Micro, Small and Medium-sized Enterprises’ Access to Finance in Cambodia
About this series

Micro, small and medium-sized enterprises (MSME) make a significant contribution to economic growth and job creation across Asia and the Pacific. However, they often encounter difficulties in accessing finance. Women-headed MSMEs are particularly underserved by financial institutions due to economic, regulatory and socio-cultural factors. In recent decades, governments and related agencies have set up mechanisms to facilitate the flow of finance. The result has been an increase in financial inclusion but the extent to which the financing gap has been reduced is not well known.

To gain more understanding about this issue, key questions need to be addressed, including the following: Is finance still a constraint, including for certain classes of enterprises, such as medium-sized ones? What mechanisms, such as credit guarantees, collateral support, and directed credit, have been the most beneficial in closing the gap? Is there gender disparity in access to finance? And are there public and/or private sector measures to overcome any existing regulatory, normative and contextual barriers to women entrepreneurs’ equal access to finance? How have demand-side programmes, such as financial literacy, aided MSME? And how have FinTech and digital finance helped to increase access to finance?

To seek answers to these and other important questions, the Economic and Social Commission for Asia and the Pacific (ESCAP) developed A Framework for Country Studies on MSME Access to Finance in Asia and the Pacific. The Framework provided direction for the preparation of detailed national studies on MSME access to finance in selected countries of Asia and the Pacific. The studies were prepared by researchers and specialized consultants under the guidance of a lead country agency with policy responsibilities in MSME financing. In some of the studies, an advisory committee composed of representatives from departments, agencies, financial institutions, and organizations involved in MSME promotion and financing provided direction and support to the authors.

This series presents the Framework along with national studies that were prepared following its guidelines. Each national study is expected to contribute, through policy analyses and recommendations, to policy discussions on how to improve access to finance by MSMEs. The preparation of national studies based on a common framework is also expected to facilitate comparisons across countries to share experiences, identify good practices, and understand common challenges.

Some of the studies contributed to ESCAP capacity building projects. The studies for Cambodia and Nepal were funded by the United Nations Regular Programme of Technical Cooperation, and the studies for Bangladesh and Samoa were funded by the Government of Canada, through Global Affairs Canada, in the context of ESCAP’s Catalysing Women’s Entrepreneurship Programme. The preparation of these four studies benefitted from a partnership between ESCAP and the United Nations Capital Development Fund (UNCDF). The latter contributed financial support for the Nepal study through UNNATI-Access to Finance (A2F) Project funded by the Government of Denmark.

In addition to the country studies, the series includes two thematic studies on ways in which commercial banks and digital technologies can contribute to improving access to finance by MSMEs. These studies were prepared for the Global Initiative Towards the post-Covid-19 Resurgence of the MSME Sector, a joint United Nations Development Account project implemented by multiple agencies.
About this report

This report was commissioned by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and was prepared by Sopheap Ek, Managing Partner at Business and Development Trusted Solutions (BDtruS), a business consultancy based in Phnom Penh.

The study was guided by ESCAP’s Framework for Country Studies on MSMEs Access to Finance in Asia and the Pacific, MSME Financing Series No. 1, Bangkok: United Nations, 2020. The analysis focused on three key aspects of financial access: the enabling environment, demand and supply perspectives, and priority activities to enhance the functioning and establishment of a vibrant financial ecosystem that offers MSMEs diverse pathways to funding. Purposive and snowball sampling methods were used to select financial institutions and MSMEs to interview. Consultations were conducted with 46 organizations, including government agencies, financial institutions (FIs), business membership associations, investment firms, FinTech firms, an angel investor network, the Credit Bureau of Cambodia (CBC), a business development service provider, and selected MSMEs. Primary and secondary data was first collected between mid-October and the end of December 2018 in Phnom Penh and information was updated based on the secondary data collected between November and December 2020.
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Abbreviations

A2F  Access to Finance
ADB  Asian Development Bank
AFD  Agence Française de Développement
AIMS Agriculture Inclusive Markets for Smallholders
ARDB Agriculture and Rural Development Bank
ASEAN Association of South-East Asian Nations
AWEN ASEAN Women Entrepreneurs Network
BDS  Business development service
BMOs  Business Membership Organizations
CamWen Cambodia Women Entrepreneurs Network
CBC  Credit Bureau of Cambodia
CCC  Cambodia Chamber of Commerce
CDC  Council of Development of Cambodia
CESES Cambodia Socio-Economic Survey
CGCC  Credit Guarantee Cooperation of Cambodia
CiC  Cambodia Investor Club
CMA  Cambodia Microfinance Association
CSS  Cambodia SME Scheme
CSX  Cambodia Stock Exchange
CWA  Cambodian Water Supply Association
CWBF Cambodia Women Business Federation
CWEA Cambodia Women Entrepreneurs Association
DFAT  Department of Foreign Affairs and Trade
DI  Development Innovation
DPs  Development partners
DPs  Development Partners
EDF  Entrepreneurship Development Fund
ESCAP UN Economic and Social Commission for Asia & Pacific
FASMEC Federation of Small and Medium Enterprises of Cambodia
FinTech  Financial Technology
Fls  Financial Institutions
FSDS  Financial Sector Development Strategy
FTB  Foreign Trade Bank
G-PSF  Government-Private Sector Forum
IDP  Industrial Development Policy
IFAD  International Fund for Agriculture Development
IFC  International Finance Corporation
KE  Khmer Enterprise
LPCO  Liquidity Providing Collateralized Operation
MBI  Mekong Business Initiative
MDs  Microfinance Deposit Institutions
MEF  Former Ministry of Economy and Finance
MFIs  Microfinance Institutions
MISTI  Ministry of Industry, Science, Technology and Innovation*
MoC  Ministry of Commerce
MOEYS  Ministry of Education, Youth, and Sport
MoWA  Ministry of Women Affairs
MPTC  Ministry of Post and Telecommunications
MSMEs  Micro, Small, and Medium Enterprises
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>NBC</td>
<td>National Bank of Cambodia</td>
</tr>
<tr>
<td>NPL</td>
<td>Non-performing loans</td>
</tr>
<tr>
<td>OPIC</td>
<td>Overseas Private Investment Cooperation</td>
</tr>
<tr>
<td>PE</td>
<td>Private Equity</td>
</tr>
<tr>
<td>PFI</td>
<td>Private Financial Institutions</td>
</tr>
<tr>
<td>REEs</td>
<td>Rural electrification enterprises</td>
</tr>
<tr>
<td>RGC</td>
<td>The Royal Government of Cambodia</td>
</tr>
<tr>
<td>SADIF</td>
<td>Smart Axiata Innovation Fund</td>
</tr>
<tr>
<td>SCFS</td>
<td>SME Co-Financing Scheme (SCFS)</td>
</tr>
<tr>
<td>SDF</td>
<td>Skill Development Fund</td>
</tr>
<tr>
<td>SECC</td>
<td>Securities and Exchange Commission of Cambodia</td>
</tr>
<tr>
<td>SECC</td>
<td>Securities and Exchange Commission of Cambodia</td>
</tr>
<tr>
<td>TSC</td>
<td>TECHO Start-up Center</td>
</tr>
<tr>
<td>UNCDF</td>
<td>United Nations Capital Development Fund</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>USAID-DCA</td>
<td>United Stated Agency for International Development- Department Credit Authority</td>
</tr>
<tr>
<td>VC</td>
<td>Venture Capital</td>
</tr>
<tr>
<td>VCIF</td>
<td>Value Chain Innovation Fund</td>
</tr>
<tr>
<td>WDCs</td>
<td>Women Development Centers</td>
</tr>
<tr>
<td>WSEs</td>
<td>Water supply Enterprises</td>
</tr>
<tr>
<td>YEAC</td>
<td>Young Entrepreneurs Association of Cambodia</td>
</tr>
</tbody>
</table>

* The Ministry of Industry, Science, Technology and Innovation was formerly named “Ministry of Industry and Handicrafts (MIH)”. For uniformity, the new name is used throughout the report.
Acknowledgements

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This report was edited by Dana MacLean, and Patchara Arunsuwannakorn. Riley Green, Latipat Mikled and Beini Liu provided effective research assistance. Comments on a previous version by Zeinab Ebeltagy and Charlotte Nudelmann are greatly appreciated.
Overview and key messages

Micro, small and medium enterprises (MSMEs) play a significant role in economic growth in Cambodia. They represent more than 99 per cent of total enterprises, employ roughly 70 per cent of the labour force and generate 58 per cent of total annual GDP, according to the Ministry of Industry, Science, Technology and Innovation (MISTI) in 2018. The number of women-led enterprises is nearly double that of men-led enterprises, and women-led enterprises dominate the micro-sized segment of the sector. The Cambodian government has demonstrated a strong commitment to supporting and promoting MSMEs and MSME access to finance. Many initiatives to assist MSMEs are underway, including the development of new laws and regulations, as well as support mechanisms such as the Entrepreneurship Promotion Fund, the Skills Development Fund, various tax incentives, Credit Guarantee Scheme, and the SME bank.

Cambodia has a diverse set of financial institutions with 65 banks, 83 microfinance institutions, 15 leasing companies and 245 licensed rural credit institutions. Financial inclusion has increased in recent years, but MSMEs in general and women led MSMEs in particular still face challenges in accessing finance. Although men and women in Cambodia have nearly equal access to formal services, there is a significant gender gap in loans and savings mobilization, with men on average obtaining larger loans and depositing higher savings amounts than women.

There have been several initiatives to enhance access to finance, including invoice factoring, a credit guarantee scheme, diversification of collaterals from fixed assets to moveable assets, and a small-cap capital market. However, they have not been widely implemented. The use of alternative finance mechanisms based on FinTech, such as peer-to-peer and crowd-funding platforms or non-collateralized loans based on big data credit assessments, are being explored but remain in the nascent phase of development and adoption. Although some progress has been made, many challenges requiring further attention, and solutions, remain. One of them is the lack of a harmonized definition of what constitutes an MSME that can be used by both the public and the private sectors. Also, data on loans reported by financial institutions to the National Bank of Cambodia (NBC) do not include the size of the borrowing enterprises or the gender of the enterprise owners or managers. The absence of uniform definitions and detailed data make it difficult for policymakers to understand and develop appropriate policy responses to address the needs of MSMEs in general and women led MSMEs in particular. In addition, as will be further discussed in the paper, financial institutions are reluctant to accept moveable assets as collateral because of inconsistencies between the secured transactions law and the civil code. Finally, on the demand side, the lack of financial records and limited business skills of MSME entrepreneurs significantly restrict financial access.

Therefore, further action should be taken to promote MSME in general and women-led enterprises access to finance in Cambodia. In the short term, a uniform definition for MSMEs should be established and financial institutions should report to the NBC and the Credit Bureau of Cambodia (CBC) the size of borrowing enterprises and the gender of their owners or managers, thus contributing to the creation of a useful MSMEs credit database. It will also be important to build the capacities of MSME entrepreneurs, particularly of women led MSMEs, in financial education and business management to facilitate their access to loans. Moreover, the secured transactions law should be harmonized with the civil code law, and its implementation should be enhanced by strengthening the roles and responsibilities of the Filing Office to monitor asset registration and link the information with the CBC’s database. The Filing Office should promote the use of Fintech for credit assessment to increase invoice factoring, which can also be expanded through the development of a third party to certify invoices. It should also develop or enhance the financial information platform, strengthen the capacity of FIs to diversify the products and services tailored to MSMEs. Moreover, it should further promote the implementation of the government credit guarantee and credit guarantee which is currently implemented among the private sector.
Moreover, it should establish and/or strengthen a coordination agency and/or technical working group on MSME access to finance. In the medium term, the implementation of crowdfunding mechanisms should be further promoted in order to attract more funds to the country. The scheme needs to attract more investment from VCs and PEs in Cambodia, as well as develop and implement the deposit insurance and regulate FinTech policies.
Introduction

Micro, small, and medium enterprises (MSMEs) encompass vital sectors of the Cambodian economy. According to the Cambodia Socio-Economic Survey (CESES, 2015), out of the 513,759 total enterprises operating in Cambodia in 2014, 99 per cent were MSMEs. Most of these businesses were unregistered micro enterprises with less than ten employees. The majority of the micro-businesses (61 per cent) are engaged in wholesale and retail trade and motor vehicle repair, including motorcycles (CESES, 2015). Most small businesses are in transportation and storage (35 per cent), accommodation and food services (30 per cent), and manufacturing (22 per cent) (UNCDF, 2018a).

The Ministry of Industry, Science, Technology and Innovation (MISTI) defines MSMEs based on the number of employees and assets, excluding land. The Tax Department of the Ministry of Economy and Finance (MEF) also uses the number of employees but combines that with turnover, instead of assets (RGC, 2018). The MISTI definition is used for business registration and the tax definition is used for tax purposes (Table 1).

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Definition of MSMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Micro</td>
</tr>
<tr>
<td>Number of employees</td>
<td>Less than 10</td>
</tr>
<tr>
<td>Assets excluding land</td>
<td>Less than USD 50K</td>
</tr>
</tbody>
</table>

| Number of Employees | Less than 10 | 10 – 50 | 51 to 100 | More than 100 |
| Annual Turnover | Less than 62.5 | USD 62.5K to 175K | USD 175K to 1M | More than USD 1M |

Source: MISTI, based on source cited in the table.

The National Bank of Cambodia (NBC) applies MISTI’s description for the assessment of liquidity. Financial institutions, including banks and microfinance institutions (MFIs), define MSMEs by loan size, but there is no standard definition; it varies from institution to institution.

With regards to gender differences, data from the Cambodia Economic Census Survey (NIS/MOP, 2012) shows that in 2011 there were more women entrepreneurs (65 per cent) than men (35 per cent) entrepreneurs (Figure 1). The Inter-censal Economic Survey 2014 found that 60 per cent of the total entrepreneurs were women (NIS/MoP, 2015). However, the vast majority of women entrepreneurs are in the micro-enterprise sector, where their numbers are nearly double that of men. In contrast, less than one quarter of medium-sized and large enterprises are led by women, and the number of men entrepreneurs engaged in small enterprises is three times higher than that of women entrepreneurs. It should be noted that only 3.4 per cent of all enterprises are registered with the Ministry of Commerce, and 98.5 per cent of the unregistered enterprises are micro enterprises (NIS/MoP, 2012). Women are less likely to register their businesses, according to UNCDF (2018a); only 6.6 per cent of men-led enterprises and 1.7 per cent of women-led enterprises are registered.

1 The definition of MSMEs will be updated in the SME Development Policy and Five-year Implementation Plan 2020-2024, expected to be released in 2021.

2 Interviews with the representatives of NBC.
1. Overview of Financial Sector in Cambodia

Cambodia has a diverse set of financial institutions. As of the end of 2019, there were 46 commercial banks, 15 specialized banks, 7 microfinance deposit-taking institutions (MDIs), 75 microfinance institutions (MFIs), 15 leasing companies, 248 licensed rural credit institutions and one credit bureau registered with NBC, As of December 2019, there were 46 commercial banks, 15 specialized banks\(^3\) (including one state-owned bank), 7 microfinance deposit-taking institutions (MDIs), 75 microfinance institutions (MFIs), 15 leasing companies, 248 licensed rural credit institutions, and one credit bureau registered with the National Bank of Cambodia (NBC) (NBC, 2020a). The numbers of commercial and specialized banks were slightly changed as of July 2020 (Table 2).\(^4\) Banks mainly target medium- to large-scale transactions in urban and peri-urban areas, whereas microfinance institutions (MFIs) offer products and services catering to customers who undertake micro and small-scale transactions in both urban and rural areas. As such, MFIs play a significant role in providing financial services to rural Cambodians.

The microfinance sector has grown significantly in Cambodia in recent years. In 2019, MFIs had 1,453 branches and head offices in 25 provinces, compared to 980 branches and head offices in less than 25 provinces for banks (NBC, 2020). Banks and MFIs offer a wide range of products and services to clients. The standard products include deposit, credit, and payment. However, some banks and MFIs also offer unique products in response to the clients’ demand, including insurance and leasing.

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\(^3\) Specialized banks are legal entities licensed to carry out only one of the three types of banking operations (credit operations, deposits, and payments), or only one component of each of the three types of banking operations as their regular business (RGC, 1999).

Table 2
Financial Institutions in Cambodia

<table>
<thead>
<tr>
<th>No.</th>
<th>Institutions</th>
<th>Number (as of December 2019)</th>
<th>Number (as of July 2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Commercial banks</td>
<td>47</td>
<td>51</td>
</tr>
<tr>
<td>2</td>
<td>Specialized banks</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>3</td>
<td>Licensed MFIs (7 deposit-taking MFIs)</td>
<td>82</td>
<td>82</td>
</tr>
<tr>
<td>4</td>
<td>Financial leasing companies</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>5</td>
<td>Licensed rural credit institutions</td>
<td>248</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Payment service institutions</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>Third party processors</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>Representative Offices</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>Credit Bureau</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>Money changers</td>
<td>2,913</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>3,350</td>
<td>162</td>
</tr>
</tbody>
</table>


Note: NBC’s Annual Report 2019 reported 82 MFIs when there were 83 as reported by NBC’s Supervision Report 2019.

Survey data shows a lack of momentum in the expansion of financial access in the past half-decade. In 2015, 29 per cent of adults were financially excluded, meaning that they lacked access to any kind of financial products, either formal or informal, according to Cambodia’s 2015 FinScope survey (Figure 2). About 5 per cent of adults relied exclusively on banking services, while another 26 per cent used other formal mechanisms, such as financial lease or other mechanisms. Twenty-seven per cent utilized a combination of formal and informal mechanism to obtain funds, and 12 per cent relied solely on informal financial services such as those provided by savings and credit groups. In total, 58.5 per cent of the adult population had access to banks and other formal sources. While the diversity of financial provisions available on the market are accessible to the majority of Cambodians, slow expansion rates for formal mechanisms among the population in the past five years signals a need to scale up or revise strategic measures to reach unserved populations.

Figure 2
Financial Access of Cambodians

Source: UNCDF’s FinScope, 2015, p. 13
Digital finance plays an important role in financial inclusion as it serves unbanked and underserved segments of the population in rural areas where the banking system is absent. In Cambodia, digital finance emerged in 2009 and has since become popular among Cambodians (Hoffman & McVay, 2013), with around 5 million people using electronic payment services (NBC, 2020a), including for local remittances, repayments of bank or MFI loans, payments of insurance premiums, payments of electricity and water bills, and mobile phone top-up services. The electronic payment services amounted for US$ 23.5 billion with 77 million transactions (NBC, 2020a).

Lending

Lending by banks and other financial institutions (FIs) grew around 27 per cent annually on average between 2010 and 2019, reaching around USD 32 billion in 2019, although the growth rate troughed at 15 per cent during 2016. The number of borrowers at FIs amounted to approximately 3.2 million in 2019 (Figure 3). Credit is mainly financed by local deposits, which account for 73 per cent of the total funds sourced. By the end of 2019, the loan portfolios of banks, MFIs, and leasing companies amounted to USD 24.5 billion, USD 7.2 billion, and USD 0.29 billion, respectively. The rates of growth of these portfolios in 2019 were, 23.8 per cent, 28.4 per cent, and 64 per cent, respectively (NBC, 2020a, 2020b). Over the last ten years (2010-2019), the non-performing loans (NPL) ratios of banks and MFIs remained low. In 2019 they were 2 per cent for banks, 0.8 per cent for MFIs, and 3.3 per cent for leasing companies. Low NPL ratios may be the result of both banks and MFIs lending to low-risk businesses and households and improve their credit management (NBC, 2020b).

Figure 3

Lending Amount by FIs and Number of Borrowers


The main recipients of bank loans in 2019 were retail trade and wholesale businesses, which accounted for 16 per cent and 11 per cent, respectively, while loans to the manufacturing sector accounted for only around 5 per cent of total loans (Figure 4). MFI loans were mostly provided to households (34 per cent), the agriculture sector (20 per cent), and trade and commerce (18 per cent). Loans from MFIs to the manufacturing sector represented only around 1 per cent (Figure 5). On-lending to other financial institutions is minimal, amounting for approximately 4 per cent from banks and 3.6 per cent from MFIs in 2019. Financial leasing was mainly provided to households, which represent 30 per cent of total leases, followed by service (18 per cent), transportation (12 per cent), agricultural activities (7 per cent), construction (8 per cent), trade (7 per cent), and other (18 per cent) (NBC, 2020a).
Table 3 below lists the top ten banks in 2019, which collectively loaned 67 per cent of the total loans in Cambodia that year. Out of 57 banks, Canadia Bank is the lead bank by loan volume, followed by Acleda Bank, Advanced Bank of Asia, and Sathapana Bank. All of the banks, except Acleda Bank and Sathapana Bank, are located in Phnom Penh, with branches in some provinces but limited to only the main towns or cities. The top ten MFIs, also listed in Table 3, account for 90 per cent of the microfinance loans in Cambodia. These MFIs include the country’s seven micro deposit institutions (MDIs), which provide over 87 per cent of the total MFI loans. Prasac is the lead MFI in providing loans followed by Hattha Kaksekar, Amret, LOLC, and WB Finance. Unlike banks, MFIs have a larger geographical coverage and more locations, and they focus on rural Cambodians, including the poor, 90 per cent of whom are concentrated in the countryside.

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Table 3
Lending from Top 10 Banks and MFIs

<table>
<thead>
<tr>
<th>No.</th>
<th>Institution</th>
<th>Number of Offices</th>
<th>Loan Amount (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Canadia Bank Plc.</td>
<td>60</td>
<td>4,056</td>
</tr>
<tr>
<td>2</td>
<td>Acleda Bank Plc.</td>
<td>262</td>
<td>3,737</td>
</tr>
<tr>
<td>3</td>
<td>Advanced Bank of Asia Ltd.</td>
<td>76</td>
<td>2,713</td>
</tr>
<tr>
<td>3</td>
<td>Advanced Bank of Asia Ltd.</td>
<td>51</td>
<td>1,245</td>
</tr>
<tr>
<td>4</td>
<td>Sathapana Bank Plc.</td>
<td>171</td>
<td>1,298</td>
</tr>
<tr>
<td>5</td>
<td>Cambodian Public Bank Plc.</td>
<td>31</td>
<td>1,150</td>
</tr>
<tr>
<td>5</td>
<td>Sathapana Bank Plc.</td>
<td>168</td>
<td>817</td>
</tr>
<tr>
<td>6</td>
<td>Foreign Trade Bank of Cambodia</td>
<td>14</td>
<td>870</td>
</tr>
<tr>
<td>7</td>
<td>First Commercial Bank Phnom Penh Branch</td>
<td>10</td>
<td>858</td>
</tr>
<tr>
<td>8</td>
<td>Taiwan Cooperative Bank Phnom Penh Branch</td>
<td>8</td>
<td>858</td>
</tr>
<tr>
<td>9</td>
<td>May Bank (Cambodia) Plc.</td>
<td>21</td>
<td>690</td>
</tr>
<tr>
<td>10</td>
<td>CIMB</td>
<td></td>
<td>666</td>
</tr>
</tbody>
</table>

Microfinance Institutions

<table>
<thead>
<tr>
<th>No.</th>
<th>Institution</th>
<th>Number of Offices</th>
<th>Loan Amount (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Prasac Microfinance Institution Limited</td>
<td>180</td>
<td>2,501</td>
</tr>
<tr>
<td>2</td>
<td>Hattha Kaksekar Limited</td>
<td>179</td>
<td>1,050</td>
</tr>
<tr>
<td>3</td>
<td>Amret Co., Ltd</td>
<td>158</td>
<td>980</td>
</tr>
<tr>
<td>4</td>
<td>LOLC (Cambodia) Plc</td>
<td>79</td>
<td>778</td>
</tr>
<tr>
<td>5</td>
<td>WB Finance Co., Ltd</td>
<td>116</td>
<td>336</td>
</tr>
<tr>
<td>6</td>
<td>AMK Microfinance Institution Plc</td>
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<tr>
<td>7</td>
<td>Kredit Microfinance Institution Plc</td>
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<td>8</td>
<td>Woori Finance Cambodia Plc</td>
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<tr>
<td>9</td>
<td>LY HOUR Microfinance Institution Plc</td>
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<tr>
<td>9</td>
<td>Woori Finance Cambodia Plc</td>
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<tr>
<td>10</td>
<td>Active People Microfinance Institute Plc</td>
<td>16</td>
<td>66</td>
</tr>
</tbody>
</table>

Source: NBC’s Annual Supervision Report, 2020b.
Note: Top 7 MFIs are the microfinance deposit-taking institutions (MDIs).

Deposits

Similar to loans, deposits in financial institutions have increased substantially, at an annual average rate of 24 per cent between 2010 and 2019, reaching around USD 29 billion in 2019. Bank deposits accounted for USD 25.4 billion in 2019 and increased by 23.9 per cent from 2018. The number of depositors grew around seven times over ten years (2010-2019), reaching 7.62 million in 2019 (Figure 6). Deposits in banks were mainly from individuals, accounting for about 53 per cent, followed by enterprises at 24 per cent (Figure 7). Deposits at MDIs amounted for USD 3.8 billion in 2019, an increase of approximately 34 per cent from 2018 (NBC, 2020b).
Interest rates

Over the past seven years, the banks’ nominal lending rate was 11 per cent and 15 per cent per year on average for the US dollar and Khmer riel, respectively. The average annual real interest rate (using an average of 2.7 per cent for inflation) for the same period was 8.3 per cent for the US dollar and 12.3 per cent for Khmer riel. The nominal rate for the dollar remained constant from 2013 to 2017; however, it declined in 2018 and 2019 due to the increase in the competition (Figure 8). The interest rate for the riel also declined slightly. The lower lending rate in riel resulted from the low cost of capital under the Liquidity Providing Collateralized Operation (LPCO) and the Prakas, or government-mandated banking regulation, that requires FIs to lend at least ten per cent of the total loans in riel and to lower the interest rate from the previous years in order to attract riel-denominated loans (NBC, 2018a). The difference between the average lending and depositing rates from 2013 to 2019 was 6.6 per cent for the dollar and 8.6 per cent for riel.

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6 NBC has introduced the Liquidity Providing Collateralized Operation (LPCO) in order to allow FIs to obtain Riel liquidity for their operations at the reasonable cost. In order to obtain LPCO, NBC requires the Negotiable Certificate of Deposit (NCD) as the collateral.
The nominal lending rate from MFIs was around 30 per cent per year for the dollar and between 34 per cent and 36 per cent per year for the riel before April 2017. Using an inflation rate of 2.7 per cent on average, the lending real interest rate was around 27 per cent for the dollar and between 31 per cent and 33 per cent for riel. However, the nominal rate has declined to around 18 per cent for riel and 16 per cent for the dollar per year between 2018 and 2019. The decline in the nominal lending rate resulted from NBC’s regulation issued in 2017 to cap the annual interest rate at 18 per cent for microfinance and licensed rural credit institutions and the increase in the market competition (NBC, 2020b). The annual MFI deposit rate in riel increased slightly from 6 per cent in 2017 to 8 per cent in 2019. The annual deposit rate for dollars also increased from 4.9 per cent in 2017 to 7.8 per cent in 2019 (NBC, 2020a). According to interviews with banks and MFIs, the interest rates on loans extended to MSMEs are the same as for other types of enterprises and depend on the loan size.

Figure 8
Banks’ Lending and Deposit Rates


Gendered Access and Use of Financial Products and Services

According to UNCDF's FinScope in 2015, more than 60 per cent of Cambodia’s population are adults,7 of which 52 per cent are female. Three out of four adults reside in the rural areas, while 56 per cent have primary education or lower and 13 per cent have no formal schooling. Farming remains a significant economic activity, but only one-third of adults claim to rely on farming as a primary source of income, while one-fourth of them rely on the income from the informal economy and 10 per cent are dependents relying on remittances and assistance. Only 24 per cent of adults are earning from the formal sector. Approximately 40 per cent of adults earn around USD 100 or less per month, with over half of these adults earning less than USD 50 per month. Access to common financial service destinations such as banks, MFIs, or ATMs is significantly lower in rural areas than in urban areas.

Access to formal financial services among Cambodian men and women is almost equal. However, there is “a significant gender gap in loans and savings mobilization” (UNCDF, 2018b, p.2). On average, men receive larger loans and deposit higher savings amounts than women. Women (70 per cent) tend to have more passive saving accounts than men (56 per cent). From the UNCDF’s

7 Adults are those with the age above 18 years.
FinScope, the percentage of women who are financially excluded is slightly lower than men, indicating a similar level of financial access among men and women. Despite this, “the income distribution shows a disparity favoring males” (UNCDF, 2015, p. 1). There are more men with higher education and fewer uneducated men than women, and women are more likely to be dependents than men. More men tend to be formally employed in neighboring countries and sending remittances home or working for government institutions and private sector and having their pay deposited directly into bank accounts — both of which account for higher rates of banking among men. Women are more likely to be self-employed and more reliant on cash transactions for payments. Women are also more likely to use local financial services, such as MFIs, due to the ease of access to credit without formal employment. The absence of proof of a regular income makes it difficult for banks to extend loans.

**Challenges of MSMEs in Access to Finance**

In 2017, Cambodia ranked seventh in terms of the most convenient access to financial services among other countries in the world by the World Bank’s Doing Business report (2016); however, its rank fell to 22 in 2019 (World Bank, 2018a). World Bank’s Doing Business ranks the access to finance by examining the credit information sharing and “legal rights of lenders and borrowers” in connection with the secured transactions law and the credit bureau. In spite of this rating, around 66 per cent of enterprises feel that access to finance is a challenge (UNCDF, 2018a). Cambodia is also facing the missing middle financing problem (USAID, 2015). Large enterprises do not find it hard to obtain loans from banks as they have physical collateral. There are choices for micro and small enterprises as they can easily access credit from saving groups or informal providers, such as money lenders, because loan procedures from these organizations are less complicated than that of formal banks. MFIs also offer non-collateralized loans with an amount threshold of less than USD 3,500, although the amount varies from institution to institution. However, medium enterprises face difficulties obtaining finance from banks or MFIs given the limited availability or absence of collateral and the limited capacity of MFIs or savings groups to expand the loan size (USAID, 2015).

According to the Young Entrepreneurs Association of Cambodia (YEAC), the main challenge for SMEs is access to working capital. The difficulties in access to finance result from the absence of the collateral or less valuable collateral, a high-interest rate, lack of information about sources of finance for both debt and equity financing, and limited supporting services to access debt and equity financing, (YEAC, 2017). The findings are consistent with these of Smiddy et al. (2017), in which the high-interest rate and high collateral requirements are challenges for MSMEs. Moreover, MSME challenges in access to finance are caused by the informality of businesses, a lack of appropriate financial products, low levels of financial literacy among entrepreneurs, and asymmetric information between MSMEs and FIs in the absence of financial statements. The complexity of the application procedure also concerns small businesses (EMC, 2017). In Cambodia, the critical challenge of accessing finance is collateral. FIs accept fixed assets as collateral, whereas moveable assets are not generally accepted. So far, only few banks accept moveable assets, such as warehouse receipts and invoices, as collateral, but only for the rice sector and large trading transactions. The presence of leasing services can ease financing constraints; however, the majority of leasing focuses on consumer goods with a few companies providing leasing services for agriculture machinery, mainly tractors (BDtruS, 2017a) and for other business activities (NBC, 2020a).

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8 Field interviews.
9 YEAC conducted a consultative workshop with more than two hundred SMEs in Phnom Penh in November 2016. Both men and women entrepreneurs participated in the workshop.
10 Interviews with MSMEs.
In terms of gender, men and women face the same challenges in accessing finance. However, women tend to face severe challenges compared to men in accessing to finance and financial information. Women have less time than men for socialization; as a result, they have limited network in accessing to information. Women also have limited knowledge in digesting information due to having low education levels than men. There are many financial institutions (FIs) providing both micro, small, and large loans without discrimination and few FIs developed financial products/services tailored for women. Due to low education level and limited access to information, some women have no idea how to reach out to the right FIs which offers right products/services with better terms and conditions (BDtruS, 2020a). Women entrepreneurs finance their businesses from many sources. With the small amounts of capital investment needed for micro and small businesses, there are no challenges for women to access credit from FIs. However, the challenges remain if they need more significant amounts of capital for the expansion or scaling up the business. Limited access to finance stems from the lack of collateral; an insufficient understanding of financial products, terms and conditions, and the FI landscape; limited skills for business plan development; and the absence of financial products designed specifically for women. According to MSMEs interviewed, mandatory physical collateral and high-interest rates are the main barriers for MSMEs in access to finance. Therefore, there are no different challenges for men and women in financial access, as FIs apply the same criteria for credit assessment, including collateral and financial records.

2. Policy and Regulatory Framework

**MSME Development Policy, Plan, Strategy, and Law**

The Royal Government of Cambodia (RGC) has demonstrated a strong commitment to support and promote MSMEs through many initiatives. The RGC has developed the Rectangular Strategy (RS) Phase IV as a roadmap, aiming to formalize SMEs. The strategic objective of the RGC is to upgrade SMEs through an improved business climate created by the enhanced regulatory framework, the promotion of innovation and technology, increased access to finance, strengthened and expanded support services, and the integration of SMEs into global value chains (RGC, 2018b).

In order to support MSMEs and startups, other regulations, policies, and support mechanisms have been developed and implemented. The Small and Medium Enterprise (SME) Development Framework (2005-2010) was established as a mechanism to create a conducive business environment, leading to a competitive SME sector contributing to the creation of quality employment and to improve the range of goods and services (p. 8). The RGC also developed the Industrial Development Policy (IDP) (2015-2025), to enhance SMEs’ capacity to link up with large enterprises as well as to form clusters and to promote entrepreneurship, productivity, creativity, innovation, and specialization through the introduction and implementation of a comprehensive package. Supporting measures include clustering, enhanced technology transfer, increased access to finance, strengthened technical standards, the establishment of business development counselling centers, promotion of “one village one product” movement and improvement of the regulatory framework as well as strengthened institutional coordination (RGC, 2015).

Although the RGC has put effort into achieving the IDP goals, many targets, such as the formation of SME clusters, have yet to gain momentum and others remain underway. In 2018, a private company, WorldBridge Group, took the initiative in developing the first and only one SME cluster. It is also noted that the Ministry of Industry, Innovation, Science and Technology (MISTI) is also facing the challenge of having a well-developed MSME database and record. Without well-developed MSME data, it is hard for policymakers to measure MSME outputs. In order to achieve the IDP targets, the government issued a Prakas on tax incentives in October 2018 for newly-registered SMEs to use IT-based accounting software, purchase technology to increase productivity, use at
least 60 per cent of local materials, support staff training, and relocate to exclusive economic zones (RGC, 2018a).

In order to support the fast growth of the private sector, RGC also developed the Entrepreneurship Promotion Fund, the Skills Development Fund, and the TECHO STARTUP Center to support MSMEs and startups through the provision of training, mentoring, coaching, networking opportunities, and funds, either in grants or as co-investments. In addition, the Ministry of Posts and Telecommunications (MPTC) is in the process of developing an innovation policy and developed an innovation center to support startups and a digitalized economy in Cambodia. Moreover, MISTI has drafted a policy on MSME development by focusing on enabling rules and regulations for MSMEs; promoting entrepreneurship and human resource development; increasing productivity and technology and innovation; enhancing access to the export market and supporting access to finance.

In response to the specific challenges that women entrepreneurs face, the Ministry of Women Affairs (WoMA) developed Neary Rattanak IV (2014-2018), a five-year strategic plan that aims to promote gender equality. Neary Rattanak is the most relevant government strategy addressing issues related to women’s empowerment. Female economic empowerment is identified as one of the four strategies of the Neary Rattanak IV. One of its strategic targets is to assist MSMEs by providing them with business development service support including: vocational training; facilitating women’s equal access to business services, financial services, and networking opportunities; and to increase women’s understanding of business formalization (MoWA’s Neary Rattanak IV, 2014, p. 17).

So far, MoWA has supported women with skills development through its Women Development Centers (WDCs) and networking opportunities; however, there is no direct support for greater access to finance. Additionally, MoWA plans to develop a Women Business Development Center, which intends to provide training, business development services, and research to women entrepreneurs (BDtrueS, 2020b). MoWA supports Cambodian women entrepreneurs to participate in the ASEAN Women Entrepreneurs Network (AWEN), a regional platform to promote women entrepreneurship in the ASEAN community by providing them with opportunities to exchange knowledge and experiences and to develop new initiatives for women economic empowerment. One of the AWEN activities is to organize and give awards to women entrepreneurs in ASEAN. MoWA has also supported the establishment of Cambodia Women Entrepreneurs Network (CamVen) which was elected its founding board members in July 2020. Women entrepreneurs are encouraged to participate as representatives of the private sector in both formal and informal consultations among other stakeholders. Cambodia Women Entrepreneurs Association (CWEA) represents women entrepreneurs in the government-private sector forum (G-PSF), which is a dialogue platform between the public and private sector.

Coordinating Agency

In 2014, the government developed committees for private sector development, with the aim of working with the private sector. A sub-committee for SMEs was also developed in the same year, led by MISTI and Council of Development of Cambodia (CDC) and participating by members from other 14 ministries and government agencies, working together in developing, implementing, and monitoring laws and policies (RGC, 2014). Although some strategies were developed by conducting

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11 Interview with the representative of MPTC.
12 Interview with the representative of MISTI.
13 Interview with the representative of MoWA.
consultations with government agencies, the private sector, and development partners, the scope of implementation for projects or policies made by the sub-committee for SMEs is limited.\textsuperscript{14}

In order to support enterprises, RGC established the Government-Private Sector Forum (G-PSF) in 1999, to create a platform for dialogue between the public and private sectors to discuss and address challenges. G-PSF also aims to create a channel for the government to receive private sector feedback on draft policies, strategies, or laws. “Successful examples include consultations on investment law, taxation law, and concession law, the introduction of private sector monitors at the Ministry of Commerce, and negotiations on cost reductions for scanning operations and toll road fees.”\textsuperscript{15} CDC acts as the General Secretariat in facilitating the G-PSF mechanism and works closely with the Cambodia Chamber of Commerce (CCC), which is a private entity and serves as the G-SPF Coordinating Bureau. Joint government and private sector working group meetings are organized quarterly between the government and business community, led by the co-chairs from the government (ministers) and private sector (presidents of business associations) of thirteen working groups, representing thirteen different aspects of economic infrastructure, including MSMEs (working group on Manufacturing and Small and Medium Enterprises and Services or working group 3) and banking and financial services.\textsuperscript{16} G-PSF is chaired by the Prime Minister in bi-annual meetings to address the issues that cannot be solved during the working group meetings (Sisambat, 2009). Since 1999, the working group for MSMEs has solved some challenges faced by MSMEs, including the establishment of “One Window Service” in order to ease the registration process for MSMEs.\textsuperscript{17} However, the coordination of G-PSF is weak as the meetings between the public and the private sector are not regularly organized, and the discussion is less strategic because of the limited research available, due to the challenges and limited capacity of the working group secretariats to collect and analyze data. All co-chairs and vice co-chairs from the private sector are men; except for that of the working group for tourism, MSMEs, and health which have female vice-chairs. Notably, the vice co-chair working group for MSMEs is a representative from the CWEA (RGC, 2019a, 2014b).

**Action on Financial Inclusion**

The NBC, in partnership with a number of development organizations, has promoted financial inclusion in Cambodia through activities, including workshops in the provinces about the importance of microfinance and borrowers’ responsibilities. The NBC launched a public campaign in 2016 using seminars and social media to promote public awareness of financial services offered at the national and local levels. A hotline was also established to receive inquiries and provide assistance for problems relating to financial products and services. In partnership with the Good Return organization, the Australian branch of World Education, the “Let’s talk money” campaign was launched in 2016 to advocate for behavioural changes in financial services consumption and empowering people, mainly the poor, to gain the economic benefit of available financial services. “Let’s talk money” was broadcasted through the radio program nationwide. The campaign reached

\textsuperscript{14} Interview with the representative of MISTI.


\textsuperscript{16} Between 2002 and 2011, the IFC established and supported the Coordinating Bureau. The thirteen working groups represent the following sectors: agriculture and agroindustry (working group 1), tourism (working group 2), manufacturing and small and medium enterprises and services (working group 3), law, tax and governance (working group 4), banking and financial services (working group 5), transport and infrastructure (working group 6), export processing and trade facilitation (working group 7), industrial relations (working group 8), unhasked rice-rice (working group 9), power and mining resources (working group 10), education (working group 11), health (working group 12), and construction and real estate (working group 13).

\textsuperscript{17} Council Ministers. 2014. “Announcement on Results of 17th Government-Private Sector Forum on O4th March 2014.”
almost 1.5 million Cambodians through public announcements, TV, radio, Facebook, and face-to-face education in schools. In 2017, it also published “Let’s talk money” comic books, targeting Cambodia children aged eight to twelve with financial literacy topics such as household spending. Furthermore, NBC, in partnership with the World Bank, promotes the access and use of financial services, including financial planning, savings, loan, and cash management. NBC has also collaborated with the Ministry of Education, Youth, and Sport (MOEYS) to integrate financial education into the national school curriculum from grade one to grade twelve.\(^{18}\) In 2020, NBC in partnership with the Ministry of Women Affairs (MoWA) and Visa launched one-year financial literacy program for Cambodian women entrepreneurs and young women who aspire to establish the business in the rural areas. The program aims to empower women on “financial and digital literacy for entrepreneurship development.”\(^{19}\)

In addition, the NBC, with support from the United Nations Capital Development Fund (UNCDF), developed the National Strategy for Financial Inclusion (2019 – 2025). The strategy aims to increase financial inclusion from 59 per cent to 70 per cent It addresses not only access to finance for MSMEs but also gender issues, with a specific goal to reduce the share of women who have not accessed financial services from 27 per cent to 13 per cent by 2025. The strategy focuses on six priority areas: (1) promoting savings, (2) promoting innovative lending products to MSMEs, (3) expanding payment system capacity, (4) expanding insurance market, (5) strengthening the capacity of regulators, and (6) increasing consumer protection and transparency (RGC, 2019b).

**Regulatory Framework**

In Cambodia, no single regulatory framework is applied to both banking and non-banking financial institutions. The banking financial institutions are regulated by the NBC, which oversees banks, MFIs, and financial lease companies, and closely assesses their lending risks. However, non-banking financial institutions, such as investment funds, fall under the Securities and Exchange Commission of Cambodia (SECC), and the investment risks between MSMEs and the investment fund are not yet supervised.

So far, the RGC has promoted a “sound and market-driven financial sector” through the implementation of the Financial Sector Development Strategy (FSDS) 2011-2020 and has addressed additional challenges by developing the FSDS 2016-2025. The latter aims at “achieving a sound, efficient, and inclusive market-based financial system that broadly fulfils domestic demand for financial services” (RGC, 2016, p.1).

In addition, it promotes financial inclusion by developing the National Strategy for Financial Inclusion, enhancing financial literacy, and establishing a credit guarantee scheme and capacity building program for MSMEs. The policy also intends to allow the use of moveable assets as collateral, to promote MSME innovation, and to improve credit reporting and credit risk assessment. As a means to increase consumer confidence in the banking sector, the NBC also conducted a study on a deposit protection scheme. Over the past two years, some achievements have been made, whereas other initiatives have stalled, or remain in the process of addressing ongoing challenges. As illustrated above, the NBC has expanded financial literacy by partnering with MoEYS to integrate financial education into the national curriculum, partnering with MoWA to promote financial and digital literacies with women entrepreneurs and young women, and conducting workshops in the provinces. However, the secured transactions law (addressed in the below part) has not been much modified, In 2020, the government developed the SME bank and

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18 Interview with representatives of the NBC and NBC, 2020a and 2017.
the guarantee scheme. The SME Bank channels fund to MSMEs through 2 channels: (1) via FIs and 
(2) via Agriculture and Rural Development Bank (ARDB).

The 2007 Law of Secured Transactions was passed in order to promote lending with less 
dependence on real estate collateral by allowing lenders or lessors to acquire movable assets as 
collateral and entitle to take over collateral without having to engage in court action in case of 
default. A written agreement from borrowers is required (RGC, 2007a). However, this law is 
contradicted by the civil code law, which requires banks or MFIs to go to court before taking over 
collateral.20 According to an interview with a representative of the Ministry of Commerce (MoC), the 
contradiction has not been harmonized; however, a reform on the law was made21 in 2017 that 
requires court action but through a less complicated and time-consuming procedure.

Moreover, the Law on Financial Leases was enacted in 2009 and applies only to financial leases of 
movable assets in Cambodia. Under this law, a lessee has the rights to select the moveable 
property (all properties, plants, and equipment, except land or buildings) and the lessor can use 
the moveable property without any interference from the lessor during the period of the financial 
lease agreement. The lessor has the right to acquire the moveable property and reprocess the 
property without a court order in the case of default (RGC, 2009). In the event of a loan default 
without a court order, a financial lease from a leasing company is better than an FI loan because 
the asset title is already under the ownership of the lessor.23 Also, in order to assist access to 
credit for the poor, the RGC developed a regulatory framework for pawn businesses (RGC, 2011), 
which was regulated by the Ministry of Economy and Finance (MEF). In order to strengthen pawn 
business and promote the fast access to formal financial services, the Prakas on Management of 
Pawn and Pledge Business by Consignment was adopted in 2017, aiming to legally protect and 
offer the accountability to the pawn shops and their customers.

3. Lending Infrastructure and Support

Credit Bureau

The Credit Bureau of Cambodia (CBC), established in 2012 as a private entity, is currently the only 
credit bureau operating in Cambodia and is a central database of credit information that helps FIs 
to manage credit risk. The CBC provides financial information, analytical solutions, and credit 
reporting services to financial institutions and consumers in Cambodia. CBC enables FIs to share 
and check customers’ payment (both individual and commercial) and borrowing histories.24 As 
regulated by NBC, all licensed FIs have to be members of the CBC and are required to upload and 
monitor customers’ credit information or face penalties, including a cash penalty and the risk of 
license withdrawal. In addition, the CBC allows customers to check their credit record profiles and 
file a complaint if incorrect credit data is recorded. Although the information is available at CBC’s 
website, not many individual customers are aware that they can check their own profiles and often 
request bank officers to assist them with filling out forms for the CBC.25 Moreover, the CBC 
analyses the credit risk of borrowers, measured by Khmer (K) Score. K Score assesses the likelihood

20 The practices of the law on Secured Transactions are under the Ministry of Commerce, whereas the law on 
Civil Code is under the Ministry of Justice.
21 The reform was made under the agreement among the Ministry of Commerce, Ministry of Justice, Ministry of 
Economy and Finance, and the NBC.
22 The Lenders shall file the complaint to the court with the required documents, including the collateral/loan 
agreement, with the Filing office; however, the trial is not conducted, and the court judgment is made based 
on the documents.
23 Interviews with the representatives of MFIs.
24 According to the interview with the representative of CBC, the negative performance of borrowers is only 
recorded in the CBC system for three years, after which the data is erased.
25 Interviews with the representatives of FIs.
of a payment default in the upcoming 12 months of the loan period and allows FIs to make more informed and accurate credit assessment decisions. In order to promote the financial healthiness, CBC has expanded its function from only record the individual customer loan to enterprise loan. As of December 2018, there were 155 members, including ten rural credit institutions, and approximately five million borrowers recorded in the database.26

Credit Guarantee Programs

Credit guarantee schemes have been initiated and supported by the development partners (DPs), including Agence Française de Développement (AFD) and United States Agency for International Development (USAID). For the water and electricity sectors, the French Development Agency (AFD) and Foreign Trade Bank (FTB) launched a credit guarantee scheme in 2014 to facilitate investment in rural water and electricity businesses (Figure 9). The AFD provides a USD 16.84-million credit line and risk sharing agreement that allows the FTB to provide loans to private water and electric companies in rural areas at a lower interest rate and with longer maturity, and equal collateral value to the loan amount.27 Moreover, the AFD provides technical support to FTB staff on the feasibility study and to SMEs in water and electricity sectors to enhance their businesses through the provision of trainings on technical and financial skills and due diligence.

Figure 9
AFD Guarantee Scheme Modality

Source: ESCAP based on Nexus, 2018, p. 19.

In addition to the AFD initiative, the Development Credit Authority of USAID (USAID-DCA) has partnered with LOLC, Cambodia’s fifth-largest MFI, to provide credit risk sharing (50 per cent of the defaulted loan) to high-risk borrowers in the agriculture value chain in the four provinces of Battambang, Siem Reap, Kompong Thom, and Pursat. Under the scheme, LOLC provides micro loans with a maturity of five years but applies its standardized interest rate.28 Private enterprises have also taken the initiative to partner with financial institutions to offer credit guarantee schemes. For example, a large trading company works with a commercial bank to provide non-collateralized loans to its enterprise clients and is responsible for fully sharing the risk in case of default (Modality 1 in Figure 10). In addition, an agriculture equipment manufacturer partners with an MFI in partially sharing risk for its dealers’ default (Modality 2 in Figure 10)

26 Interview with the representative of CBC.
27 The standard loan amount is between 60 – 70 per cent of the collateral value, and the rate varies from FI to FI, interview with the representative of FTB.
28 Interview with the representative of LOLC.
Moreover, the government publicly announced its credit guarantee scheme in the late 2020 aiming to reduce the impact of Covid-19 on business, promote SME bankable by reducing the collateral requirement, and promote SME development in the long-term. As a result, Credit Guarantee Cooperation of Cambodia (CGCC) was established in November 2020 as a state-owned enterprise based on the Sub-decree issued in September 2020. CGCC is responsible for providing credit guarantee, evaluating and managing risk sharing, and cooperating with the private financial institutions (PFIs) and development partners (DPs). CGCC will provide credit guarantee in two phases. Phase I (2021-2022) focuses on the survival and recovery of all enterprises in the priority and non-priority sectors. Phase II (2023 onward) will focus on “recovery and economic diversification” by providing the credit guarantee only to SMEs. With the budget of US$200 million, the scheme shares risks between 50% and 80%, varying depending on the sector, for both secured and unsecured loans to registered and unregistered SMEs which are required to register within a year after joining the program (Table 4). The maximum loan amount for SMEs is US$300,000 for the working capital and US$500,000 for the investment and/or business expansion in the priority sector and US$200,000 for working capital and US$300,000 for the investment and/or business expansion for the non-priority sector. The scheme does not cover refinancing loans (MEF, 2020). Figure 11 describes the structure of the credit guarantee.

Table 4
Loan Amount and Risk Sharing Ratio

<table>
<thead>
<tr>
<th>Priority Sector</th>
<th>Loan Purpose</th>
<th>Amount (USD)</th>
<th>Risk Sharing (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Working Capital</td>
<td>300,000</td>
<td>• Agriculture: 50 – 80</td>
</tr>
<tr>
<td></td>
<td>Investment/Business Expansion</td>
<td>500,000</td>
<td>• Industry: 60 – 80</td>
</tr>
<tr>
<td>Non-priority sector</td>
<td>Working Capital</td>
<td>200,000</td>
<td>• Service: 50 – 70</td>
</tr>
<tr>
<td></td>
<td>Investment/Business Expansion</td>
<td>300,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adopted from MEF’s Presentation on 23 November 2020.
Collateral Law, Use, and Resolution

According to NBC, there is no law requiring FIs to take collateral in Cambodia; however, NBC requires FIs to control lending/leasing risks.29 As a result, the Prakas on Credit Risk Grading and Provision for Impairment was adopted in December 2017. Under Article 13 of the Prakas, all FIs shall have a credit grading system in line with the associated risks. However, financial service providers interpreted the Prakas differently from the regulators, claiming that under article 39, the collateral is required in order to reduce risks and that collateral can include such assets as a certificate of deposit or a guarantee.30

NBC does not require FIs to only accept the fixed assets as collateral. In Cambodia, FIs are also encouraged to take moveable assets through the development and modification of the implementation of the secured transactions law, as illustrated above. However, given the difference between the secured transaction and civil code laws, moveable asset collateralization does not provide any positive effect to improve access to finance in Cambodia when collateral is a core issue of MSME access to finance.

Securitization and Factoring Mechanisms

Securitization has not developed in Cambodia as factoring is the least popular financing mechanism. Only a few financial institutions accept invoices or account receivables as collateral. The number of transactions is very small and FIs work only with the existing clients who are reliable and profitable. Most financial institutions are reluctant to apply to factor given the absence of an invoice certification agency and the unreliability of the invoices that are used. In addition, as MSMEs do not have adequate financial records and proper histories of the receivables, FIs are further discouraged to apply the factoring mechanism.

29 Interview with the representative of NBC.
30 Interview with the representative of banks and MFIs.
Secured (Moveable) Assets Registry

FIs or firms which are interested in taking moveable assets as collateral can file the security interest online with the Secured Transactions Filing Office at the Ministry of Commerce (MoC). Since it was established in 2007 and until 2018, around 25,000 files (including new asset registration and changes in the existing registration) were registered by banks, MFIs, and law firms which act on behalf of their enterprise clients. Most of the asset registrations are automobiles and motorcycles, which are mainly under the ownership of couples (husbands and wives). However, the system does not distinguish between men and women. Furthermore, it is not required to record the amount and the purpose of finance based on the rationale that it violates users’ privacy. Because the lack of oversight from the Secured Transactions Filing Office on the registration (registration is automatic and does not require approval from the Filing Office) and the requirement of specific information for users to search for secured properties (ID of debtor, filing number, and machine series), banks and MFIs found it hard to secure the ownership transfer (from a FI’s debtor to its non-debtor) and to track where the properties are collateralized. As a result, there is a limited number of banks and MFIs using the system. Also, the existence of the system is not widely known by MSMEs.31

Rescheduling Support and Dispute Resolution Mechanisms

In order to protect financial users’ rights and interests, the NBC, with the support from the IFC, developed the Prakas on Resolving Financial Complaints from Customers. In 2017, the NBC established a Customers’ Protection Working Group to resolve customer complaints and address dissatisfaction with services. The hotlines were established at the NBC headquarters in Phnom Penh as well as various branches to collect information, receive complaints, and resolve them. Since the hotlines’ establishment, nearly 300 complaints have been received, mainly on “early loan repayment, request for taking back collateral, interest rate calculation, borrowing from moneylenders, and other penalty fees charged by banking and financial institutions.” (NBC, 2018a, p. 43).

4. Dedicated Banks and Funds

SME Funds

Banks and MFIs have designed loans with flexible terms and conditions for MSMEs to enable them to take advantage of substantial market opportunities and respond to the saturated financial markets. Loans disbursed by banks and MFIs are mainly recorded as being made to individual borrowers instead of enterprises; therefore, it is hard to measure the lending rate to MSMEs in general. As illustrated in Part 1 above, banks and MFIs define SMEs by loan size instead of the number of employees or turnover. According to interviews with banks and MFIs, small loans, including for business and non-business purposes, account for around 50 per cent of total bank loans.

On the other hand, SME business loans, which are for business purposes only, account for between 5 per cent and 15 per cent of total loans of the interviewed MFIs. The exception is PRASAC Microfinance Institution whose micro, small, and medium loans, including business and non-business purposes, accounted for 99 per cent of total loans. Based on the assumption that MSME business loans from all MFIs in Cambodia are between 5 per cent and 15 per cent, loan amounts to MSMEs are estimated to be between USD 216 million and USD 646 million in 2017.

In the first quarter of 2017, the NBC set an annual interest rate cap of 18 per cent on microfinance to reduce the financial burden on MSMEs and farmers and allow them to access credit at an affordable cost. To help MSMEs gain wider access to finance, the Ministry of Economy and Finance

31 Interview with the representatives of MoC.
(MEF) launched the SME Bank with an initial capital of USD 100 million in April 2020 and set up the office in November 2020.\textsuperscript{32} The SME Bank prioritizes the sectors which are in line with these of the Industrial Development Plan (IDP), including the new innovative industries or manufacturing, agro-processing, tourism sectors, and various supporting industries.\textsuperscript{33} SME Bank’s products consist of SME Co-Financing Scheme (SCFS), Cambodia SME Scheme (CSS), and saving and retirement accounts. SME Bank will further expand its scope to focus on loans for Cambodian women entrepreneurs.\textsuperscript{34} SCFS, in partnership with 32 participating financial institutions, offers loans to SMEs with the interest rate capped at a maximum of 7 per cent with a four-year maturation period.\textsuperscript{35} The maximum loan amount for the working capital and investment is US$200,000 and US$300,000, respectively. So far, 753 SMEs have benefited from SME Bank.\textsuperscript{36}

As mentioned earlier, women are much less likely to register their businesses, although the majority of micro-sized enterprises in Cambodia are run or owned by women. However, it is difficult to create gender-specific interventions given the lack of comprehensive data on female borrowers; some banks do not record gender-disaggregated data on financial access and use. Acleda Bank reports that roughly half of its borrowers are women and women borrowers represent around 60 per cent to 70 per cent of small loans. Likewise, the majority of MFIs’ clients, accounting for more than 70 per cent, are women and they are involved in all sectors; agriculture, services, and industry.\textsuperscript{37}

**Finance-Related Programs for MSMEs**

In early 2019, the Ministry of Economy and Finance (MEF) announced the development of Entrepreneurship Development Fund (EDF) with a budget of USD 5 million, with the aim of scaling up MSMEs and nurturing startups through capacity building, mentoring, entrepreneurship cultural promotion (mindset and innovation), networking opportunities, and funding opportunities (grant and co-investment). Khmer Enterprise (KE), launched in 2020, is an implementing agency of EDF supporting MSMEs and startups by working with partners. KE’s programs target both men and women-led MMSEs and startups. KE has partnered with 500 Startups, a global venture capital firm, and established Angkor 500 aiming at nurturing and supporting technology (tech) startups to connect to the international markets and investors.\textsuperscript{38} To build the capacity of tech startups, MEF has been developing and implementing TECHO Startup Center (TSC), aiming at nurturing startups. TSC, launched in early 2019, runs pre-incubation and incubation programs. The center offers entrepreneurship skill, mentorship, technical assistance to startups to innovate new innovative ideas, and links startups to investors. Furthermore, MEF has implemented Skill Development Fund


(SDF) aiming at upgrading skill for SMEs and growth-stage startups by providing co-financing to SMEs for staff capacity building.\textsuperscript{39}

In addition, the MoC has been implementing the five-year Agriculture Inclusive Markets for Smallholders (AIMS) program. The program is financed by the International Fund for Agriculture Development (IFAD), as well as the government and private sector, with a total of USD 61.6 million. A strategic priority of AIMS is to increase smallholders’ profits by linking them to markets.\textsuperscript{40} The second component of the program intends to enhance smallholder access to finance through “investment support” and “financial service partnerships”. The investment support consists of two modalities: (1) The Value Chain Innovation Fund (VCIF) and (2) A line credit with the Rural Development Bank (RDB). In addition, under the “financial service partnership,” the program aims to link FIs to smallholders. The VCIF, under the supervision of the MEF, will be implemented in 2019 by offering the matching grants up to 20 per cent of the total funds for agriculture technology and innovation.\textsuperscript{41}

Central Bank Funds for On-Lending and MSME-focused FIs

In Cambodia, the NBC has no regulation for on-lending and does not lend to FIs. However, it encourages banks and MFIs to provide on-lending. So far, there are more than ten banks that lend to other financial institutions, mainly to MFIs (NBC, 2018a). According to the interviews with banks which provide on-lending, loans to MFIs apply the same interest rate as that of corporate loans and banks require MFIs to have collateral, an MFI operating license, and an audit report. Some banks also provide a clean loan (without collateral) to trusted MFIs or based on the strong relationship between the bank and the top management of the MFIs. As illustrated by a representative of the NBC, there is no regulation requiring FIs to lend to MSMEs and the NBC does not require FIs to submit their lending data about MSMEs, although it does require information to be submitted on loan amounts by sector.

5. Equity and Related Support

Small Cap Equity Market

The government has issued a Prakas on equity security for SMEs in order to provide another financial option to SMEs. Under the Prakas on Public Offering of Equity Securities, SMEs are allowed to raise the capital through an Initial Public Offering (IPO) in the stock exchange. In order to attract SMEs to enlist in the Cambodia Stock Exchange (CSX), the required listing criteria for SMEs is lower than that of large companies (Table 5). These include having at least a one-year business record, one-year audited financial report, a minimum capital (shareholder’s equity) of at least USD 500,000, a positive net income for the last fiscal year, and “positive operating cash flow with at least 10 per cent of gross margin.”\textsuperscript{42} Moreover, business has to be sustainable and scalable in the medium and long term. Also, the RGC has issued an Anukret on Tax Incentive in Securities Sector in 2015, allowing listed SMEs to enjoy three-year tax holidays (50 per cent reduction on corporate income tax, ended in January 2018), a non-payment of 1 per cent profit tax over the period of three years, and waiving on the corporate income tax liabilities for the last 10 years.\textsuperscript{43}

\textsuperscript{39} Interview with the representative of MEF.
\textsuperscript{40} The program targets the value chain for five agricultural sub sectors, including rice, vegetable, chicken, silk, and cassava.
\textsuperscript{41} Interview with the representative of MoC.
\textsuperscript{43} Ibid.
Since 2011, there have been a total of seven companies listed in CSX but none of them are SMEs.\textsuperscript{44}

Table 5
Listing Criteria for SMEs and Large Enterprises

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Growth Board (for SMEs)</th>
<th>Main Board (for Large Enterprises)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business record</td>
<td>At least 1 year</td>
<td>At least 3 years</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>At least USD 500,000</td>
<td>At least USD 7.5 million</td>
</tr>
</tbody>
</table>
| Net Profit                            | • Positive net income for the latest year; or  
• Positive operating cash flow and at least 10 per cent of gross profit margin  
• At least USD 500,000 for the latest year; and  
• Aggregation profit of at least USD 750,000 for the last 2 years |
| Number of shareholders                | • At least one thousand shareholders, and  
• At least 10 per cent of total voting shares  
• At least 200 for those who hold at last 1 per cent of the shares as of the date of filling the application, and  
• At least 7 per cent of the total voting shares of those who hold 1 per cent of the shares |
| Audited Financial Report              | 1 year                  | 2 years                            |


Debt Securities

In 2017, the Prakas on Public Offering of Debt Securities was enacted, aiming to support enterprises in raising fund. Under the Prakas, three types of debt securities are allowed to transact in the country, including plain bonds, guarantee bonds, and secured bonds.\textsuperscript{45} An enterprise is eligible to issue bond if it is a public limited company or has a permitted entry. Other criteria include having the latest (2 years) audited financial statements, board resolutions for the issuance of debt securities, strong corporate governance, credit rating conducted by the accredited credit rating agency, and “prior verification on listing eligibility debt securities and the securities pricing from permitted securities market” (SECC, 2017, p. 4). In addition to these criteria, it is required the issuer of secured bond to have the collateral and to issue only 70% of their collateral value (SECC, 2017). Between 2018 and 2020, there are 5 FIs and 1 company issuing bonds.\textsuperscript{46}

\textsuperscript{44} The first IPO was started in 2011. So far, there are seven listed companies including Sihanouk Autonomous Port, Phnom Penh SEZ Plc, Phnom Penh Autonomous Port, Grand Twins International (Cambodia) Plc, Phnom Penh Water Supply Authority, Pestech (Cambodia) Plc., and Acleda Bank. Four of them are purely private companies, Available at http://www.csx.com.kh/data/lstcom/listPosts.do?MNCD=50101. Accessed on 30 December 2020.

\textsuperscript{45} Plain bond refers to the bond with fixed interest rate and maturity. Guarantee bonds is the bond with the guaranteed interest rate and principle by the third party. Secured bond is the bond secured with “asset except asset-backed securities which are stipulated in other regulations” (SECC, 2017, p. 3).

Venture capital and Private Equity

Venture capital (VC) and private equity (PE) firms have been growing over the past decade to tap the market opportunities. It started with a few firms in 2007 and since then has expanded to more than ten VCs and PEs in 2020. These firms target both startups and existing businesses. Although a pool of investors is available in Cambodia’s markets, investment financing is still challenging. PEs mainly invest at the growth stage of businesses and to medium and large enterprises. Low commitment from VCs and PEs to invest in MSMEs results from the lack of investment readiness of MSMEs. MSMEs still lack the capacity to scale up and do not have the proper accounting records and strategic business development plans. Also, some MSME owners run their businesses with limited understanding of their own sectors. On the demand side, MSMEs have limited information on the availability of such funds and lack knowledge about how to approach and deal with the investors.

Moreover, investors lack information of the potential business. As a result, capital from venture capital funds and private equity firms in Cambodia does not significantly contribute to MSMEs financing. The investment portfolio of each VC or PE is composed of less than ten projects despite their emergence in Cambodia nearly two decades ago, in the early millennium. None of the investment companies have targeted enterprises owned by women, but the main factors for the investment focus on the sector, team, and business potential (profitability). Table 6 presents a representative list of Cambodian venture capital and private equity firms.

Table 6
List of Venture Capital and Private Equity Firms

<table>
<thead>
<tr>
<th>No.</th>
<th>Company Name</th>
<th>Profile</th>
<th>Investment Portfolio</th>
<th>Target Group by Gender</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Emerging Market Investment</td>
<td>Private equity, operating in Cambodia, Laos, and</td>
<td>• Target growth stage enterprises</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Advisory (2009)</td>
<td>Myanmar</td>
<td>• Invested Industries: Education, banking (microfinance), tourism (restaurant and coffee), agriculture, insurance</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Leopard Capital (2008)</td>
<td>Private equity, operating in Haiti, Cambodia, Laos,</td>
<td>• Target growth stage enterprises</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thailand, Myanmar, Bangladesh, and Bhutan</td>
<td>• Invested industries: beverage, real estate (property development), microfinance, energy (power transmission and hydro power), telecoms, infrastructure, banking (bank and microfinance), and professional services (law firm)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Devenco (2007)</td>
<td>Private equity and business consulting, operating in Cambodia</td>
<td>• Target growth stage enterprises</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Invested industries: medical (Pharmacy), waste management, technology, energy and agriculture</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Obor Capital (2016)</td>
<td>Venture Capital, operating in Cambodia</td>
<td>• Target startups and growth stage enterprises</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Invested industries: agriculture, infrastructure (piped water supply) and tech startups</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Asia Frontier Capital (2013)</strong></td>
<td>Private equity, investing in Asian frontier economies such as Bangladesh, Cambodia, Iraq, Laos, Mongolia, Myanmar, Pakistan, Papua New Guinea, Sri Lanka and Vietnam</td>
<td>• Target growth stage enterprises</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------</td>
<td></td>
</tr>
</tbody>
</table>
| 6 | **Insitor Impact Asia Fund**    | Impact investment, providing both equity and debt financing, operating in Cambodia, India and Myanmar                                                                                                                                | • Target growth stage social enterprise  
|   |                                 |                                                                                                                                                                                                  | • Invested industries: banking (microfinance) and infrastructure (piped water supply with Obor)  
|   |                                 |                                                                                                                                                                                                  | • Debt financing: with four projects on IT and other social-related projects  |
| 7 | **Arun (2010)**                | Japanese impact investment, providing both debt and equity financing, operating in Cambodia and Japan                                                                                                                                            | • Target growth stage social enterprise  
|   |                                 |                                                                                                                                                                                                  | • Invested industries: agriculture, services (hair extensions), education, and hospitality  |
| 8 | **Uberis Capital (2012)**     | Impact investment, providing debt and equity financing to social enterprise in Southeast Asia                                                                                                                                                    | • Target startups and growth stage enterprises  
|   |                                 |                                                                                                                                                                                                  | • Invested industries: skin care, handicraft, and agriculture  |
| 9 | **ICCO Investment and Agribusiness Booster (Abt)** (these two firms are under the umbrella of ICCO Organization) | ICCO Investment is an impact investment providing funds to social enterprises in Cambodia. Agribusiness Booster (Abt) is an organization investing with the agribusiness startups, operating the business between 1 and 2 years | • Target both startups and growth stage enterprises  
|   |                                 |                                                                                                                                                                                                  | • Invested industries: agriculture and energy (solar power)  |
| 10| **BlueOxchard (2010)**        | Private equity, providing both debt and equity financing to 50 emerging markets in Africa, Latin America, Central and Eastern Europe and Asia                                                                                       | • Target growth stage enterprises  
|   |                                 |                                                                                                                                                                                                  | • Invested industries: financial, education, and climate  |
| 11| **Incofin**                   | Private equity, providing both debt and equity financing in Cambodia and other countries                                                                                                                       | • Target growth stage enterprises  
|   |                                 |                                                                                                                                                                                                  | • Invested industry: financial and agribusiness  |
| 12| **Mekong Strategic Partners (MSP) (2014)**(1) | Venture capital and private equity, operating in Cambodia                                                                                                                                                                                                     | • Target startups and growth stage enterprises  
|   |                                 |                                                                                                                                                                                                  | • Industries: technology-oriented solutions  |
| No. | Fund Name                  | Description                                           | Target startups | Target Industries                                                                 | Source: Interviews and Respective Websites.  
Note: MSP also created Smart Axiata Digital Innovation Fund (SADIF) in partnership with Smart Axiata and Forte Insurance. The fund aims to invest with technology startups. | All |
|-----|---------------------------|-------------------------------------------------------|-----------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| 13  | OCCTANE (2018)            | Venture capital, operating in Cambodia                |                 | • Target startups and SMEs  
• Target industries: Tech mainly in logistics, e-commerce, financial services, and real estate | All |
| 14  | SEA Venture               | Venture capital, operating in South East Asia         |                 | • Target startups  
• Industry: Technology                                                                  | All |
| 15  | Laksmi Prime Investments Co. Ltd | Venture capital, providing both debt and equity financing in Cambodia |                 | • Target startups and growth stage enterprises  
• Invested industries: finance, real estate, and technology                                                                 | All |
| 16  | CiC Capital) (2019)       | Venture capital, debt and equity financing            |                 | • Target: Startups and growth stage enterprises  
• Invested industries: food and beverage, retail, financial                           | All |

Angel investors

Investment from angel investors is still in the early stages. The concept emerged with the recent onset of startups. In 2016, the Mekong Angel Investor Network Forum was organized with the initiative of the Mekong Business Initiative (MBI), a program funded by Australia’s Department of Foreign Affairs and Trade (DFAT) and the Asian Development Bank (ADB). Under the support of the MBI, a few startups received start-up investment from angel investors with an investment amount of USD 140,000 (World Bank, 2018a). A few other startups received funds through their own efforts and/or other programs from either local or international angel investors.47 Moreover, the local angel investor network consisting of 13 angel investors, who are all male investors, has been formed in 2017 and later named as “CorCo Angel Investors”. The group plans to invest between USD 10,000 and USD 100,000 per startup. The investment amount and industry vary depending on the investor’s interests and the main focus industries are technology, tourism and agriculture. In its operation, CorCo has not had any organizational structure and proper development plan yet. So far, it has invested in only one tech startup as it is hard to find startups with strong commitment to the business and which are ready for investment. Also, angel investors themselves are not seriously ready to fund MSME startups as they prioritize investments in the profit potential of already existing businesses.48

In addition to angel investor networks, a few VCs have invested in startups in Cambodia. These include Smart Axiata Digital Innovation Fund (SADIF) and OCCTANE which manage funds of around USD 55 million and provide equity investment to startups, mainly in the tech industry, ranging from USD 25,000 to USD 500,000 each. However, they require startups to have a business plan, strong team, and improved products or ideas than what currently exists in the market.49 As illustrated in

47 BDtruS, 2017b.  
48 Interview with the representative of CorCo.  
49 Interview with MSP; Information of Occtain was obtained from Mr. Vong Sam Ang, World Bridge Group’s Vice President, during his speech in the workshop on “Supporting Cambodia in meeting the challenge of resource mobilization for achieving the 2030 Agenda for Sustainable Development,” organized by ESCAP in Phnom Penh in November 2018.
Table 6 above, other VCs, including Uberis Capital, Obor Capital, SEA Venture, Agribusiness Booster (Abt)\(^50\), CiC Captial and Laksmi Prime Investments, also invest in startups.

**Venture debt**

Not all VC and PE firms operating in Cambodia offer debt financing in addition to equity financing. Only a few PE and impact investment firms offer debt equity in Cambodia. Impact investment firms such as Arun and Insitor provide loans to potential enterprises without requiring collateral. However, it requires that they can intervene in business management and decision-making. In addition, Laksmi Prime Investments and CiC also provide both equity and debt financing; however, their loans are mainly offered to trusted MSMEs in their networks. Venture debt is still less popular among MSMEs due to limited information about the financial channel and a lack of awareness among MSMEs about how to deal with them.

**6. Fintech**

**Mobile and Internet Banking**

In Cambodia, mobile banking started in 2009 with the initiative of Wing Money Transfer & Payment Services under the Wing Limited Specialised Bank. Mobile banking now plays an important role as it provides financial products and services to underserved and unserved Cambodians in rural areas, where there was previously little or no access to financial products. As of December 2019, there were 21 licensed payment service institutions operating the services through 27,974 payments and settlement agents and 15,037 merchant locations throughout Cambodia. They provide services through e-wallet, payment and settlement agent, retail merchant, e-commerce and payment gateway (NBC 2020b). The number of institutions doubled from 2017 to 2019. In 2017, there were only 11 payment service institutions or mobile banking operators in Cambodia (Table 7). In addition to these providers, MFIs, such as AMK, also offer mobile banking services, which are available to all segments of the population nationwide. The presence of their services helps to reduce the transaction costs and saves time for users, especially micro and small enterprises and smallholder farmers. Mobile banking also enables easy access to financial products and services for unserved populations, who are unable to access bank and MFI offices. Financial products offered by these companies are mainly payments, including local and international remittances, repayment of loans, payment for electricity and water bills, and mobile phone top up services. As of December 2017, the transaction amount from all mobile banking service providers accounted for around USD 14 million, serving nearly the total population of the country.

In addition, internet banking has gained in popularity among FIs in order to ease access to financial services for clients. Banks as well as some MFIs, allow customers to conduct transactions, including loan repayments and transfers, online. Moreover, NBC officially launched the Bakong System, which is a payment gateway, in 2020 in order to ease the interbank transactions (NBC, 2020a). Currently, there are more than 20 FIs partnering with Bakong.

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\(^50\) ICCO Investment and Abt are under ICCO Cooperation and the former invests with existing business when the latter invests with the startup in the agribusiness sector.
Table 7
Mobile Banking Operators in 2017

<table>
<thead>
<tr>
<th>No.</th>
<th>Mobile Banking Operators</th>
<th>No. of Customers</th>
<th>No. of Agents</th>
<th>Transactions (Times)</th>
<th>Amount (Million USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wing</td>
<td>9,722,535</td>
<td>4,636</td>
<td>55,053,881</td>
<td>9,981</td>
</tr>
<tr>
<td>2</td>
<td>True Money</td>
<td>6,802,613</td>
<td>5,164</td>
<td>15,381,319</td>
<td>1,584</td>
</tr>
<tr>
<td>3</td>
<td>E-Money</td>
<td>189,953</td>
<td>5,232</td>
<td>7,890,822</td>
<td>2,095</td>
</tr>
<tr>
<td>4</td>
<td>Lyhour Pay-Pro</td>
<td>405,574</td>
<td>2,841</td>
<td>1,056,812</td>
<td>181</td>
</tr>
<tr>
<td>5</td>
<td>Smart Axiata</td>
<td>245,066</td>
<td>1,290</td>
<td>322,782</td>
<td>8</td>
</tr>
<tr>
<td>6</td>
<td>PayGo SEA</td>
<td>19,917</td>
<td>0</td>
<td>4,965,490</td>
<td>345</td>
</tr>
<tr>
<td>7</td>
<td>ASIA Cash Express</td>
<td>11,846</td>
<td>1,449</td>
<td>365,904</td>
<td>86</td>
</tr>
<tr>
<td>8</td>
<td>PIPAY</td>
<td>141,598</td>
<td>1,384</td>
<td>1,404,325</td>
<td>15</td>
</tr>
<tr>
<td>9</td>
<td>SEATEL</td>
<td>755</td>
<td>23</td>
<td>179,481</td>
<td>0.5</td>
</tr>
<tr>
<td>10</td>
<td>Speed Pay</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>11</td>
<td>Fullerton</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>17,539,857</td>
<td>22,019</td>
<td>86,620,816</td>
<td>14,296</td>
</tr>
</tbody>
</table>

Source: NBC, 2018a, p.51

Credit Assessment and Monitoring

As required by the NBC, all banking financial institutions (including banks, MFIs, and financial leases) have to assess clients' credit histories with the CBC system or reports prior to loan approvals in order to reduce or prevent lending risks. In addition to the CBC, FIs use the core banking software in order to monitor and manage customers, deposits, loans, accounting, and reports. Fintech not only supports FIs for credit assessments but also is less time consuming and has low labour costs in comparison to previous filing systems. Based on interviews with local fintech company Morakot Technology, around 30 banks, MFIs and leasing companies use its financial software and services to manage the loan process, structure deposit accounts, manage customer information, and develop internal and external reports for the CBC. In addition, a few FIs have partnered with local fintech company, for instance BanhJi which provides free online accounting software, in order to assess clients' credit health (including digitized credit assessments) and facilitate payments.  

Peer-to-peer Lending Platform

Peer-to-peer lending is still in the preliminary stage in Cambodia. There is only one registered organization, Cambodia Investor Club (CiC), which offers an offline peer-to-peer lending platform in Cambodia. CiC’s peer-to-peer lending transactions take place for members through two channels: (1) through CiC and (2) directly among CiC’s members. As of June 2018, it lent to 20 MSMEs with an average lending amount of around USD 30,000 per MSME. The number of peer-to-peer lending

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51 Interviews with the representatives of Morakot Technology and BanhJi.
52 CiC, established in 2013 by a group of entrepreneurs, is a membership NGO operating in Cambodia. In 2015, it was registered as a private entity and converted members into shareholders.
is four times less than direct loans from CiC to members as peer-to-peer lending requires trust between lenders and borrowers. The Cambodian Women Business Federation (CWBF) is another organization that conducts peer-to-peer lending among its members, though this is done on an unofficial and unregular basis.

**Crowd Funding**

Crowd-funding platforms are not commonly used in Cambodia given the limited knowledge of MSMEs regarding this alternative financing practice. TosFund, the first crowd-funding platform in Cambodia developed under the support of the Development Innovation (DI), was launched in early 2016 to raise funds for social projects and assist tech startups in Cambodia. Since its implementation, TosFund has accepted 18 social and IT projects, three of which received the complete funding of approximately $3,000-$6,000 per project (BDtruS, 2017b). However, it was closed down in the beginning of 2018 because of financial unsustainability. In 2019, CiC launched its crowd-funding platform by offering cash flow financing with the minimum fund of US$10,000 and the maturity between 3 and 12 months. Singapore-based community and crowdfunding platform for women entrepreneurs, Woomentum, launched in Cambodia in December 2018 to support women entrepreneurs through a digital network that offers female-led startups a platform for both crowdfunding and non-financial resources such as mentoring and business advice.

In 2018, to promote and attract more funding and reduce investment risks, the Securities and Exchange Commission of Cambodia (SECC) regulated private equity collective schemes to allow pooled investment in the country from both professional and other investors. Under the Prakas on Collective Investment Schemes, the SECC also regulates crowdfunding and it allows only four transactions per year, with a maximum amount of US$50,000 per transaction or US$200,000 annually (SECC, 2018).

**Investment Account Platforms and Crypto-currencies**

Despite the population’s expanded access to internet and use of smartphones, there is no online investment account platform operating in Cambodia. By mid-2018, there were 5 crypto-currency companies, including KH Coin, Suncoin, K Coin, One-coin, and Forex Coin operating in Cambodia. However, the government does not officially recognize crypto-currencies and prevents Cambodians from trading in crypto-currencies. In December 2017, the NBC prohibited banks and MFIs from trading or advertising crypto-currencies. A joint statement by the NBC, the Securities and Exchange Commission of Cambodia (SECC), and the General-Commissariat of National Police was publicly released in mid-2018, appealing the caution of the public with the trade and circulation of crypto-currencies, and announcing the activities as illegal, given the absence of a regulatory framework. The appeal was issued to prevent Cambodians from becoming subject to any risks associated with trading and investing in crypto currencies.

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53 Interview with the representative of CiC.
54 Interview with the representative of CWBF.
55 Interview with the representative of TosFund.
56 Cambodia Investor Club (CiC). Available at https://cic-association.com/
57 Interview with the representative of Woomentum’s Cambodia Chapter.
59 Interview with the representatives of NBC and NBC, 2018b.
7. Business models and partnerships

**SME Department and Programs in Financial Institutions**

In practice, most banks and MFIs do not have departments specifically designated to SMEs, but some of them have business and product development departments that are responsible for developing the products tailored to the market or MSME needs. Banks and MFIs measure MSMEs by loan size; therefore, MSME loans are used in this context to represent MSME size. However, it is worth noting that not all micro, medium, and small loan sizes explicitly represent business loans for MSMEs as the loan purposes are not only for business but also for personal consumption. Table 8 shows that micro, small and medium loan sizes classified by banks and MFIs are not significantly different.

**Table 8**

Micro, Small, and Medium Loan Size Defined by FIs

<table>
<thead>
<tr>
<th></th>
<th>Banks (USD)</th>
<th>MFIs (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acleda</td>
<td>FTB</td>
</tr>
<tr>
<td>Micro loan</td>
<td>Less than 10,000^{(1)}</td>
<td>–</td>
</tr>
<tr>
<td>Small loan</td>
<td>10,000 – 50,000</td>
<td>Less than 10,000</td>
</tr>
<tr>
<td>Medium loan</td>
<td>50,001 to one million</td>
<td>10,000 to 100,000</td>
</tr>
<tr>
<td>Corporate loan/Big ticket loan^{60}</td>
<td>100,001 to one million</td>
<td>200,001 to one million</td>
</tr>
</tbody>
</table>

*Source:* Interviews and respective websites

*Note:* (1) Acleda’s micro loan is an individual loan. For group loan (a group of between two and ten people), the loan size is up to USD 2,500.

According to interviews with banks, lending to MSMEs, measuring by loan size, represents around half of the total loan amounts. For instance, Acleda’ small loan, including business and non-business purpose, in 2017 accounted for 46 per cent of total loan amounts and women borrowers accounted for 60 to 70 per cent of total small loans. Although loan amounts for micro and small loans were smaller than corporate loans, micro and small loan clients outnumbered corporate ones.

Lending from MFIs mainly goes to micro and small loans; however, SME business loans amounted to only around 5 per cent and 25 per cent of total loan amounts. Lending to small businesses from the interviewed MFIs have increased over the past few years in both values and client numbers. For instance, LOLC’s SME business loans grew significantly to around 12 per cent in 2017 to and 21 per cent in 2019 (LOLC, 2020). In absolute terms, there were an increase in the number of SME clients over the past five years (2015 -2019 among the interviewed MFIs.

The majority of MFI borrowers are women, who represent around 60 per cent of the total borrowers for SME business loans. In order to attract and support clients, some MFIs provide

^{60} “Big ticket loan” is the term used by MFIs.
supporting services including agriculture trainings, financial literacy courses, and advice on business environment risks during the loan assessment process. Moreover, banks also provide the supporting services to women to bridge financial and business knowledge gaps; for instance, Bred Bank has offered business skills and networking opportunities to women entrepreneurs under its Shine Initiative Project.⁶¹ Although financial literacy has been offered mostly by some MFIs, financial literacy trainings were reported to have not had a significant positive impact on clients’ business growth and sustainability, as the participants tend not to be the direct clients as they are busy with the daily income generation activities, but often elderly relatives of borrowers, many of whom do not have a clear understanding of what the training is about. Table 9 shows the share of MSME loans of selected MFIs.

Table 9
Share of MSME/Business Loans of Selected MFIs in 2019

<table>
<thead>
<tr>
<th>MFIs</th>
<th>MSME Loan (USD Million)</th>
<th>MSME Clients (in Number)</th>
<th>Share of MSME Loans to Total Loans</th>
<th>Share of MSME Clients to Total Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRASAC ¹</td>
<td>2,500</td>
<td>409,021</td>
<td>99.9 per cent ²</td>
<td>98.08 per cent</td>
</tr>
<tr>
<td>AMRET ¹</td>
<td>228.32</td>
<td>40,718</td>
<td>23 per cent</td>
<td>13 per cent</td>
</tr>
<tr>
<td>LOLC</td>
<td>164.64</td>
<td>12,278</td>
<td>21.3 per cent</td>
<td>3.6 per cent</td>
</tr>
</tbody>
</table>

Notes: ¹ Including micro loans
² MSME loan is a product. The PRASAC figures for MSME loans include loans for both business and non-business purposes.

The interest rate of banks is slightly lower than that of MFIs, which charge a maximum of 18 per cent per year. SME business loans have higher interest rates than corporate loans because large enterprises tend to generate higher profits with a more stable income than MSMEs. However, while banks charge only slightly more interest for SME loans than for corporate loans, MFI rates for SME business loans are between 2.4 and 6 percentage points higher than for the so-called “big ticket loans”. The loan maturity period for MFIs is up to five years, whereas it varies among banks depending on the product types and loan purpose (working capital or investment), and peaks at ten years. Moreover, there is not much difference in lending requirements between banks and MFIs, both of which analyze credit based on the 5Cs (collateral, capacity, condition, character, and capital). The main criteria for credit assessment are the collateral, business potential, and profitable sales that can generate a stable income.

In Cambodia, the critical challenge for inclusive access to finance is collateral. FIs accept only fixed assets as collateral and moveable assets are not generally accepted. So far, only Canada Bank and Acleda Bank accept moveable assets (10-20 per cent of the total collateral value), and this is only for large enterprises in the rice milling and/or trading sectors. Likewise, only a few MFIs such as Amret and Prasac, also accept moveable assets (car and motorcycle) as the collateral. Given the conflict between secured transactions and civil code laws, the majority of FIs are reluctant to work with moveable assets. However, some MFIs do not require collateral for micro loans for a loan threshold less than USD 3,500, though the exact amount varies from MFI to MFI.

In addition, invoices or receivable discounting is also implemented by a few FIs. Invoices or receivable discounting is likely to be more successful with large enterprises than MSMEs, which have lower invoice values and limited knowledge about the process. Canada Bank offers a Build Receivable Discount for its existing large enterprise clients in the retail trade and other potential

sectors. Also, invoice discounting has been offered by an MFI; however, there has been no demand for such the product since its introduction, because of the complicated procedure and novel concept for MSMEs.

**Case 1: Canadia’s Build Receivable Discount and Special Package for SMEs**

Canadia Bank purchases the invoices or account receivables from its clients with the maturity of 1 year. Build Receivable Discount offers to clients in the retail trade and potential sectors who have the good credit histories and offers lower interest rate than the standard rate. The loan amount is provided up to 90 percent of the invoice values.

In mid-2018, Canadia launched the Special Package for SMEs with its own budget of USD 150 million, aiming at promoting financial access to SMEs in Cambodia. Lending under this pilot program targets SMEs who are in needs of the working capital. The maximum loan size is USD 200,000 with the interest rate of 8.88 percent for US currency and 7.88 percent for Khmer currency, Riel, and the maturity of 5 years. However, loans are collateralized with real estate properties.

*Source: Interview with the representative of Canadia Bank.*

**Case 2: MFI’s Invoice Discounting**

In addition to the collateral-based micro and SME loans, ABC Microfinance has introduced invoice discounting since 2011 to its existing clients with good track record of credit history to finance their working capital and cash flow before their customers have paid. To use this product, the clients need to be a legally registered enterprise, have a proper invoicing system and register their customers with MFI. With the invoice to the registered customers, it will process the loan to the enterprise of amount up to 70 percent of the sales invoices with a maximum amount of USD 50,000 at annual interest rate of 15.60 percent to 18 percent and loan term of up to 90 days.

However, there is no demand for this short-term credit product since its first introduction. The concept of invoice financing is very new in Cambodia, and the knowledge of MSMEs in the rural areas is limited. In addition, they tend not to borrow in small chunks of amount with multiple application papers, and they prefer less complicated process of having bigger loan sizes. What is more, MSMEs do not have proper bookkeeping and financial statements, which challenge the business verification process.

*Source: Interview with representative of MFI.*

Although the guarantee scheme, or risk sharing, has not been popular in Cambodia, a few FIs have implemented it in partnership with development organizations and/or equipment suppliers. As illustrated in Part 3 above, the FTB received the credit line and risk sharing from the AFD for lending to the rural water supply and rural electrification. LOLC also received a credit line and risk sharing mechanism from USAID-DCA for lending to the agriculture value chain. Since early 2018, one MFI has also worked on the credit guarantee scheme in partnership with the agriculture equipment (tractor) manufacturer, which shares the risk of loan default. The MFI is responsible for financially backing tractor users when distributors/dealers require deposits prior to borrowing.

In Cambodia, some FIs use FinTech to manage customers, deposits, loans, accounting and reports, and use data points to assess borrowers’ credit health. In 2018, a commercial bank partnered with

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62 Interviews with the representatives of Canadia Bank and MFI.
a FinTech company to implement digitized credit assessments based on the alternative data points for non-collateralized SME loans. According to the interview with a FinTech company, FIs hesitate to implement the digitalized credit assessment as they perceived that it may be difficult to oversee or manage the credit risk. Moreover, MSMEs are often reluctant to use this type of Fintech system because of a perceived insecurity in data management.63

Meanwhile, the presence of financial leasing services can ease SME access to finance; however, the majority focus on consumer goods and only a few companies provide the much-needed leasing services for agricultural machinery such as tractors.

In Cambodia, large enterprises are able to access credit from financial institutions as they have fixed assets and moveable assets (inventory) as the collateral. Similarly, micro and small enterprises can access a range of financial sources, including both formal (MFIs, financial lease, and/or licensed rural credit institutions) and informal mechanisms (moneylenders, saving groups and/or agriculture cooperatives). As some MFIs provide unsecured for micro loans (a loan threshold less than USD 3,500, though the exact amount varies from MFI to MFI), micro entrepreneurs can easily access MFI loans as long as they have the identification cards and a stable income. However, there is “missing middle” financing in Cambodia. Medium-sized enterprises find it hard to access to FI loans given the absence of sufficient collateral. In other cases, the collateral was already deposited to secure the initial funding and they are unable to access further working or investment capital to expand their companies. In Cambodia, the loan amount offered by banks is worth between 50 per cent of 70 per cent of the market value of collateral.

There are very few financial products specifically designed for women; however, most micro and small loan clients for banks and financial institutions are women. Women play a significant role in the microfinance sector as the majority of customers — more than 70 per cent — are women. However, the loan amounts obtained by women are generally less than that of men. In recognition of the important role that women play in business development, the Overseas Private Investment Cooperation (OPIC), along with Goldman Sachs 10,000 Women, and International Finance Corporation (IFC), have contributed USD 70 million to Acleda Bank for loans to women-owned SMEs.64 However, loans under this scheme do not provide any favourable conditions or terms specifically geared towards women. In addition, LOLC has worked with SHE Investments, a women-oriented business development service (BDS) provider, to create a non-collateralized micro lending product for women entrepreneurs (loan sizes range between USD 1,000 and USD 3,000) with a 100-per cent credit guarantee. However, only two to three loans have so far been disbursed by the end of 2018.65 Table 10 shows information on conditions of loans by banks and MFIs to firms of different sizes.

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63 Interviews with MSMEs.
65 Interview with the representative of LOLC.
**Table 10
Interest Rate, Maturity and Lending Requirements**

<table>
<thead>
<tr>
<th></th>
<th>Banks</th>
<th>MFIs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Maturity</td>
<td>Annual Interest Rate</td>
</tr>
<tr>
<td>Micro loan</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small loan</td>
<td>Up to 6 years or 10 years</td>
<td>10 – 12 per cent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium loan</td>
<td>Up 10 years</td>
<td>8 – 10 per cent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Interviews with banks and MFIs.*
Banks and MFIs: Reaching Up, Reaching Down

In Cambodia, there are no regulations in place to control on-lending among FIs; however, the NBC has encouraged the practice as a means to increase available capital for loans. On-lending from banks to MFIs is one of the mechanisms through which banks have reached down to micro and small enterprises that would otherwise be out of their orbit. In addition, some banks have bought shares in or own MFIs in order to capitalize on MFI networks or branches to expand their reach. Foreign financial institutions have also taken over some MFIs, which increases their investment capital for loans to promising small and medium enterprises.

In addition, some banks and MFIs have partnered with digital financial providers to reach out to underserved and unserved segments of the population in rural areas. For instance, the partnership between banks/MFIs and Wing, a pioneer of digital finance in Cambodia, provides mobile banking payment services to clients to reduce transaction times and save costs. The MFI, for instance AMK, has also introduced mobile banking services to widen access to its financial services to rural areas.

Agent and Correspondent Banking

In practice, banks do not have agent or correspondent banking in both urban and rural areas. MFIs have developed their networks in the provinces by having agents or correspondents to reach out to more clients in the absence of their branches or offices. MFIs also have credit officers, in addition to agents and correspondents, who conduct home visits to clients to encourage them to stay on track for repayments.

Business Membership Organizations

Many business membership organizations (BMOs) support MSMEs in Cambodia, but they tend to have limited geographical reach as they are concentrated in Phnom Penh with locations in only a few provinces. There are hundreds of BMOs operating in Cambodia; however, the study examines only six BMOs with a membership base of mainly MSMEs, and which are involved directly and indirectly in enhancing financial access for members. These BMOs serve members through the provision of training, networking opportunities, business matching, advocacy, and facilitating financial access. Table 11 below shows their activities to support MSMEs’ access to finance.

Table 11
BMO’s Activities in Promoting Access to Finance

<table>
<thead>
<tr>
<th>No.</th>
<th>Associations</th>
<th>Number of Members</th>
<th>Current Activities in Promoting Access to Finance</th>
</tr>
</thead>
</table>
| 1   | Cambodia Women Entrepreneurs Association (CWEA) | More than 500 (women led MSMEs) | • Provide trainings on finance, taxation, and business management skills to members, who are women-led MSMEs;  
• Invite the representatives of banks and MFIs to talk about financial access and organize workshops on access to finance  
• Facilitate access to finance through sharing financial information with members, linking FIs to MSMEs; and  
• Partner with banks to provide loans to members. |
| 2   | Cambodia Women Business Federation (CWBF) | 110 (women led MSMEs) | • Provide trainings on finance, taxation, and business management skills to members who are women-led MSMEs;  
• Facilitate access to finance through sharing financial information to members |
<table>
<thead>
<tr>
<th></th>
<th>Organization</th>
<th>Membership/Participants</th>
<th>Activities</th>
</tr>
</thead>
</table>
| 3 | Young Entrepreneurs Association of Cambodia (YEAC)                           | More than 200 young entrepreneurs aged below 45 (including members of three provincial chapters) | • Provide trainings on finance and taxation to MSMEs  
• Conduct the MSME workshop in order to identify the financial needs  
• Develop the investment guidebook for two provinces  
• Develop a FinTech mapping report  
• Invite the representatives of banks, MFIs and investment firms to discuss how to access funds  
• Facilitate access to finance through sharing financial information to members, linking Fs and investors to MSMEs, facilitating MSMEs in developing the loan documents, and  
• Partner with Fintech (BanhlJi), and other banks in supporting MSMEs in accessing to finance |
| 4 | Federation of Associations for Small and Medium Enterprises of Cambodia (FASMEC) | 300 MSMEs                                                                               | • Provide trainings on finance and business management skills and taxation to MSMEs  
• Facilitate access to finance through sharing financial information to MSME members; and  
• Link MSMEs to FASME Microfinance, offering special terms and conditions to members |
| 5 | Cambodian Water Supply Association (CWA)                                     | Partnership with World Bank and AFD (Guarantee scheme) to assist members who are small water enterprises (SWEs) in accessing to finance:  
• Organize events to promote the programs;  
• Disseminate information on World Bank’s Access to Finance Program and AFD/FTB’s credit guarantee;  
• With the support from World Bank and AFD, organize business skills and business plan development trainings to members; and  
• Participate in the development of a white paper for the sector in order to attract lending and investment. |
| 6 | Association of Rural Electrification Enterprises (REE)                       | Partnership with AFD to assist rural electrification enterprises (REEs) to access finance  
• Organize events to promote REE programs;  
• Disseminate information on AFD/FTB’s credit guarantee; and  
• With the support from AFD, organize business skill and business plan development trainings for members. |

Source: Interviews.
Demand-side support

As mentioned above, BMOs have directly and indirectly supported MSME members to access finance. Among six BMOs, only Cambodia Water Supply Association (CWA) and the Association of Rural Electrification Enterprises directly help MSMEs access finance through the provision of business plan development trainings and direct assistance with advancing business plans for water supply enterprises and rural electrification enterprises (REEs). Also, CWA, in partnership with the World Bank, supported its members to prepare loan documents and know how to deal with banks. Moreover, all six BMOs offer accounting and finance training and hands-on practice to members. YEAC, in collaboration with Fintech firm Banhji, provided instructions to the provincial MSMEs for them to understand the benefits of financial reports to improve financial access and to know how to write financial reports. Since 2020, it has also assisted MSME members to access to finance under the financial support of Smart Axita’s USD1 million for Covid-19 Relief Fund. Also, CWEA has negotiated with the Bred Bank to create products tailored to women-led MSMEs.

Moreover, SHE Investments — a business accelerator NGO that supports women-led MSMEs in Cambodia — works directly with women entrepreneurs through the provision of training, one-on-one counseling, peer support groups, networking opportunities, mentorship, and incubation programs. In terms of access to finance, under its pilot Micro Financing Program, SHE Investments has partnered with LOLC to develop a new lending product tailored to women-led MSMEs. Under this program, a non-collateralized business loan has been offered to women-led businesses for the purchase of equipment, with a maximum loan size of USD 3,000 and a maturity of two years. Furthermore, SHE Investments also runs the THRIVE Cambodia program, which provides “pay-it-forward financing” for the purchase of production equipment. The loan size is up to USD 100,000 per borrower and borrowers are obliged to repay only 10 per cent of the total loan amount, and the rest is not refunded in cash but “paid forward” to vulnerable communities through trainings and provisions for basic needs.

8. Conclusion and Recommendations

In conclusion, MSMEs play a significant role in promoting Cambodia’s economy. The government has demonstrated a strong commitment to support and promote MSMEs, and MSME access to finance, through many initiatives, including the development of law and regulations, support mechanisms such as the Entrepreneurship Promotion Fund, Skill Development Fund, tax incentives, credit guarantee scheme, and SME bank. Some achievements have been made although the remaining challenges require further attention and solutions, including the enforcement of the Law on Secured Transactions. The main problems for MSMEs’ access to finance are a collateral issue, as FIs mainly accept real estate collateral and high-interest rates. Alternative financing mechanisms such as invoice factoring, small-cap equity market, peer-to-peer lending, crowd-funding, a credit guarantee scheme, venture capital, and private equity and innovation technology like fintech have been implemented to address such challenges. However, the transactions are still minimal and less popular.

67 Interview with the representative of SHE Investments.
**Recommendations**

- Establish an MSME definition that can be used by both the public and private sector.
- Regulate FIs to report to the NBC and CBC on the size of borrowing enterprises and gender of enterprise owners. The data collected will enable the policy makers to develop gender-responsive policies to support MSMEs. More comprehensive reporting will also allow FIs to promote products and services tailored to MSMEs in general and women-led enterprises in particular.
- Strengthen the MSMEs database and records through a system which centralizes the provincial data to the national office.
- Reduce lending solely based on real estate as collateral by:
  - Enhancing the implementation of the Law of Secured Transactions and harmonizing it with the civil code law, allowing lenders to take over the guarantee without having to engage in court action;
  - Strengthening the roles and responsibilities of the Filing Office to monitor asset registration and improving its recording system by incorporating the transaction amount and purposes to capture the size of the registered assets; allowing FIs to easily track the registered assets and ownership transfers; and linking the system to CBC in order for FIs to check the credit histories of borrowers and verify if the secured assets are collateralized by other organizations; and
  - Promoting invoice factoring by developing third party invoice certification; enhancing and developing a FinTech platform for FIs to verify invoice payments, and strengthening MSME capacity to use FinTech.
- Further promote the implementation of the credit guarantee through:
  - Expand and strengthen the government credit guarantee scheme through widely share information to FIs and MSMEs; and
  - Promote and encourage the current implementation of credit guarantee scheme between FIs and enterprises (manufacturing or trading companies) which further provide credit to their enterprise clients or act as the guarantor for their enterprise clients.
- Further promote the use of crowdfunding mechanisms through:
  - Attract the professional or well-known international platform to Cambodia;
  - Educate the potentially local investors on the crowdfunding
  - Allow larger transactions than the current practices (maximum of 4 transactions US$200,000 per year.
- Further increase savings in FIs through the development and implementation of deposit insurance, which lowers the cost of funding and promotes financial access for MSMEs, including women-led enterprises.
- Strengthen the capacity and business performance of MSMEs, particularly women-led enterprises, through financial education and improving their accounting records, and developing and improving financial statements and business plans to ease access to finance. Also, MSMEs should receive technical and business advisory support, including mentoring and coaching, offered by accelerators, business development services, the government, business associations, and/or FIs.
• Enhance investment readiness of MSMEs through building capacity to manage the business and to strengthen the capacity of MSMEs to deal and negotiate with investors.

• Strengthen the ability of FIs to diversify products and services tailored to MSMEs in general as well as women-led enterprises.

• Develop and strengthen coordination agency and/or technical working group on MSME access to finance.

• Develop and enhance the financial information platform to reduce asymmetric information among FIs, VCs, PEs, and MSMEs.

• Promote the use of FinTech for credit assessment and raise awareness of MSMEs on the availability and benefits of FinTech.

• Develop FinTech policies or laws to establish and promote alternative financing mechanisms in the country. Attract more investment to Cambodia from existing or new VCs and PEs through enabling the business environment (ease in doing business) and investment readiness of MSMEs.

The recommendations are classified according to their priority and preferred implementation time in Table 12.
<table>
<thead>
<tr>
<th>Priority</th>
<th>Short-term (1 – 2 years)</th>
<th>Medium-term (3 – 5 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Harmonize MSME definition</td>
<td>• Harmonize secured transactions and civil code laws,</td>
<td></td>
</tr>
<tr>
<td>• Strengthen the MSMEs database and record</td>
<td>• Strengthen the roles and responsibilities of the Filling Office and link its system to CBC</td>
<td></td>
</tr>
<tr>
<td>• Regulate FIs to report to the NBC and CBC on the size of borrowing enterprises and gender of enterprise owners.</td>
<td>• Strengthen coordination agency and technical working group on MSME access to finance</td>
<td></td>
</tr>
<tr>
<td>• Promote invoice factoring through developing a FinTech platform</td>
<td>• Further promote the use of crowdfunding mechanisms through:</td>
<td></td>
</tr>
<tr>
<td>• Strengthen the capacity and business performance of MSMEs, particularly women-led enterprises, through financial education</td>
<td>• Promote invoice factoring through developing third party invoice certification</td>
<td></td>
</tr>
<tr>
<td>• Develop or enhance the financial information platform</td>
<td>• Attract more investment from VCs and PEs</td>
<td></td>
</tr>
<tr>
<td>• Further promote the implementation of the current credit guarantee scheme</td>
<td>• Develop policies or laws to support crowdfunding</td>
<td></td>
</tr>
<tr>
<td>• Strengthen the capacity of FIs to diversify products and services tailored to MSMEs in general as well as women-led enterprises</td>
<td>• Establish and develop deposit insurance in order to promote further local deposits which, in turn, reduce lending rates</td>
<td></td>
</tr>
<tr>
<td>• Promote the use of FinTech for credit assessments and raise MSME awareness of the availability and benefits of FinTech</td>
<td>• Enhance the investment readiness of MSMEs</td>
<td></td>
</tr>
<tr>
<td>• Develop FinTech regulations</td>
<td>• Further promote the implementation of the government credit guarantee and credit guarantee among the private sector</td>
<td></td>
</tr>
<tr>
<td>• Establish a coordination agency and/or technical working group on MSME access to finance</td>
<td>• Establish and develop deposit insurance in order to promote further local deposits which, in turn, reduce lending rates</td>
<td></td>
</tr>
<tr>
<td>• Enhance the investment readiness of MSMEs</td>
<td>• Further promote the use of crowdfunding mechanisms through:</td>
<td></td>
</tr>
<tr>
<td>• Further promote the implementation of the government credit guarantee and credit guarantee among the private sector</td>
<td>• Promote invoice factoring through developing third party invoice certification</td>
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<tr>
<td></td>
<td></td>
<td>• Attract more investment from VCs and PEs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Develop policies or laws to support crowdfunding</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Establish and develop deposit insurance in order to promote further local deposits which, in turn, reduce lending rates</td>
</tr>
</tbody>
</table>
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