



# Microfinance Regulation & Supervision in Cambodia

Catalyst for Transformation towards Sustainable  
Microfinance

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# 1 Introduction

# 1 Introduction

ProMiS  
Promotion of the  
Microfinance Sector



- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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## 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

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## 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

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## 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

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## 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

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Microfinance Sector



## 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

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## 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

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- 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

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- 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

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- The benefits are especially for the **clients** through higher outreach, lower interest rates through competition and trustworthy microfinance services



**Thank YOU.**