



MSMEs Access to Finance in Cambodia



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Objectives of the Study

The overall objective of the study is to conduct the study of MSME, including enterprises-owned by women, financial access in Cambodia. The specific objectives are to:

- Identify the financial constraints for MSMEs and gender gaps in accessing to finance
- Assess financial gaps and mechanisms to fill the gaps
- Analyze how alternative finance helps increase access to finance
- Provide the recommendations

Approaches and Methodologies

- Study Framework: Adopting ESCAP's frame by analyzing MSMEs, including enterprises owned by women, access to finance in Cambodia from 3 perspectives:
 - Enabling environment,
 - Financial access from both demand and supply perspectives, and
 - Recommendations
- Sampling Methods
 - Purposive and snowball sampling methods
- Sample Size: 46 organizations, including government agencies, financial institutions, membership business associations, investment firms, fintech firms, angel investor network, Credit Bureau of Cambodia, MSMEs, and business development service providers

Overview of MSMEs in Cambodia

- Definition of MSMEs

	Micro	Small	Medium	Large
Ministry of Industry and Handicraft (RGC, 2005)				
Number of employees	Less than 10	10 – 50	51 - 100	More than 100
Assets excluding land	Less than US\$50K	US\$50K – 250K	US\$250K– 500K	More than US\$500K
Tax Department of the Ministry of Economy and Finance (RGC, 2018)				
Number of Employees	Less than 10	10 – 50	51 – 100	More than 100
Annual Turnover	Less than US\$62.5	US\$62.5K – 175K	US\$175K – 1M	More than US\$1M

→ FIs define MSMEs based on the loan size.

Overview of MSMEs in Cambodia (1)

- MSMEs play a significant role in Cambodia, accounting for 99% of the total enterprises.
 - Most of businesses are micro enterprises, having less than 10 employees.
 - Around 61% of micro business concentrate on wholesale and retail businesses and motor vehicle/motorcycle repair.
 - Most small businesses are in the transportation and storage (35%), accommodation and food services (30%), and manufacturing (22%).
 - Women-led enterprises represent 60% of total enterprises

Overview of Financial Sector in Cambodia

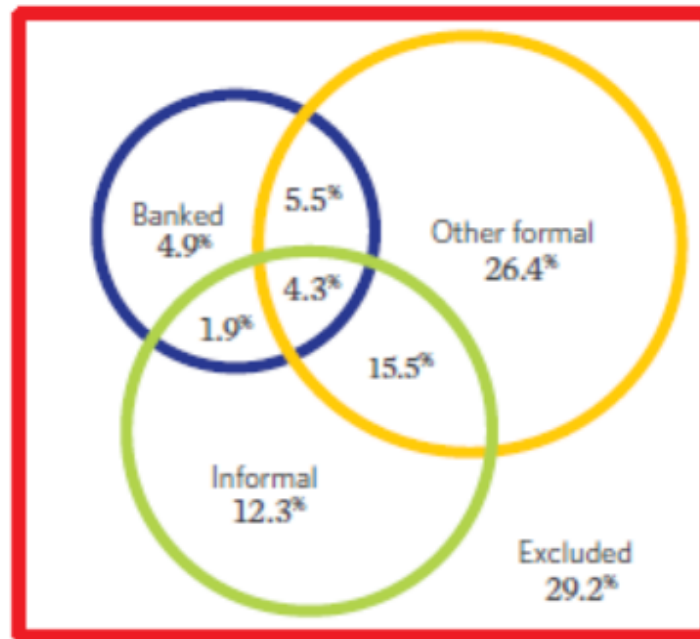
- Number of financial institutions in Cambodia

No.	Institutions	Number
1	Commercial banks	39
2	Specialized banks	15
3	Licensed MFIs (7 deposit taking MFIs)	76
4	Licensed rural credit institutions	313
5	Financial leasing companies	11
6	Third party processors	15
7	Representative Offices	6
8	Credit Bureau	1
9	Money changers	2,476
	Total	2,963

Source: NBC's Annual Report 2017, 2018.

Overview of Financial Sector in Cambodia (1)

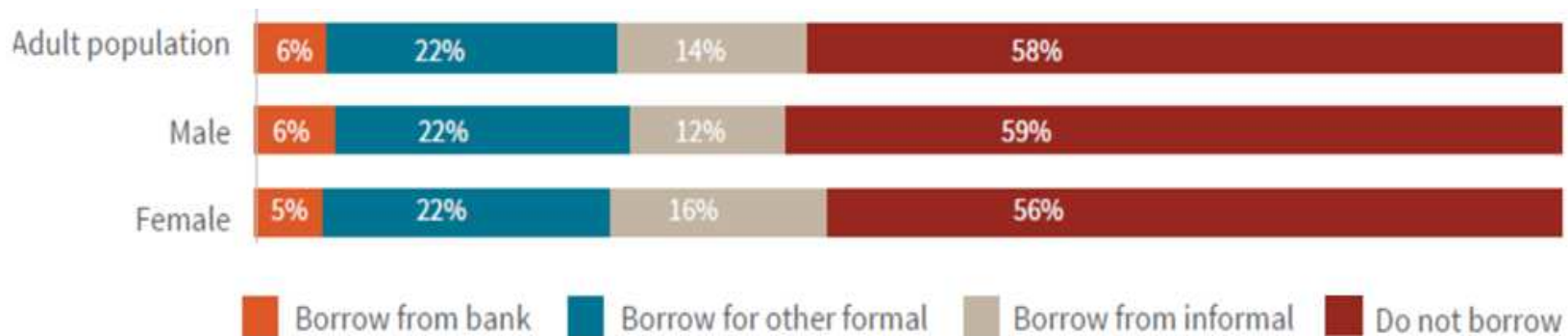
- Financial Access of Cambodians



Source: UNCDF's *FinScope*, 2015, p. 13

Overview of Financial Sector in Cambodia (2)

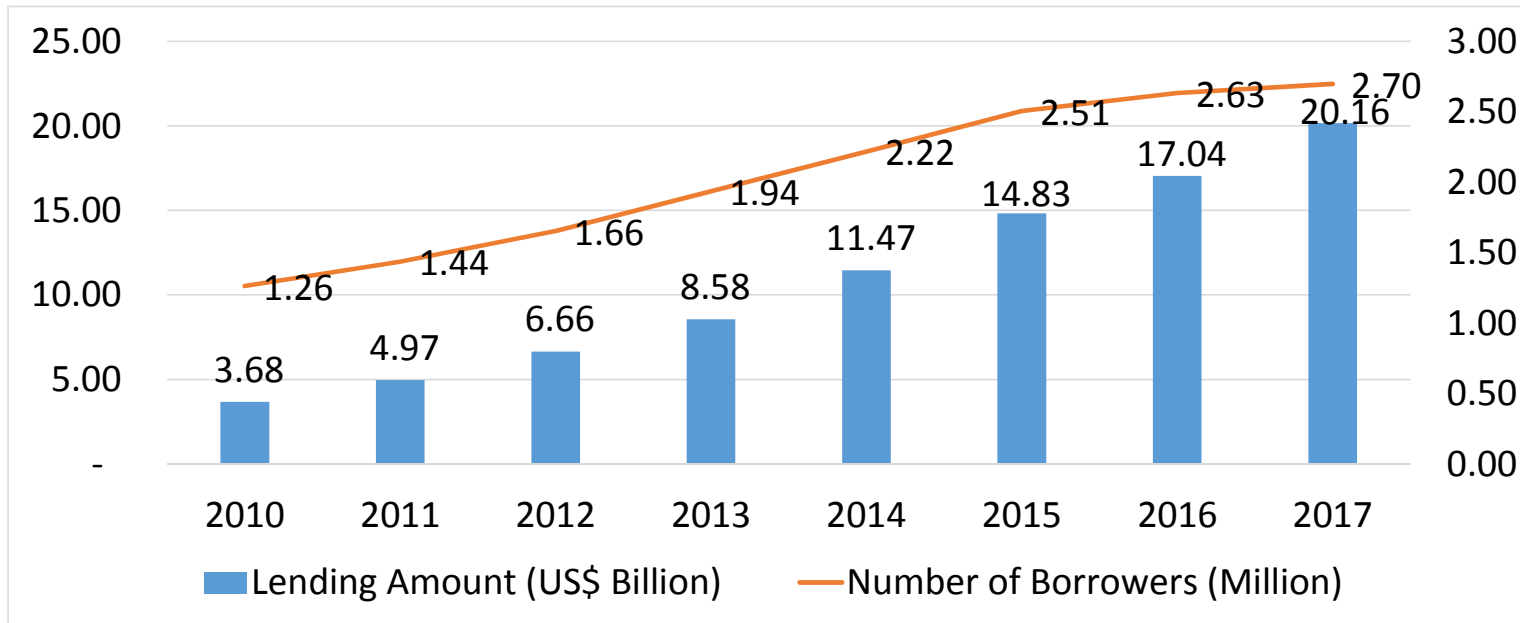
- Gendered Access and Use of Financial Products and Services
 - Access to formal financial services among Cambodian men and women are almost equal. However, there is “a significant gender gap in loans and savings mobilization”.
 - On average, men get larger loans and deposit higher savings amount than women.
 - Women (70%) tend to have more passive saving accounts than men (56%) do.



Source: FinScope UNCDF-MAP Consumer Survey Cambodia 2015

Overview of Financial Sector in Cambodia (3)

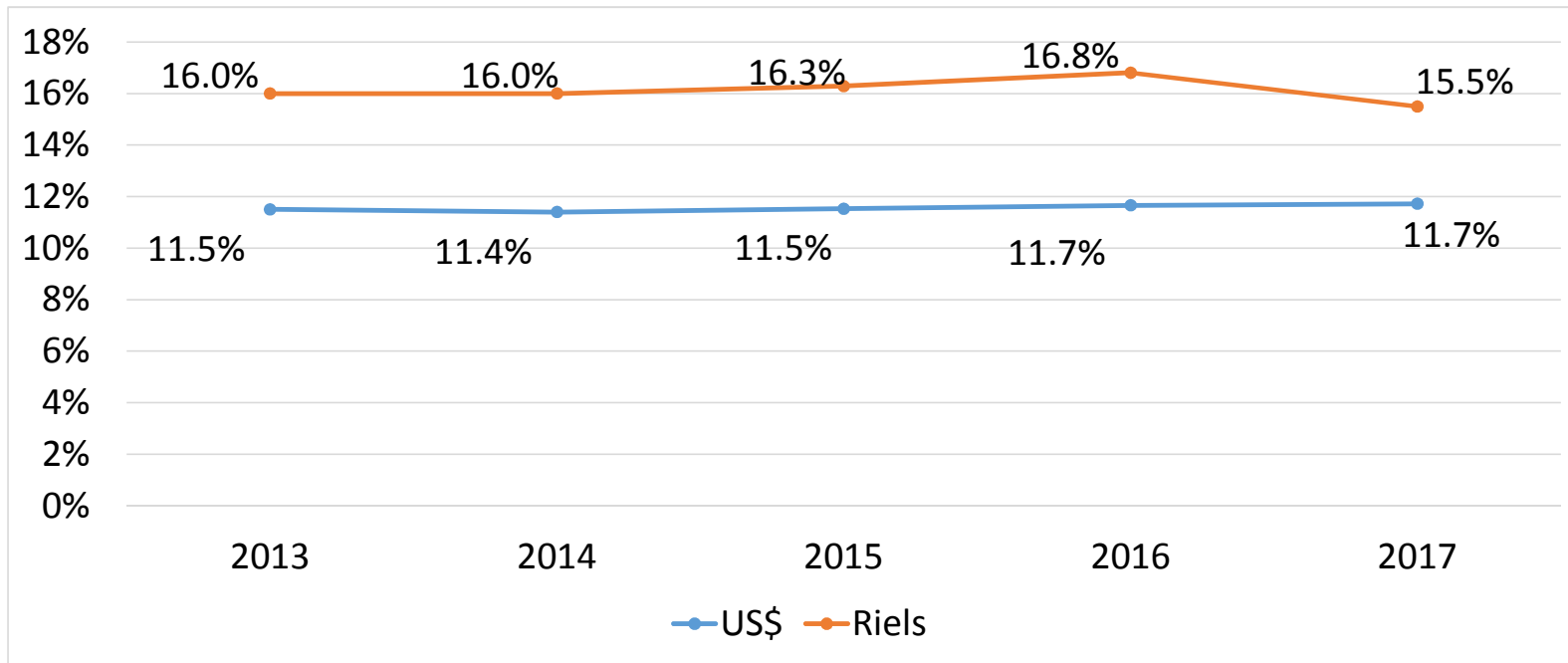
- Lending amount and number of borrowers from 2010 to 2017



Source: NBC's Annual Report 2017, 2018.

Overview of Financial Sector in Cambodia (4)

- Banks' Average Lending Interest Rate



Source: NBC, 2018.

MSMEs' Financial Access

- According to the interviews, banks' small loans (business and other purposes) accounted for almost half of the total lending and MFIs' loans to MSMEs amounted for 5% to 15%.
With these assumptions,
 - MSME business loans from MFIs are estimated to be between US\$216 million and US\$646 million in 2017.
 - Banks' small loans (business and other purposes) are estimated to be around US\$8,534 million in 2017.

Challenges of MSMEs in Access to Finance

- In Cambodia, around 66% of enterprises express that access to finance is the challenge.
 - The main challenge of MSMEs is the access to working capital.
 - Challenges in access to finance for both men and women-owned business:
 - Absence of the collateral or less valuable collateral,
 - High interest rate,
 - Lack of information on sources of finance for both debt and equity financing
 - Informality of the business,
 - Absence of business plan development,
 - Asymmetric information between MSMEs and FIs in the absence of financial statements,
 - Absence or limited financial products tailored to women
- Cambodia is facing the missing middle financing problem.

Laws, Policies, and Regulations

MSMEs Related Policies and Regulations	
Current	Plan
Rectangular Strategy (RS) Small and Medium Enterprise (SME) Development Framework (2005-2010) Industrial Development Policy (2015-2025) Prakas on tax incentives for SMEs Neary Rattanak IV Entrepreneurship Promotion Center TECHO STARTUP Center	Policy on MSME development (Draft) SME Bank
Policies and Regulations for financial sector	
Current	Plan
Financial Sector Development Strategy 2016-2025 Secured Transactions Law Financial Lease Law	National strategy for financial inclusion (Draft)

Credit Assessment

- Credit Bureau of Cambodia (CBC) is a central database of credit information.
 - Enable FIs to share and check the customers' payment and borrowing histories; and
 - Allow customers to check their profiles and file a complaint in case of incorrect credit data recorded.
 - Challenges:
 - Not many customers are aware that they can check their own profile
 - CBC's function is limited as the system is able to record individual loans but not enterprises.
 - Plan
 - Upgrade the system by including the histories of the enterprise borrowers and it is expected to be launched in 2019.
- Fintech: Underutilized

FIs' Lending Models

- Mainly accept the real estate properties as the collateral and moveable assets are not generally accepted.
- Few FIs accept moveable assets:
 - Invoice or account receivable
 - Machinery and inventory (mainly in rice sector)
- Few FIs offer non-collateralized loan
- Guarantee scheme is also implemented by few FIs

Invoice or Account Receivable Discount

- Implemented by few FIs and not many transactions
- Existing clients
- Potential sectors
- More successful in implementing with large enterprises than MSMEs
- Unsuccessful with MSMEs:
 - New concept
 - Limited knowledge of MSMEs on the concept
 - Borrow in small chunks of amount with multiple application papers
 - No proper bookkeeping and financial statements, which challenge the business verification process.
- Challenges
 - Unreliable invoice issuance
 - High risk for FIs

Moveable Assets

- Adoption of the secured transaction law:
 - Allow lenders or lessors to acquire moveable assets as collateral and entitle to take over collateral without having to engage in court action
 - Challenges
 - Contradiction between secured transaction and civil code laws. As a result, FIs are reluctant in accepting the moveable assets.
 - Modification of law: It is required to take court action but through a less complicated and time-consuming procedure.

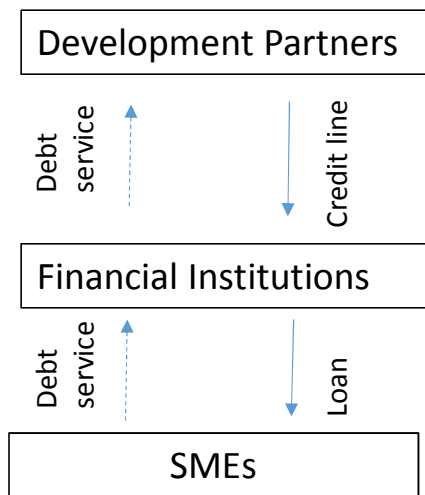
Non-Collateralized Loan

- Good credit clients
- Profitable business
- Existing clients
- Higher interest rate
- Lend based on the business plan or financial statement (Partners or non-partners of fintech firm)
- Not many transactions

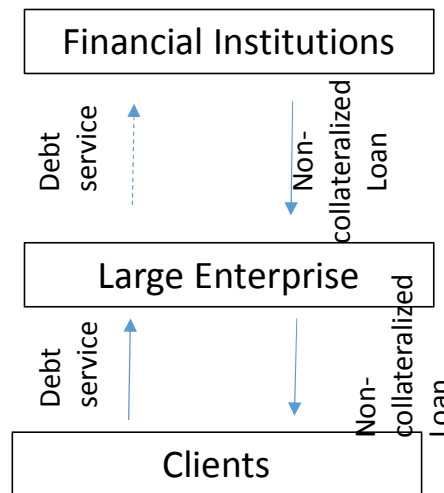
Credit Guarantee Scheme

- Credit Guarantee Modalities

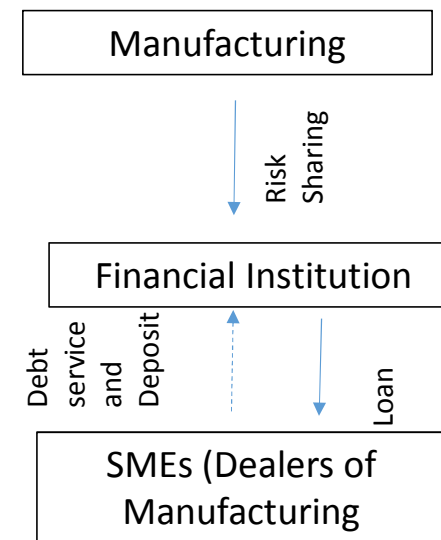
1st Modality



2nd Modality



3rd Modality



Alternative Financing

Equity Fund	Equity Market	➔	5 large companies listed in CSX
	Venture Capital and Private Equity	➔	Around 16 VCs and PEs Invest at the growth stage of businesses and to medium and large enterprises. A few VCs also invest with startups
	Angel Investors	➔	An Angel Investor Network, consisting of 13 angel investors
	Venture Debts	➔	Offered by few VCs

Fintech

Mobile Banking Operators	Credit Assessment and Monitoring	Peer-to-peer platform	Crowd-Funding	Crypto Currency
<ul style="list-style-type: none">• Around 16 providers• Serving 17,5 million people with around 86 million transaction times and around US\$14 million	<ul style="list-style-type: none">• Few firms, offering the core software system, accounting software and digitalized credit assessment	<ul style="list-style-type: none">• 1 structured offline peer-to-peer lending platform• 1 unstructured peer-to-peer lending platform	<ul style="list-style-type: none">• 1 platform -- no longer operated• Another platform may be launched in 2019	<ul style="list-style-type: none">• 5 companies• Not officially recognized by the government

- **Challenges:**

- Lack of trust from MSMEs on the security
- Limited technology knowledge of MSMEs and bank officers
- Limited information on the availability of such Fintech services

Recommendations

- Harmonize MSME definition
- Loan recorded by size of business and by gender should be done. By doing so, data on lending to MSMEs can be captured and more information on the financial needs and gaps of MSMEs are available that are easy for the policy makers in developing the policy to address the needs of MSMEs and FIs to develop the products and services tailored to MSMEs.
- Strengthen MSMEs database and record, having the system which centralizes the provincial data to the national office.
- Filling Office's system (implement the secured transactions law) should records the transaction amount and purposes, allowing the policy makers and other relevant stakeholders to know the size of the registered assets

Recommendations (1)

- Reduce lending based on the real estate as the collateral
 - Harmonize secured transactions and civil code laws, allowing lenders to take over collateral without having to engage in court action and it should be clearly stated that the agreement between lenders and borrowers should be taken place when the loan application is made.
 - Roles and responsibilities of the Filling Office (for the secured transactions law) in monitoring the asset registration should be strengthened and the system should be improved by allowing FIs to easily track the registered assets and track the ownership transfer. Also the system should be linked to CBC in order for FIs to check the credit histories of borrowers and verify if the secured assets are collateralized at other organizations.
 - Promote lending based on invoice and account receivable
 - Regulate the policy which requires FIs to have specific lending rate with moveable assets
 - Partnership among FIs, Fintech, and MSMEs should be made. FIs could access to data points of MSMEs in the Fintech platform in order to verify the invoice payment.
 - Ensure that MSMEs' data are placed at the high security in order to gain trust from MSMEs.
 - Third party to certify invoices on behalf of FIs and MSMEs in order to ensure the risk minimization
 - Promote venture debts through strengthening the capacity of MSMEs and incentives to VC

Recommendations (2)

- Guarantee Scheme
 - Replicate and expand the existing implementation of AFD-FTB to other sectors by seeking support from more development partners
 - Disseminate information to MSMEs on the existence of credit scheme
 - Develop the government credit guarantee scheme and government-back SME Bank should provide on-lending or concessional credit line to banks and MFIs in order to lend to MSMEs
 - Promote the credit guarantee between FIs and enterprises which, in turn, offer on-lending to their supplies or dealers.
 - Lending with moveable assets as the collateral to enterprises
 - Concessional credit line from the development partners or the government to FIs

Recommendations (3)

- Develop the Fintech policy or law and provide incentives to FIs which use Fintech in credit risk assessment
- Develop the policy or law to support crowd-funding as they play an important roles in providing the alternative non-collateralized financing
- Raise awareness of MSMEs and startup on the availability of Fintech and capacity building to MSMEs on how to take the advantage from it.
- Develop or enhance the financial information platform in order to reduce the asymmetric information among FIs, VCs, PEs, MSMEs and startups

Recommendations (4)

- Attract more investment from VCs and PEs (existing or new)
 - Enabling environment (ease in doing business) and investment readiness of MSMEs
 - Promote the quality of VCs and PEs (not many of them have the investment funds but funds are raised after the due diligence with MSMEs is conducted)
- Enhance investment readiness of MSMEs and startups:
 - Strengthen the capacity of MSMEs and startups in order to address to the fund requirements, knowledge to deal with investors and on investors' needs; and
 - Strengthen MSME and startups capacity in business operation and business performance
 - Having proper accounting record or bookkeeping, financial statement, and business plan;
 - Provide business and technical (e.g. agro-processing) advisory and consulting to MSMEs, including mentoring and coaching

Recommendations (4)

- Gender
 - In order to address gender, the policy development should involve the Ministry of Women Affairs (MoWA) and other women business associations during the consultation.
 - Understand the financial needs (amount and type of products) and gaps of women entrepreneurs in order to design the products tailored to them

Thank You!