



# ASIA SME FINANCE MONITOR 2014

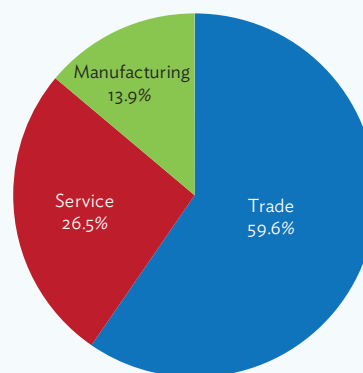
# Cambodia

## SME Landscape

The Economic Census of Cambodia 2011, the first census in the country's history, was launched in 2012. The second Economic Census for 2014 was recently released. According to the Census 2014, Cambodia's micro, small, and medium-sized enterprises (MSMEs) accounted for 99.8% of all enterprises in the country, totalling 512,870 in 2014 (Figure 4.96 and Table 4.54). The retail and wholesale trade sector dominates the MSME sector (59.6% of MSMEs in 2014), followed by services (26.5%) and manufacturing (13.9%) (Figure 4.97). The MSME sector employed 1.3 million people, 71.8% of the total national labor force in 2014, around half of whom (46.7%) worked in the trade sector (Figure 4.98 and Figure 4.99).

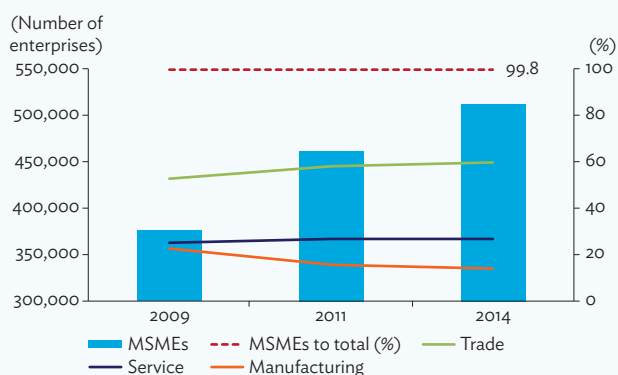
There is no legal definition of MSMEs in Cambodia, but the government has initiated a process to define them

Figure 4.97: MSMEs by Sector, 2014



MSME = micro, small, and medium-sized enterprise.  
Source: Economic Census of Cambodia 2014.

Figure 4.96: Number of MSMEs

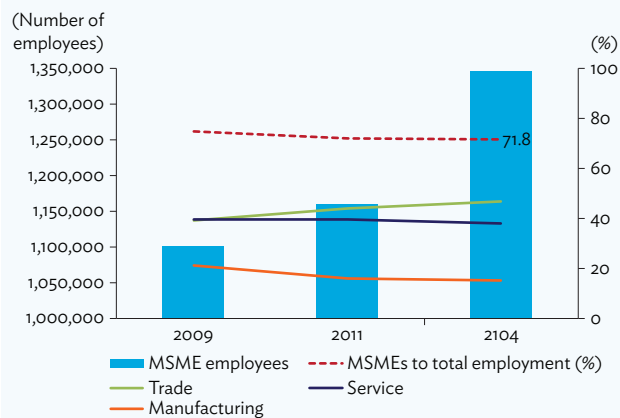


MSME = micro, small, and medium-sized enterprise.

Note: Data for 2009, 2011, and 2014 exclude street business (stalls, booths, etc. that run at a fixed location on the sidewalk or roadside).

Sources: Economic Census of Cambodia 2014, 2011 and Nationwide Establishment Listing of Cambodia 2009.

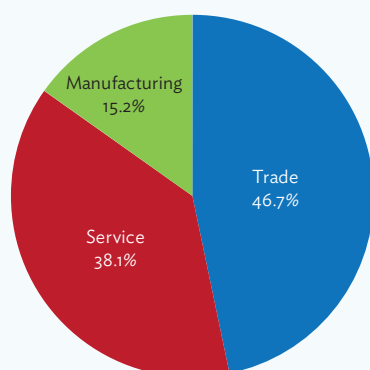
Figure 4.98: Employment by MSMEs



MSME = micro, small, and medium-sized enterprise.

Sources: Nationwide Establishment Listing of Cambodia 2009, and Economic Census of Cambodia 2011 and 2014.

**Figure 4.99: Employment of MSMEs by Sector, 2014**



MSME = micro, small, and medium-sized enterprise.

Source: Economic Census of Cambodia 2014.

with a standardized set of criteria commonly utilized across the country. As an available source, the Small and Medium Enterprise Development Framework 2005 proposed a workable SME definition in terms of employment and assets excluding land.

## Banking Sector

The National Bank of Cambodia (NBC) is a solo regulator in Cambodia's financial system, including banking and nonbank sectors. As of December 2013, there were 35 commercial banks, 9 specialized banks, 38 licensed microfinance institutions (MFIs)—7 of which are deposit-taking<sup>91</sup>—33 registered rural credit operators, and 2 financial leasing companies active in the country.

In Cambodia, the banking sector has been placed in the dominant position of the national financial system. Banks licensed under the Law on Banking and Financial Institution of 1999 comprise commercial banks and specialized banks (carrying out one of three banking operations; credit, deposits, and payment). Banks mainly target large-scale corporate clients but do not specifically target retail lending to SMEs, although some are doing so. Thus, MFIs play an important role

of providing small credit to households and MSMEs in Cambodia. The government has also recognized that microfinance sector development is a key policy area to improve MSME access to finance, as well as to reduce poverty. Although MFIs are not legally classified as banks, this section focuses on the microfinance industry from a viewpoint of substantial impact on MSME lending.

MFIs are roughly split into two groups: licensed and registered. Licensing with NBC is compulsory for MFIs with outstanding loan portfolios of more than KR1 billion or 1,000 borrowers (those with savings from the public of more than KR100 million or 1,000 depositors for deposit-taking MFIs), while registration with NBC is required for MFIs with outstanding loan portfolios of more than KR100 million (those with savings from the public of more than KR1 million or 100 depositors for deposit-taking MFIs), according to the Prakas (proclamation) on Registration and Licensing of Microfinance Institutions of 2002.

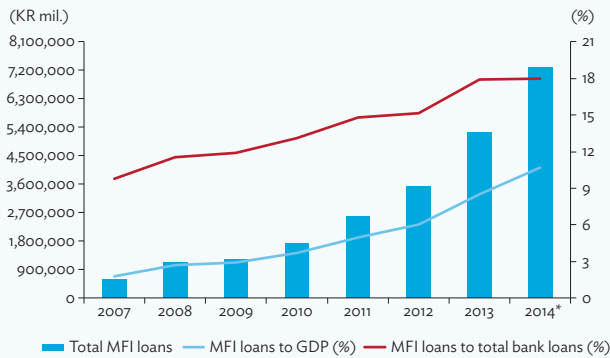
Licensed MFIs are allowed to conduct banking operations defined under the Law on Banking and Financial Institution of 1999. Since 2007, MFIs are required to take a separate license if seeking to take deposits from the public, according to the Prakas on Licensing of Microfinance Deposit-Taking Institutions of 2007.

The provision of MFI loans has been sharply increasing in Cambodia. In 2013, MFI loans outstanding amounted to KR5,261 billion, up 48.7% from 2012, and reached KR7,299 billion as of September 2014, a 38.7% increase from 2013 (Figure 4.100 and Table 4.55). MFI loans accounted for 8.5% of GDP in 2013, and 10.7% in September 2014. MFI loans were equivalent to 16% of total bank loans, combining commercial banks and specialized banks, in 2013, which increased to 18% in September 2014.

MFI loans are typically short-term credit, with a maturity ranging between 6 and 12 months. The average lending rate on domestic currency bank loans was 15.7% as of December 2013, which increased to 16.1% as of June 2014. Meanwhile, MFI loans had an average interest rate range of 2%–3% per month, equivalent to 27%–39% per annum as of June 2014.

<sup>91</sup> There are seven deposit-taking MFIs in Cambodia: PRASAC, AMRET, SATHAPANA, Hattakaksekar, Angkor Microherhvatho Kampuchea, KREDIT, and Vision Fund Cambodia.

Figure 4.100: Microfinance Institution Loans



GDP = gross domestic product, MFI = microfinance institution.

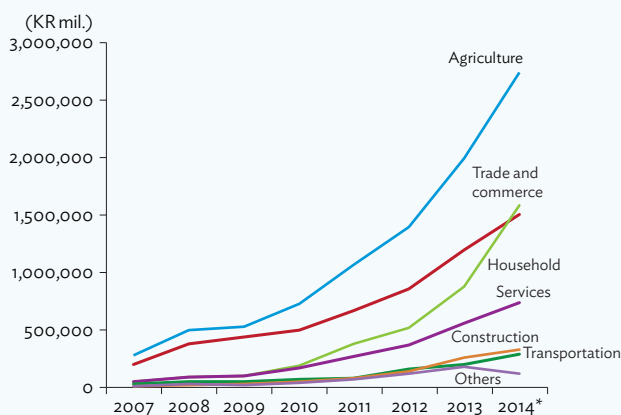
\* data as of September 2014.

Source: National Bank of Cambodia.

Of the total MFI loans, 38% went to the agriculture sector, followed by trade and commerce (22.8%), household (16.6%), and services (10.6%) in 2013. As of September 2014, the basic loan distribution by sector was the same as in 2013, but loans to household were second among all sectors (21.7%) (Figure 4.101).

The nonperforming loans (NPLs) in MFIs peaked in 2009, due to the aftermath of the 2008/09 global financial crisis, at 2.8%, but since 2010 the MFI NPL ratio

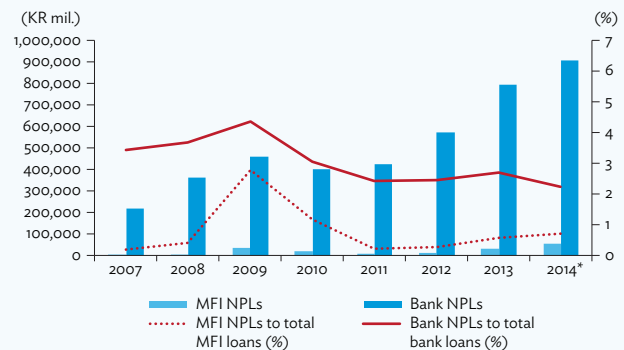
Figure 4.101: Microfinance Institution Loans by Sector



\* data as of September 2014.

Source: National Bank of Cambodia.

Figure 4.102: Microfinance Institution Nonperforming Loans



MFI = microfinance institution, NPL = nonperforming loan.

\* data as of September 2014.

Source: National Bank of Cambodia.

has fallen to around 1% or less (0.6% in 2013 and 0.7% as of September 2014). Given the increased volume of MFI loans, the microfinance sector has developed soundly (Figure 4.102).

With the NBC's support, the Credit Bureau Cambodia (CBC) was established in 2011 and officially launched on 19 March 2012, under the joint ownership of the Association of Banks in Cambodia, the Cambodia Microfinance Association, and a private service provider. The CBC provides corporate information, analytical tools, and credit reporting services to organizations and consumers in Cambodia. The Prakas on Credit Reporting was promulgated to enable an adequate framework for the establishment of a credit reporting system in Cambodia, with the aim of strengthening reliable, competitive, and responsible lending and centralizing loan information from respective banks and MFIs.

## Nonbank Sector

There are alternative financing instruments that MSMEs can tap to fulfill their financing needs: leasing and pawnshops. As of December 2014, six financial lease companies licensed with the NBC were operating in the country (GL Finance, RMA Financial Services, Mega Leasing, Suosdey Finance, KK Fund Leasing, and TOYOTA Tsusho Finance).

Pawn business also plays an important role in meeting urgent need for small working capital by MSMEs. Pawnshops in Cambodia charge from around 3% to as high as 15% per month, as compared to MFIs charging around 2%–3% per month. In Cambodia, there is no factoring company operating. Informal money lending is thriving, especially in rural areas.

## Capital Markets

The Cambodia Securities Exchange (CSX) started its first stock trading on 18 April 2012. It is a joint venture between the Cambodian Ministry of Economy and Finance (55% of the registered capital owned) and the Korea Exchange (45% of capital). The CSX is regulated by the Securities and Exchange Commission of Cambodia (SECC).

As of September 2014, two companies were listed on the CSX: (i) the Phnom Penh Water Supply Authority, a state-owned company; and (ii) Grand Twins International PLC, a private sector garment producer (Table 4.56). Market capitalization of two stocks amounted to KR720 billion as of September 2014.

Under the Law on Issuance and Trading of Non-Government Securities of 2007, a company considering an initial public offering (IPO) at the CSX is required to have the shareholders' equity of at least KR5 billion at filling time and a net profit of at least KR500 million for the last fiscal year (aggregate of at least KR1 billion for the last 3 fiscal years).

Companies listing on the CSX will receive temporary tax reductions for the first 3 years. The new "Anukret on Tax Incentives in Securities Sector", issued on 8 January 2015, increased the tax incentives in order to promote securities sector development. It notes that companies issuing equity and/or debt securities, approved by the SECC and listed on the permitted Securities Market, shall enjoy tax incentives by reducing the total amount of tax on profit by 50% (previously 10%). This Anukret is effective for 3 years from the issuance date.

There is also a plan to create a small enterprise board on the CSX. This process is still at the inception stage.

## Policy and Regulation

The Ministry of Industry, Mines, and Energy was split into two different ministries in December 2013: (i) the Ministry of Mines and Energy and (ii) the Ministry of Industry and Handicraft. The Ministry of Industry and Handicraft is the sole regulator of the MSME sector, and is responsible for the business registration of MSMEs. The Ministry includes the General Department of SMEs and Handicraft which comprises three departments: the Department of SMEs, the Department of Handicraft Affairs, and the Department of SME Planning and Development Promotion.

The Ministry of Industry and Handicraft plans to introduce an online business registration platform for SMEs. SMEs with start-up capital of \$3,000 or more would be able to utilize the online registration system, which takes around 2 to 3 days to complete.<sup>92</sup> The Ministry is preparing a comprehensive SME policy framework, with the purpose of boosting SME competitiveness. The policy will outline the state strategy in solving technical training issues within the SME bracket, and will upgrade safety and quality standards for the SME sector.<sup>93</sup>

The SME Development Strategic Framework for 2010–2015 aims to promote diverse industries (of which SMEs can become an integral part to meet poverty reduction) and SME development strategies, addressing five key areas: (i) enabling business environment, (ii) skill development and technology adoption, (iii) incentive mechanisms, (iv) business development services, and (v) industry clustering.

The Industrial Development Policy 2014–2024, initiated by the Government of Cambodia with its first draft on 11 March 2014, includes local SME promotion strategies. This policy framework addresses: (i) strengthening a coordination mechanism to promote investment in the manufacturing sector, by upgrading the capacity of institutions that manage domestic investment and SME development; and (ii) establishing new financing arrangements to support industrialization, including

<sup>92</sup> A. Lee. 2014. Online registration option to be rolled out to SMEs. Phnom Penh Post. 7 July. <http://www.phnompenhpost.com/business/online-registration-option-be-rolled-out-smes>

<sup>93</sup> H. Kimsay. 2014. SME policy to roll out in 2015. Phnom Penh Post. 17 December. <http://www.phnompenhpost.com/business/sme-policy-roll-out-2015>

public and private sector partnerships, industrial and SME development funds, government bonds to finance infrastructure projects, and credit guarantee mechanisms.

Following the demonstrated needs under the Financial Sector Development Strategy 2006–2015, the NBC launched the Financial Sector Development Strategy 2011–2020 on 25 November 2011, as a blueprint for midterm financial sector development in the country. Extended access to finance and enhanced supervision of MFIs are part of priority strategies.

In July 2004, the government announced the Rectangular Strategy for Growth, Employment, Equity and Efficiency (Rectangular Strategy). It involved a component of SME promotion policy, with 13 subdivided strategies, which the SME Development Framework (2005) take as their starting point for implementation of SME development policies. In September 2008, the government announced to extend the Rectangular Strategy Phase I to Phase II. As an outcome of Phase I, the government reduced the minimum requirements for the registration of SMEs, and simplified the accounting and financial reporting systems for them, resulting in increased SME loans by financial institutions. Phase II contributed to promoting the implementation of the SME Development Framework, through strengthened governance. The framework aimed to promote the business environment through: (i) developing industrial standards, (ii) adopting accounting and financial report standards to increase SME access to finance, (iii) supporting priority activities with tax incentives on inputs, and (iv) building institutional capacity. The Rectangular Strategy Phase III, launched in September

2013, continues the objectives of diversification of the industrial base, development of SMEs and handicraft, expansion of industrial development in rural areas, and development and management of extractive industry. The National Strategic Development Plan (NSDP), 2014–2018, launched on 17 July 2014, is a development framework and a road map for the implementation of the Rectangular Strategy Phase III.

The Law on Issuance and Trading of Non-Government Securities of 2007 regulates the securities exchange, clearing and settlement system, securities depositories, and other operators in the securities market who trade or provide financial services. These include public limited companies and registered legal entities that issue securities. The law covers nongovernment securities transactions in Cambodia. The SECC, a capital market regulator, is established under this law.

The Ministry of Economy and Finance is responsible for supervising the insurance business as well as the pawn business. Pawnshop owners are required to obtain a license from the Department of Industry, under the Ministry of Economy and Finance, in compliance with “Prakas No. 028 on Licensing to Pawn Business, Buying-Selling of Pawned Pledges and Liens by Cession”, dated 10 January 2010. The ministry supervises activities such as pawnbroking, the purchase or sale of pawned goods, and use of pawned goods as collateral. The Ministry also issued the Prakas on Introduction of Financial Reporting Template for Small and Medium-Sized Enterprises of 2006. This includes a template to be used by SMEs to facilitate their application for financing with banking and nonbank institutions.

Table 4.54: MSME Landscape

Item	2007	2008	2009	2010	2011	2012	2013	2014
<b>Number of MSMEs</b>								
MSMEs (number)	...	...	376,069	...	462,582	...	...	512,870
MSMEs to total (%)	...	...	99.8	...	99.8	...	...	99.8
MSME growth (%)	...	...	...	...	23.0	...	...	10.9
Trade (% to MSMEs)	...	...	52.7	...	58.0	...	...	59.6
Service (% to MSMEs)	...	...	24.9	...	26.7	...	...	26.5
Manufacturing (% to MSMEs)	...	...	22.4	...	15.3	...	...	13.9
<b>Employment by MSMEs</b>								
MSME employees (people)	...	...	1,099,647	...	1,158,871	...	...	1,345,100
MSMEs to total (%)	...	...	74.8	...	72.0	...	...	71.8
MSME growth (%)	...	...	...	...	5.4	...	...	16.1
Trade (% to MSME employees)	...	...	39.1	...	44.2	...	...	46.7
Service (% to MSME employees)	...	...	39.6	...	39.8	...	...	38.1
Manufacturing (% to MSME employees)	...	...	21.3	...	16.0	...	...	15.2

MSME = micro, small, and medium-sized enterprise.

Note: Data exclude street business.

Sources: Nationwide Establishment Listing of Cambodia 2009, and Economic Census of Cambodia 2011 and 2014.

Table 4.55: Microfinance Institution Loans

Item	2007	2008	2009	2010	2011	2012	2013	2014*
<b>Loans Outstanding</b>								
MFI loans to GDP (%)	1.8	2.7	2.9	3.7	5.0	6.0	8.5	10.7
MFI loans to total bank loans (%)	9.7	11.5	11.9	13.1	14.8	15.2	16.0	18.0
MFI loans -Total (KR mil.)	617,271	1,130,585	1,244,970	1,724,841	2,591,263	3,538,889	5,261,752	7,299,407
Total bank loans [PFIs + CBs] (KR mil.)	6,334,703	9,803,682	10,466,705	13,135,307	17,474,377	23,354,231	32,858,521	40,525,770
<b>MFI Loans by Sector (KR mil.)</b>								
Agriculture	279,121	495,279	525,314	730,543	1,066,669	1,395,536	1,998,061	2,741,840
% to Total	45.2	43.8	42.2	42.4	41.2	39.4	38.0	37.6
Trade and commerce	200,505	376,812	441,030	497,057	666,772	857,238	1,198,816	1,505,622
% to Total	32.5	33.3	35.4	28.8	25.7	24.2	22.8	20.6
Household	51,592	87,280	93,644	185,834	372,670	518,482	873,883	1,587,102
% to Total	8.4	7.7	7.5	10.8	14.4	14.7	16.6	21.7
Services	42,054	83,944	96,990	162,903	268,684	364,414	559,884	737,389
% to Total	6.8	7.4	7.8	9.4	10.4	10.3	10.6	10.1
Transportation	23,247	45,016	44,501	63,122	76,469	158,008	197,300	286,434
% to Total	3.8	4.0	3.6	3.7	3.0	4.5	3.7	3.9
Construction	11,372	20,395	29,174	44,460	73,463	132,376	257,559	322,016
% to Total	1.8	1.8	2.3	2.6	2.8	3.7	4.9	4.4
Others	10,016	21,858	14,317	40,922	66,537	112,835	176,248	119,004
% to Total	1.6	1.9	1.1	2.4	2.6	3.2	3.3	1.6
<b>Nonperforming Loans (NPLs)—MFIs</b>								
MFI NPLs (KR mil.)	1,171.0	4,719.0	34,847	20,361	5,753	10,284	30,880	52,119
Gross bank NPLs (KR mil.)	218,011	360,291	457,449	400,570	424,682	571,504	791,761	904,495
MFI NPLs to total MFI loans (%)	0.2	0.4	2.8	1.2	0.2	0.3	0.6	0.7
Gross bank NPLs to total bank loans (%)	3.4	3.7	4.4	3.0	2.4	2.4	2.7	2.6

CB = commercial bank, GDP = gross domestic product, MFI = microfinance institution, NPL = nonperforming loan, PFI = public financial institution.  
\* data as of September 2014.

Source: National Bank of Cambodia.

Table 4.56: Capital Market

Item	2012*	2013	2014**
<b>Market Performance—Main Board</b>			
Index	667	576	472.74
Market capitalization (KR mil.)	539,234	466,176	720,179
Trading value (KR mil.)	53,590	13,720	10,368
Trading volume (mil. shares)	6.9	2.23	1.51
<b>Listed Companies</b>			
No. of listed companies	1	1	2

\* The first trading date was 18 April 2012. Thus, data from 18 April 2012 to 31 December 2012.

\*\* data as of September 2014.

Source: Cambodia Securities Exchange.



Table 4.57: SME Policy and Regulation

Regulations		
Name	Outline	
The Law on Banking and Financial Institutions	SME definition, Regulations of Banks and Financial Institutions	
Prakas on Licensing of Microfinance Institutions	MFI registration and licensing	
Prakas on Licensing of Microfinance Deposit-taking Institutions	MFI Deposit-taking institution registration and licensing	
Prakas on Financial leasing Companies	Guidance for financial leasing companies	
Prakas on Credit Reporting	Framework for establishment of a credit reporting system	
Prakas on Introduction of Financial Reporting Template for SMEs	Issues templates for SME application for financing with banking institutions	
Prakas on Licensing to Pawn Buses, Buying-Selling of Pawn Pledges and Liens by Cession	Licensing of Pawn Businesses	
Anukret of Tax Incentives for Securities Sector	Granting of tax incentives to equity and debt issuing companies	
The Securities Law	Organization of the Securities and Exchange Commission (SECC)	
The Law on the Issuance and Trading of Non-Government Securities (2007)	Regulate securities exchange	
Regulators and Policymakers		
Name	Responsibility	
Royal Government of Cambodia (RGC)	Introduced banking regulation and bank restructuring programs	
National Bank of Cambodia (NBC)	Regulate and supervise banks and microfinance institutions	
Ministry of Economy and Finance (MOEF)	Regulate and supervise pawnshops, insurance, and real estate	
Ministry of Industry and Handicraft (MIH)	Regulate the SME sector	
Securities and Exchange Commission of Cambodia (SECC)	Regulate and supervise the capital market	
Credit Bureau Cambodia (CBC)	Provides credit reporting services	
Cambodia Microfinance Association (CMA)	Insure sustainability of the microfinance sector	
Policies		
Name	Responsible Entity	Outline
SME Development Framework (2005)	MIME	<ol style="list-style-type: none"> <li>1) Set up an incentive policy and support for SMEs.</li> <li>2) Prepare a strategy to increase competitiveness capacity for SMEs.</li> <li>3) Prepare an action plan, promote and support SMEs, as well as follow up and review the implementation.</li> <li>4) Promote the preparation of regulations on the management of SMEs.</li> <li>5) Implement other roles related to the promotion and support of SMEs.</li> </ol>
SME Development Strategic Framework (2010–2015)	MIME	<ol style="list-style-type: none"> <li>1) Establish the right condition for business and policy environment (e.g., encourage entry and diversification of businesses through easing the cost of starting and doing business).</li> <li>2) Promote and create opportunities for skill development and technology adoption in SME sector through establishing and implementing a policy and strategic framework on technology adoption.</li> <li>3) Develop effective mechanism and legal instruments to support and provide incentives to potential SME sectors</li> <li>4) Promote business development services focusing on SMEs.</li> <li>5) Promote industrial and SME clusters.</li> </ol>
Financial Sector Development Strategy (2006–2015)	NBC	<ol style="list-style-type: none"> <li>1) Facilitate the development of finance.</li> <li>2) Integrate informal and formal sectors.</li> <li>3) Increase benefits to the poor.</li> <li>4) Increase resource mobilization.</li> <li>5) Facilitate savings and investment.</li> <li>6) Improve resource allocation.</li> </ol>
Industrial Development Policy 2014–2024	RGC	<ol style="list-style-type: none"> <li>1) Review framework mechanism for SME development</li> <li>2) Regular information on available support to SMEs</li> <li>3) Establishing R&amp;D fund to meet demands for R&amp;D development</li> <li>4) Provides skill training</li> <li>5) Enhancing SME corporate governance</li> <li>6) Provide other support to SMEs to facilitate their access to finance and new technologies</li> <li>7) Improve capacity of national productivity center to promote productivity and quality SMEs</li> </ol>
National Strategic Development Plan 2014/2018	MOIH	<ol style="list-style-type: none"> <li>1) Improving investment environment for large industries and SMEs.</li> <li>2) Strengthening good governance for SMEs through transparent law enforcement</li> <li>3) Promoting competitiveness in the SMEs</li> <li>4) Setting up a financial service system for SMEs</li> <li>5) Enhancing productivity aligned with national, regional, and international standards</li> <li>6) Creating enterprise clusters for SMEs</li> <li>7) Formulating industrial development policy</li> <li>8) Updating the SMEs Development Framework</li> <li>9) Aligning private sector development and investment policies with SME and industrial development policy</li> <li>10) Adoption of Law on Special Economic Zones</li> <li>11) Promoting industrial corridor development along the main national roads</li> <li>12) Strengthening the development process in extractive industry, fiscal revenue management, regulatory framework, capacity building, and institutional coordination</li> <li>13) Human resource development especially skill training for the industrial sector</li> </ol>

SME = small and medium-sized enterprise.

Sources: SME Development Framework 2005, SME Development Strategic Framework 2010–2015, Financial Sector Development Strategy (2006–2015), Financial Sector Development Strategy (2011–2012), Rectangular Strategy Phase III (2013).