	18.92	11.81
Aceda Bank Plc.	468.19	225.14	62.65	47.70	314.35	162.78	0.93	59%	0.21	0.16	10.19	6.05
Tier Two												
Foreign Trade Bank	217.44	224.12	30.03	23.45	65.07	51.05	0.27	44%	19.98	10.88	9.47	4.35
Cambodian Commercial Bank	160.67	129.89	26.30	19.91	40.25	29.35	0.37	57%	0	2.87	5.94	4.47
Vattanac Bank	129.44	71.85	25.14	20.08	81.01	41.62	0.95	45%	0	0	5.61	3.59
Union Commercial Bank	119.38	105.90	23.04	19.23	65.69	51.13	0.28	9%	1.58	4.76	5.14	2.71
May Bank	142.75	84.93	26.41	23.11	32.45	22.07	0.47	56%	1.02	1.05	4.20	2.61
Singapore Banking Corp	48.27	37.70	20.61	8.58	20.11	15.88	0.27	-27%	2.47	10.79	3.18	(0.25)
First Commercial Bank	59.03	52.73	20.36	18.61	18.96	12.11	0.57	-15%	0.11	0.13	2.84	2.93
Krung Thai Bank	70.75	50.86	19.88	18.77	16.46	24.94	(0.34)	-33%	0	0	1.62	3.70
Tier three												
Cambodia Mekong Bank	61.30	27.33	24.76	11.33	7.27	2.84	1.56	15%	0.05	0.08	1.21	(1.80)
ANZ Royal Bank	552.69	207.58	33.10	15.23	143.10	52.75	1.71	1403%	5.75	0	0.53	(3.08)
Cambodia Asia Bank	31.81	22.47	13.90	13.84	12.06	11.60	0.04	12%	0.64	0	0.48	0.12
Advanced Bank of Asia	40.22	27.94	17.76	13.19	12.60	14.02	(0.10)	11%	3.27	0	0.14	1.61
Shinhan Khmer Bank	36.04	n.a.	11.91	n.a.	2.12	-	n.a.	n.a.	0	n.a.	(0.92)	n.a.
Camko Bank	23.37	n.a.	11.34	n.a.	3.94	-	n.a.	n.a.	0	n.a.	(1.49)	n.a.
Peng Heng S.M.E	5.05	4.23	4.26	3.93	4.59	3.80	0.21	4%	0.19	1.00	0.44	0.17
First Investment Specialized Bank	7.06	6.73	6.86	6.63	6.21	4.84	0.28	100%	0	0	0.44	0.16
Rural Development Bank	18.13	16.30	9.77	7.72	9.56	7.26	0.32	166%	0.15	0.23	0.28	0.38
Anco Specialized Bank	2.63	2.76	2.63	2.65	1.55	0.91	0.70	100%	0	0	0.05	0.01
CAISB	3.15	3.92	3.15	3.83	2.14	2.51	(0.15)	32%	0.01	0.02	(0.09)	0.70
CDSB	2.46	n.a.	2.45	n.a.	0.03	-	n.a.	n.a.	0	n.a.	(0.51)	n.a.
PISB	4.63	n.a.	4.21	n.a.	0.78	-	n.a.	n.a.	0	n.a.	(0.73)	n.a.

Commercial Bank and Specialized Bank		RATIOS											
		Loan Loss Reserve/ Gross Loan (%)		ROAA (%)		ROAE (%)		Net Loans / Total Assets (%)		*Capital Adequacy Ratio (CAR) (%)		NPLs / Gross Loans (%)	
		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Canadia Bank	4.6%	4.0%	5.4%	2.7%	34%	25%	60%	55%	15%	17%	6.8%	23.8%	
Cambodia Public Bank	0.0%	0.7%	4.7%	5.8%	29%	26%	64%	64%	16%	18%	0.0%	0.0%	
Acleda Bank Plc.	0.5%	0.6%	2.9%	3.3%	18%	13%	66%	71%	13%	21%	0.1%	0.1%	
Foreign Trade Bank	9.5%	8.8%	4.3%	1.0%	35%	19%	30%	20%	14%	10%	30.7%	21.3%	
Cambodian Commercial Bank	0.0%	0.0%	4.1%	3.1%	26%	0%	25%	21%	16%	15%	0.0%	9.8%	
Vattanac Bank	0.0%	0.0%	5.6%	5.0%	25%	18%	63%	58%	19%	28%	0.0%	0.0%	
Union Commercial Bank	0.2%	0.3%	4.6%	2.6%	24%	14%	55%	45%	19%	18%	2.4%	9.3%	
May Bank	0.0%	0.0%	3.7%	3.1%	17%	11%	22%	25%	18%	27%	3.2%	4.8%	
Singapore Banking Corp	0.0%	0.1%	7.4%	-0.7%	22%	-3%	40%	34%	43%	23%	12.3%	68.0%	
First Commercial Bank	0.0%	0.0%	5.1%	5.6%	15%	16%	32%	23%	34%	35%	0.6%	1.1%	
Krung Thai Bank	0.0%	0.0%	2.7%	7.3%	8%	20%	23%	49%	28%	37%	0.0%	0.0%	
Cambodia Mekong Bank	0.1%	0.0%	2.7%	-6.6%	7%	-16%	12%	18%	40%	41%	0.6%	2.8%	
ANZ Royal Bank	0.6%	0.5%	0.1%	-1.5%	2%	-1%	26%	25%	6%	7%	4.0%	0.0%	
Cambodia Asia Bank	3.1%	4.4%	1.8%	0.6%	3%	1%	36%	52%	44%	62%	5.3%	0.0%	
Advanced Bank of Asia	3.4%	0.0%	0.4%	5.8%	1%	12%	30%	50%	44%	47%	26.0%	0.0%	
Shinhan Khmer Bank	0.0%	0.0%	-2.5%	n.a.	-8%	n.a.	6%	n.a.	33%	n.a.	0.0%	n.a.	
Camko Bank	0.0%	0.0%	-6.4%	n.a.	-13%	n.a.	17%	n.a.	49%	n.a.	0.0%	n.a.	
Peng Heng S.M.E	0.6%	0.6%	9.5%	8.9%	11%	4%	87%	79%	84%	93%	4.1%	26.3%	
First Investment Specialized Bank	0.0%	0.0%	6.3%	2.4%	6%	2%	88%	72%	97%	98%	0.0%	0.0%	
Rural Development Bank	0.1%	1.6%	1.6%	2.3%	3%	5%	71%	76%	54%	47%	1.6%	3.2%	
Anco Specialized Bank	0.0%	0.0%	2.0%	0.5%	2%	1%	59%	33%	100%	96%	0.0%	0.0%	
CAISB	0.1%	0.6%	-2.6%	17.9%	-3%	18%	67%	63%	100%	98%	0.5%	0.7%	
CDSB	0.0%	0.0%	-20.7%	n.a.	-21%	n.a.	1%	n.a.	100%	n.a.	0.0%	n.a.	
PISB	0.0%	0.0%	-15.7%	n.a.	-17%	n.a.	17%	n.a.	91%	n.a.	0.0%	n.a.	

* Figures are estimated

Source from 2007 NBC reports NBC and Banks

Microfinance Performance

Microfinance institutions are profitable, but also very costly (see Table 8). Consolidated Measures of Profitability for the Licensed MFIs are satisfactory because of the realistic interest rates being charged and low levels of delinquency. Repayments are high, proving that the loans are affordable. Modest returns on performing assets show that the interest rates are not too high. Costs have not been allowed to rise inexorably, and there is little dependence upon grants and donations.

NPLs are much lower in microfinance than in the banking sector. The big MFIs maintain PAR>30 days at below 1% (the average NPL for the sector is 0.2%), which is very low and indicates that risk management tools are well-developed with a strong credit culture.

The market has identified three tiers of MFIs according to their performance criteria such as outreach, portfolio size, growth, governance, ownership structure, operational performance and transparency. Tier 1 MFIs are strong in operations, profitability and are fast growing; Tier 2 operators are small with limited growth. Tier 3 includes MFIs with weak operations that will be struggling to survive in the future competitive market. (See Table 8)

Major MFIs in Tier 1, such as AMRET, PRASAC, CEB, HKL and AMK, are growing very fast, both in loan portfolios and number of clients. The combined portfolio and number of borrowers of the five MFIs make up about 73% and 71% of the entire sector. Their portfolio growth was huge in 2007, ranging from 50% to 140%. One constraint they face in expanding their operations, especially AMRET and AMK whose clients are poor, rural entrepreneurs, is local currency funding.

Due to the increasing competition in the market and the restrictions placed on their services by the National Bank of Cambodia, most of them are planning to transform to a commercial bank within three years. Commercial bank status would allow them a greater flexibility in offering services such as deposit and remittance.

TABLE 8		KEY INDICATORS										
MFIs	Total Assets		Total Equity		Total Loans		Growth in Loan Portfolio		Total NPLs		Total Net Profit	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Tier One												
AMRET	37.8	23.1	7.9	6.0	29.9	17.8	70%	53%	0.03	0.01	2.23	1.43
PRASAC	36.5	26.6	14.5	13.2	33.1	22.4	50%	95%	0.07	0.05	1.90	0.97
CEB	23.6	13.5	4.3	3.2	22.2	12.5	80%	94%	0.03	0.03	1.16	0.41
HKL	16.2	6.7	2.6	2.0	14.0	6.0	135%	60%	0.03	0.04	0.76	0.43
TPC	15.4	7.8	3.8	3.9	11.9	7.3	65%	60%	0.03	0.02	0.91	0.78
VFC	13.4	7.0	3.9	3.3	10.5	6.1	76%	72%	0.02	0.02	0.67	0.29
AMK	12.2	6.3	3.6	2.9	10.2	5.4	93%	110%	0.01	0.00	0.81	0.39
CREDIT	10.8	5.7	3.3	2.7	10.2	4.7	120%	76%	0.02	0.10	0.68	0.28
Tiere Two												
SEILANITHIH	3.8	2.0	1.1	0.9	3.5	1.8	99%	29%	0.01	0.00	0.06	0.08
IPR	2.9	2.2	1.0	0.7	1.7	1.7	4%	164%	0.01	0.01	0.27	0.21
CHC	1.9	1.2	0.7	0.3	1.8	1.1	61%	111%	0.01	0.01	0.11	0.02
MAXIMA	0.9	0.7	0.3	0.2	0.8	0.7	20%	67%	0.00	0.00	0.03	0.03
CBIRD	1.0	1.0	0.2	0.2	0.9	0.9	1%	32%	0.01	0.01	0.04	0.05
Tier Three												
PAS	0.3	0.4	0.2	0.3	0.2	0.2	-29%	30%	-	-	(0.06)	(0.00)
Tong Fang	0.1	0.2	0.1	0.1	0.1	0.1	2%	-19%	0.00	0.00	(0.03)	0.04
EAP	1.7	-	0.8	-	1.4	-	n.a	n.a.	-	-	0.02	-
FUDF	1.1	1.0	0.6	0.6	0.3	0.8	-59%	14%	-	-	0.06	0.09

TABLE 9		RATIOS											
	Loan Loss Reserve/ Gross Loan (%)		ROAA (%)		ROAE (%)		Loans / Total Assets (%)		Capital Adequacy Ratio (CAR) (%)		NPLs / Gross Loans (%)		
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	
Tier One													
AMRET	0.14%	0.19%	7.3%	7.4%	31.9%	29.5%	79%	77%	20.9%	26.1%	0.1%	0.1%	
PRASAC	0.53%	0.26%	6.0%	4.9%	13.7%	8.7%	91%	84%	39.7%	49.7%	0.2%	0.2%	
CEB	0.62%	0.79%	6.3%	4.0%	30.9%	17.3%	94%	93%	18.2%	24.0%	0.1%	0.2%	
HKL	0.49%	0.46%	6.6%	7.9%	33.1%	31.3%	86%	91%	16.0%	29.8%	0.2%	0.6%	
TPC	0.23%	0.28%	7.9%	12.0%	23.6%	22.4%	77%	93%	24.7%	50.3%	0.3%	0.3%	
VFC	0.14%	0.39%	6.6%	5.3%	18.4%	9.4%	79%	87%	29.3%	47.7%	0.2%	0.3%	
AMK	0.53%	0.51%	8.8%	8.2%	25.3%	15.0%	84%	85%	29.3%	45.1%	0.1%	0.1%	
CREDIT	0.00%	0.95%	8.2%	6.5%	22.8%	11.7%	94%	83%	30.2%	47.4%	0.2%	2.1%	
Tier Two													
SEILANITHIH	0.17%	0.23%	2.0%	4.6%	5.7%	18.1%	91%	90%	28.4%	46.5%	0.4%	0.1%	
IPR	0.37%	1.22%	10.6%	12.3%	31.1%	55.7%	59%	78%	34.1%	34.4%	0.6%	0.6%	
CHC	0.00%	0.59%	7.4%	2.2%	22.3%	11.7%	93%	90%	36.7%	27.2%	0.3%	0.6%	
MAXIMA	0.46%	0.41%	4.0%	4.2%	12.3%	23.1%	88%	93%	33.6%	30.4%	0.2%	0.3%	
CBIRD	0.98%	1.31%	4.5%	5.8%	23.8%	54.9%	88%	86%	18.5%	19.4%	0.8%	1.0%	
Tier Three													
PAS	0.00%	0.00%	-19.4%	-1.3%	-22.8%	-2.9%	56%	58%	82.2%	86.9%	0.0%	0.0%	
Tong Fang	0.31%	0.96%	-19.6%	23.9%	-19.9%	50.8%	63%	52%	97.8%	98.7%	0.6%	0.9%	
EAP	0.00%	n.a	2.9%	n.a	5.8%	n.a	86%	n.a	50.3%	n.a	0.0%	n.a	
FUDF	0.00%	0.00%	6.1%	10.3%	10.5%	31.2%	28%	78%	58.9%	58.4%	0.0%	0.0%	

* Rough Estimation
Source 2007 NBC report and MFIs

Insurance

Performance 2007 was a good year for the Cambodia insurance sector. The total premiums and number of policies increased by 44% and 20% respectively. However the gross premium size is still very small compared to GDP, at about 0.20%. Insurance products offered by the industry are still basic and limited to about eight products, with auto, fire and engineering make up about 51%. Industry leader is Forte Insurance, with 50% of the market. The consolidated profit for the sector stood at US\$1.4 million.

Financial Infrastructure

Capital Market

Cambodia has no capital market. With assistance from the Korea Stock Exchange, the Cambodian Government is developing a stock market that is expected to launch in 2009. The following are constraints in capital market development in Cambodia:

- Financial instruments: There are limited financial instruments and no government and non-government securities.
- Listed firms: Due to lack of corporate governance and transparency in Cambodian companies, only a few firms will be qualified to list on the stock market. In addition most firms do not prepare proper financial reports and audits by qualified external auditors.
- Investors: There is a lack of institutional investors. There are no life insurance companies, pension funds or investment trusts.
- Intermediaries: Cambodia has no securities firms or brokers.
- Infrastructure: Systems would have to be developed to ensure that a secondary market can develop (repo, electronic transactions, etc).

- Regulation. There is inadequate regulation with regard to financial market. As yet, no Exchange and Securities Commission or other regulatory bodies have been set up.

Payment System

The payment system is underdeveloped. The causes are a lack of infrastructure, limited financial instruments in the market, and both a weak regulatory framework and supervisory body. Cash is still dominantly used outside the banking system for payment. Checks and remittances are little used by the public. A clearing house for both U.S. dollar and Cambodian Riel denominated checks was created in Phnom Penh and some major cities. In addition to checks, money transfers are used in two forms, electronic transfer and paper-based transfer. Electronic payments are used mainly for international remittances. S.W.I.F.T messages are widely used to make international money transfers or receive international inward transfers. For banks that have a good IT infrastructure, transfers between branches are also made electronically. This includes ACLEDA and ANZ Royal. For local transfer, banks use paper-based payment orders, debit and credit forms. The current system is costly and time-consuming.

With assistance from ADB, NBC is in the process of upgrading its MIS and modernizing the check clearance process, which currently involves two clearing meetings a day at NBC. Following the adoption of the negotiable instruments and payment transaction law, NBC has set up a payment unit to collect information and develop a national payment system.

Interbank/ Money Market

Banks have started lending to each other. However the number of transactions is limited and only a few banks participate. This is due to lack of payment infrastructure, financial instruments (used as a guarantee) and weak supervisory functions.

Deposit Insurance

NBC has put in place laws, regulations and supervision functions to protect depositors as well as the sector, but measures to deal with insolvent banks have not been developed. There is **no formal deposit insurance**. Only ACLEDA has arranged a Banker Blanket Bond insurance to cover its banking business.

Accounting Standards

An accounting law and common accounting standards were introduced in 2003. Following the enactment of the law, Cambodia established a National Accounting Council (NAC) with the role of developing Cambodian accounting and auditing standards. Also established was the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA) with the aim of providing training and development of accounting and auditing professionals. **There are a limited number of qualified accountants and auditors.** With the on-going **ACCA** program, Cambodia expects to have about 100 accounting and auditing professionals by end of 2009.

NBC has introduced a common chart of accounts for banks and MFIs and required financial institutions to comply with. The implementation of the standards is not consistent and not yet in line with the International Financial Report Standard. Most local enterprises do not prepare financial statements and have them audited. Only financial institutions and large international firms keep proper accounting records and prepare financial statements.

Audit & Legal

There are a few international (KPMG and PWC) and local auditing firms providing services to mainly multi-national firms and financial institutions in Cambodia. But the quality of the work is not up to international standards and the requirements of NBC. In 2007 most audited financial reports for banks were not accepted by NBC, as a number of aspects in banking audit were not complied with.

There are some international standard legal firms (DFDL and Scarioni & Associates) and several Cambodian owned firms. Their services are mainly used by international firms and foreign investors.

Rating & Credit Information

There are no rating agencies presently in Cambodia. Services have been brought in from outside the country. Not all banks are rated. Acleda was rated by Moody in 2004 and Standard & Poor's in 2007. Major MFIs have been rated for more than five years. The rating agencies for MFIs are MCRIL from India and Microfinanza from Italy.

The current credit information system (CIS) is not useful for bank lending due to lack of participation from banks and because it shares only negative information. As of July 2008, there were only about 400 records in the database and only 10 banks contributed the data. The current CIS is operated by Bank Supervision Department of NBC. Microfinance is not included in the system, nor are other entities such as utilities.

Secured Transaction/**Filing Office**

Collateral registration is new to Cambodia. A law on secured transactions has been passed and a filing office for collateral registration has been set up under the Ministry of Commerce. The filing office is fully functioning, but usage is still low. As of July 2008, there were 185 records in the system. There is a lack of awareness about the filing office and a lack of capacity of banks to use the system and develop compatible products.

Apex Banks

The **state-owned apex** body, the Rural Development Bank, is **dysfunctional**.

Industry Associations

There are two associations in Cambodia. The Association of Banks in Cambodia is active, but generally distrusted, and there is a sub-association, the Cambodia Microfinance Association, which was recently established. So far it has worked on policy advocacy and is actively involved in private sector discussions.

The General Association Insurance of Cambodia (GAIC), established since 2005 with an objective to strengthen the insurance and reinsurance market in Cambodia and develop the market to international standard. GAIC has not fully functioned due to lack of resources.

Training, Education, Consulting

The Cambodia Institute of Banking is barely active due to a lack of leadership. It provides a few training courses per year based on availability of funds from donors. The Center for Banking Study, operating under the NBC, mainly offers long-term courses with limited quality due to lack of qualified trainers and curriculums.

Technology

There are no local providers for banking software. Deployment, training and services for specialized software such as core banking system, are non-existent. Some local banks do not have core banking system. They still use Excel spreadsheet to track loans and simple accounting software for bookkeeping. Major banks are increasing electronic banking services. There were 177 ATM terminals provided by 10 banks, and 1,667 PO terminals offered by six banks in 2007. ANZ Royal and Acleda Bank have the most ATM terminals, about 65% of the market combined.

Consumer Financial Education

There is no formal program on consumer financial education, although this is one of the key success factors for all financial services providers, especially for MFIs who provide services to less educated people in the rural areas. Financial services are sophisticated for most rural Cambodians. Without understanding the services and with the absence of a consumer protection law, people can be forced into inappropriate use of financial services. MFIs in general conduct awareness raising campaigns of their products before entering a new village or commune. This adds significantly to the operational costs and is priced into the interest rates.

Legal, Regulatory, and Policy Framework

Regulation & Supervision

The National Bank of Cambodia (NBC) is the supervisory body that grants and terminates licenses of banks and MFIs, and oversees operations of all banks and MFIs. The Law on the Organization and Conduct of the National Bank of Cambodia (the Central Banking Law) of 1996 established the role of the NBC as the regulator and supervisor. The Law on Banking and Financial Institutions of 1999 and several decrees regulate three types of banks:

- Commercial banks that can conduct all banking activities
- Specialized banks that can conduct one category of banking activities.
- Licensed Microfinance Institutions that can offer credit. The NBC has recently issued a Prakas to allow qualified MFIs to take deposit from public. Major MFIs are expected to apply for the deposit taking institution status.

Supervisory capacities are still limited and enforcement of prudential regulation is not yet at the desired level. Transparency in the sector has improved with the requirement by NBC that all banks publish their annual report and make it available to the public. NBC has also published a bank supervision report, which is available on its website.

Insurance companies are regulated and supervised by the Ministry of Economy and Finance. Along with the insurance law passed in 2000, the government has issued regulations including a Prakas on the licensing of life insurance in 2007. Financial institutions are not allowed to offer insurance services, unless they have a separate book and obtain a license from MEF.

Leasing is part of banking activities, and NBC is the regulator and supervisory body. A leasing law has been drafted, but no schedule for its enactment exists. Licensing and supervising of leasing operations is not yet in place, even though leasing operations do exist in the market.

Collateral registry (Filing Office) is under the control of the Ministry of Commerce (MoC) which ensures the authentic registrations and documents. However the enforcement procedure when there is a dispute is not clear. Some provisions in the secured transaction law conflict with Cambodian Civil Code.

The law on the stock market has been passed and the government plans to open it in 2009. The regulatory and supervisory bodies have not been set up. A nine-member securities commission is expected to form and work on rules and procedures for the stock market at the end of 2008.

Legal Environment

In accordance with the Land Law, real property can be used as collateral. Land titles need to be issued at the national level, but few titles are actually issued. Many land owners do have the “receipts” from lower level village, commune or district authorities that are needed to apply for a full national level land title. But costs and red tape prohibit most land owners from doing so.

The Law on Commercial Enterprises was enacted in 2005. The registration system established at the MoC is functioning well with more companies moving from the informal to the formal economy, although most are still informal. An Insolvency Law was passed in 2007. The government still needs to put related administrative systems in place to make such a law functional.

A secured transactions law was enacted, which enables banks to lend against movable and financial assets. An internet-based registration system was launched in late 2007 under the supervision of the MoC. The Filing Office is functioning.

The law and Prakas on negotiable instruments and payment transactions were enacted. NBC with the assistance from ADB is upgrading its IT system and check clearing will be

processed electronically. An electronic national payment system has not been established yet.

The securities market law was passed in 2007, but rules and procedures for regulating the stock market operations need to be put in place.

At present there is great uncertainty and lack of confidence in the court system's role of enforcing contracts, foreclosure, and resolving commercial disputes. While this issue is much larger than the financial sector, it may be the single most important issue, and if improved it could have tremendous impact on the entire sector. In the medium term, establishing a commercial court system in addition to the commercial arbitration system will provide a mechanism for better enforcement of contracts.

While new legislation is generally in line with international best practices, lengthy procedures in adopting the laws and developing implementing decrees lead to intermediate solutions, which are often substandard and hinder the development of the respective industry.

Gap Analysis

Summary of Gaps

Banking Environment

- Lack of market information / demand for financial services. It is estimated that about two million people are not served by the banking system in Cambodia. However there is no survey of the demand for financial services. The market data would help financial institutions to better market their services and stimulate innovation. It would also enable donors and governments to better structure their interventions.
- Lack of information for credit decisions. Most SMEs do not prepare financial statements and do not have proper records of their business transactions. The current credit information system keeps only negative information and not widely used by financial institutions.
- Lack of transparency. Although NBC requires all banks to disclose financial statements, some banks still do not comply and the disclosure is always late.
- Government bureaucracy and corruption is the most challenging issue for every business in Cambodia, and is widespread at all levels. Local authorities charge high unofficial fees for issuing ownership certificates and sometimes duplicate the original certificates of properties that can be used to obtain loans from different MFIs. As a result, borrowers can become over-indebted with no capacity to repay.
- Unreliable court system. There is no commercial court or commercial arbitration center.
- Lack of financial infrastructure. There is no national payment system and proper credit information sharing.
- Lack of human resources. There are no acceptable quality training providers.
- Regulatory and supervisory bodies lack capacity.

Banks

- Corporate governance and management is still a challenge for some banks.
- There are no tools to mitigate foreign exchange risk.
- The financial market is crowded and more banks continue to enter the market and offer similar products. Consolidation is expected. This would help to increase efficiency.
- There is a lack of liquidity management tools as limited financial instruments and no financial market.
- Banks offer traditional financial services. There is an opportunity for them to diversify their operations through new and innovative products.
- Rural areas lack physical access to bank services.
- Branches are only in provincial capitals. If services are available, then competition is often limited.
- There is a lack of service providers including rating agencies, training providers and other consultancy services.

- Leasing law is still in draft form, with no clear implementation agenda. After a leasing law is passed, market development can be undertaken.

MFIs

- MFIs lack funds especially for local currency and their savings products are not well developed.
- MIS for MFIs is under strain to keep up with the growth.
- The market is crowded and institutions offer similar products. Consolidation is expected, which would help to increase efficiency.
- MFIs offer limited product because they are not allowed other services beyond credit, such as remittances.
- The sector suffers from a lack of services providers including rating agencies, training providers and other consultancy services.
- Remote areas still cannot get access to financial services. Branches and offices are all located in district towns.
- Most MFIs are owned by NGOs. Under the draft NGO law, NGOs are only allowed to carry out humanitarian activities for social development, social welfare and the public interest, without personal gain or profit. There is a threat to individual MFIs (owned by local NGOs) and the sector as a whole.

Insurance

- The market is still small, due to lack of awareness and law enforcement.
- There are limited investment options under current laws and market conditions, including no existing capital markets.
- The sector is limited to non-life insurance and basic products.
- Supervisory processes are still not well-developed.
- There is no regulation on micro insurance.
- The country has a shortage of insurance professionals

Financial Systems Infrastructure

- Weak legal framework is a big issue with courts and contract enforcement.
- Nascent financial/legal infrastructure:
 - No electronic payment/clearing system
 - No interbank/money market for liquidity management
- Lack of credit information. The current system shares negative information only and not all institutions participate. MFIs are not included in the current system.
- There is a lack of suitable collateral: uncertain land titles, lack of legal framework and poor contract enforcement.
- There is a lack of diversity of non-bank financial institutions, such as life insurance companies, pension funds, securities companies.
- Human resources development. Universities produce poorly educated students. With the limited number of international banks, there is little exposure to international banking standards.
- Public trust in the financial sector is increasing, but is still at a low level due to the historical context. The Khmer Rouge abandoned money in the 1970s, blowing up the national bank. There were virtually no banking services in the 1980s, then mono-banking until early 1990s. More than 15 banks closed in the 1990s. Since a re-licensing in early 2000, there is now relative stability and growth from a low base.
- There is limited supervisory capacity for insurance, banking and microfinance. There is considerable need to expand regulation to meet growing sector's needs.

IFC

MPDF Activities: IFC MPDF has supported the sector at institutional, regulatory and infrastructure levels.

Institutional Level: MPDF has helped Acleda Bank introduce electronic banking services by assisting in the review of its IT and MIS infrastructure. It also assisted ANZ Royal Bank with a feasibility study on mobile banking enabling ANZ to launch the

service. IFC MPDF is supporting WING, a subsidiary of ANZ Bank, in piloting mobile payment system in the country. The assistance includes the feasibility study of mobile payment in Cambodia and development of a change management strategy, a merchant network strategy and a call center strategy

IFC MPDF is working with PRASAC MFI to conduct an SME market survey in Cambodia to understand the characteristics of SMEs and their needs for financial products and services. The study will cover all the major towns and provinces of the country.

IFC MPDF is assisting Hathakaksekar and AMK to prepare for transformation and merger by conducting feasibility studies and developing an action plan for such a transformation and /or merger. IFC MPDF will also help in the transformation and/or merger process by assisting them in change management, product development and in other needed areas.

Along with its work on micro-insurance regulation, IFC MPDF will support the introduction of micro-insurance products in Cambodia

Infrastructure/regulation: IFC MPDF is supporting the Cambodia Microfinance Association to develop and deliver better services to its members. With CMA, MPDF is advising MEF on micro-insurance and trust regulations. The micro-insurance work is aimed at developing a legal framework for the establishment and evolution of micro-insurance products in Cambodia, while the trust regulation work will enable Cambodian MFIs to resolve ownership issues. At the same time the regulation will contribute to financial market diversification.

IFC is planning to assist NBC in establishing a comprehensive private credit bureau, which is supposed to provide both positive and negative information and attract wide-scale participation by various stakeholders such as banks, MFIs and utilities.

To enable M-payment system to operate successfully, IFC MPDF is assisting NBC on M-banking regulation by initially sponsoring a study tour for senior officials of the Central Bank to visit Kenya, South Africa and the Philippines, and it may advise NBC on the contents of M-banking regulations.

Other Donor Activities:

The ADB is a key donor, as the World Bank excludes financial sector support from its CAS. ADB has the lead in financial sector development. It focuses on regulatory issues, but rarely on the implementation of the regulations developed. The following are areas it covers:

- Assisting the government in updating financial sector blueprint 2006-2015
- Insurance. Develop regulatory framework and help privatize Caminco.
- Secured transactions. Putting in place regulatory framework and established filing office for online collateral registration.
- Microfinance savings mobilization. Piloting savings products with three MFIs and assisting NBC to develop regulation for microfinance savings.
- NBC IT system. ADB provided loans for upgrading the IT system at NBC and developing national electronic payment system.
- Anti-Money Laundering. ADB assisted in developing regulation framework and establishing an intelligence unit within NBC.
- Credit Information Sharing. ADB assisted the development of the first CIS.

Other donors are:

Korea is assisting the establishment of stock market.

IMF is advising NBC on monetary policy, national payment system and supervisory functions.

KfW provided loan to ACLEDA.

AFD is supporting health micro-insurance pilot for garment industry.

JICA provides training to banks through CIB.

USAID has worked on access to finance for agricultural supply chain.

UNDP supports microfinance through an organizing conference.

Belgium supports micro-insurance pilot in Siem Reap.

Several **NGOs** still active in non-sustainable MF organizations/savings groups.

Several NGOs own commercial MFIs.

Donor involvement may be mapped as follows:

DONOR INVOLVEMENT	IFC	WB	ADB	IMF	KFW	AFD	Others
Banking							
Investment	X				X		X
Guarantee						X	X
NBC		X	X	X		X	X
AML			X	X			X
Credit Bureau	X		X				
Payment system			X	X			
Secured transaction			X				
Capacity building	X				X		
Micro Finance							
Investment	X					X	X
Saving product			X				
Capacity Building	X		X			X	
Insurance							
Product Development	X						X
Laws and regulations	X		X				X
Leasing							
Law and regulation			X				

Appendix 1: Abbreviations

ACCA	:	Associated of Chartered Certified Accountants
ADB	:	Asian Development Bank
AMK	:	Angkor Microfinance Kampuchea
ATM	:	Automated Teller Machine
CCRD	:	Credit Committee for Rural Development
CIS	:	Credit Information System
CMA	:	Cambodia Microfinance Association
EU	:	European Union
FI	:	Financial Institution
GAIC	:	General Association Insurance of Cambodia
GDP	:	Gross Domestic Product
HKL	:	Hatha Kaksekar Limited
IFC	:	International Finance Corporation
IFRS	:	International Financial Report Standard
IMF	:	International Monetary Fund
MCRIL	:	Micro Credit Rating International Limited
MFI	:	Microfinance Institution
MEF	:	Ministry of Economy and Finance
MoC	:	Ministry of Commerce
MSME	:	Micro Small and Medium Enterprise
NBC	:	National Bank of Cambodia
NGO	:	Non-government Organization
NPL	:	Non Performing Loan
PAR	:	Portfolio at Risk
POS	:	Point of Sales
PRASAC	:	PRASAC Microfinance
PWC	:	PriceWaterHouseCoopers
RGC	:	Royal Government of Cambodia
ROAA	:	Return on Average Assets
ROAE	:	Return on Average Equity
SME	:	Small and Medium Enterprise
TI	:	Transparency International
WB	:	World Bank

Appendix 2: References

Author	Title	Date
Arner, Douglas <i>et al</i>	Financial Sector Development Strategy 2006-2015	26 March 2007
Brew, James	Summary of Services, including Banking & Finance Working Group at 10 th Government-Private Sector Forum.	21 June 2006
ADB	Interim Report, Financial Sector Developer Program	May 2007
ADB	Report and Recommendation of the President to the Board of Directors	Nov. 2007
ADB	Payment System Diagnostic	July 2007
CGAP	CLEAR Cambodia	Jan. 2005
CMA	Network Information Exchange 1 st Quarter	2008
EIC	Cambodia Economic Watch	April 2007, 2008
IFC	Doing Business in 2006 - Cambodia	2005
Diermen, van Peter	SME Development Framework	Oct. 2004
Harner, Stephen	Memorandum Cambodian banking market (unpublished)	26 Feb 2006
IMF	Modernization Payment System, Cambodia	May 2006
Javary, Cedric	Microfinance Scoping (unpublished)	Nov 2007
WBG	Cambodia Country Assistance Strategy, Progress Report	Apr 2008
WBG	www.worldbank.org/kh	
MEF	Annual Insurance Report 2007	2007
MIME	Interim Report Cambodia SME Development Program	Oct. 2005
MIX	Cambodia Trends	Nov 2007
NBC	Micro Finance of Cambodia	2006
NBC	Annual Report	2007
NBC	Quarterly Bulletin: 1st Quarter	2007
NBC	Quarterly Bulletin: 2 nd , 3 rd and 4th Quarter	2006
NBC	Annual Report 2005 and Plan for 2006	2006
NBC	Economic & Monetary Statistics	Jan. 2007
NBC	Economic & Monetary Statistics	Apr. 2008
NBC	Annual Report, Bank Supervision Department	2006, 2007
Aceda Bank	Annual Report 2007	2007
Canadia Bank	Audited report	2005, 2006
AMRET	Annual Report 2007	2007
AMK	Annual Report 2007	2007
PRASAC	Annual Report 2006	2006
HATHAKAKSEKAR	Annual Report 2007	2007
CEB	Annual Report 2006	2006



Hanoi Office
63 Ly Thai To St., 3rd floor
Hanoi, Vietnam
Tel: (84 4) 824 7892
Fax: (84 4) 824 7898

Ho Chi Minh City Office
Somerset Chancellor Court
21-23 Nguyen Thi Minh Khai St. 3rd floor
Dist.1, Ho Chi Minh City, Vietnam
Tel: (84 8) 823 5266
Fax: (84 8) 823 5271

Phnom Penh Office
70 Norodom Blvd., Sangkat Chey Chumnas
Phnom Penh, P.O Box 1115, Cambodia
Tel: (855 23) 210 922
Fax: (855 23) 215 157

Vientiane Office
90 Phonexay Rd, P.O Box 9690
Vientiane, Lao P.D.R.
Tel: (856 21) 450 017-9
Fax: (856 21) 450 020

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