

Microfinance Summit 2007

Reaching New Heights

Cambodian Microfinance Association

New Product Development of Microfinance
within the Cambodia Context

Dr. Bun Mony

Phnom Penh, November 29, 2007

I. Background

- The Cambodian financial system is at the early stages of development.
- This financial system started in early 1990s after the economic reform and turning to free market economy.
- The most advanced of financial sector are banking and microfinance which has been properly regulated.
- The industry has been regulated by the new adoption Law on Banking and financial institution in 1999. The Cambodian banking and MFIs currently comprises of :
 - 17 commercial banks
 - 6 specialized banks
 - 17 licensed Microfinance Institutions
 - 25 registered NGOs provided microfinance service

II. Products and Services of MFIs

A. Loan product

Types of loan

Average loan size (\$US)

1- Micro loan

50 - 500

2- Small loan

500 - 5,000

3- Medium loan

5,000 - 10,000

4- Staff loan

depends on each institution's policy

B. Lending methodology

1- **Village bank** or **Community bank** with average members of 15-100 based on each institution's policy

2- **Group loan** with average members of 3-10 depending on each institution's policy

3- **Individual loan**: small and medium loan with collateral, very popular product.

II. Products and Services of MFIs (Con't)

B. Lending methodology (Con't)

4- **Mobile banking**: credit officers deliver services (loan disbursement and collection) at client's home.

5- **Branch Office services**: Come closer to client by setting branch office at provincial, districts, and communes so that clients can receive loans and make repayments at any branch offices.

C. Currencies used

1- Loan in Khmer Riel (KHR)

2- Loan in US Dollar (USD)

3- Loan in Thai Bath (THB)

II. Products and Services of MFIs (Con't)

D. Loan term, repayment, interest rate, and calculation formula.

1- Loan duration ranges from 6 – 24 months

2- There are different model in loan repayment:

* Balloon: repay principal and interest at the end of the period OR repay interest monthly and principal at the end of the period

* Semi-balloon: grace period of interest and principal, client can start to make monthly installment of principal and interest from mid term of loan. Or other alternative.

* Monthly installment of both principal and interest

3- Interest rate ranges from 2% - 3% per month

4- Interest calculation is based on declining balance

III. New Products development: Saving deposit and inter-branch transfer

- The National Bank of Cambodia has allowed MFIs to collect public saving within their operation areas. Deposit service of MFIs :

1- Compulsory saving

Some institutions require their customers to make small deposit when they receive loan. Its purpose is to make awareness of saving service and its benefits.

2- Voluntary deposit

Voluntary deposit is known as cheaper and long-term source of fund to support the sustainable growth of MFIs. Some MFIs are trying to offer this product. Voluntary deposit products consist of:

- * Passbook deposit
- * Term deposit

III. New Products development: Saving deposit and inter-branch transfer (Con't)

3- Inter-branch transfer

Some institutions allow their clients to make payment at different branches. This service is used as mean to promote public deposit.

4- Other services

a. Loan and deposit services via mobile phone: allow customers to make payment, deposit, or receive credit through mobile phone. This product is popular in some countries but not yet starts in Cambodia.

b. Micro insurance: some MFIs are trying to offer micro insurance in the market; however, this activity will be supervised by Ministry of Economic and Finance.

IV. Impacts of Microfinance

- At the end of September 2007, 17 MFIs and 1 Commercial bank (former MFI) reaching to total of 740,249 families equal to 29% of total Cambodian household.
- The total loan portfolio is USD 240 millions.
- Outreach has spread within all 24 provinces/cities in the country, throughout 458 branches offices.
- More than 90% of customers have increased their income generation and improve their living standard gradually together expanding their business successfully.
- Most of the poor in Cambodia accepted microfinance as their best partner in economic development.
- Microfinance has been recognized as a new technology and it is “The Key to Breaking Poverty Cycle” in Cambodia and other poor countries.

V. Challenges for MFIs

- Microfinance has gained a great success on credit loan product. Another main product, saving deposit, that mobilized fund source to support credit loan has not been success. Hence, most operators need to seek funds from abroad that is expensive with withholding tax of 14% on interest, which makes this cost of fund more expensive and selling price remain high despite the continuous interest rate reduction.
- Public deposit is a cheaper source of fund to support microfinance, and it can lead to interest rate reduction for customers. However, MFIs are not successful in this product yet. This requires more effort from operators and other stakeholders.
- MFIs' products consisting of loan and saving need to move together and support each other. Deposit will collect fund to support to credit activities that make loan available to customers.

V. Challenges for MFIs (Con't)

- Deposit collection is facing with two challenges: (1). The current regulation did not fully support. (2). The culture of Cambodian people are not using banking or microfinance services (loan and saving deposit) in their daily lives.
- The National Bank of Cambodia should authorize MFIs to collect the public deposit. This will add more confidence of the public on microfinance institutions in term of deposit.
- Banking and microfinance services, loan and deposit is advantageous for both customers and country's economy. The fund will be secure in addition it will earn interest. This fund will be re-invested in business that would contribute to country economy development. In the past, it was very limited access to banking service as it located at the capital city only that require to travel and spend both time and money to get the services; moreover, the customers need to pay fee to open bank account. Currently, microfinance institutions coming close to your house and giving free of charge in opening account.

V. Challenges for MFIs(Con't)

- Licensed microfinance institutions are under close control from authority who will ensure accuracy and transparency the same as commercial bank in securing the public interests. So, licensed MFIs are also secure places for depositors the same as commercial banks. Cambodian people should support MFIs by using its products and services included loan and deposit in their daily lives the same as the people in developed countries.
- For long term sustainability, microfinance institutions really need support from all related stakeholders which include government, investors, operators, and customers. Your contribution with microfinance is the contribution to building and developing the country.

Thank you