

# More Financial Services for Small Businesses

## The challenge

Cambodia's financial sector developed dynamically in recent years. Market penetration, which is calculated as loan to GDP ratio grew from a very low 11% in 2005 (around 700 million USD in countrywide loans) to impressive 52% (8.6 billion USD) at the end of 2013. In 2014, Cambodia's National Bank listed 38 licensed microfinance institutions (MFI) and some 20 banks with about 3 million customer accounts and 1.6 million loan clients. Of the latter, more than 95% are clients of microfinance services. Still, demand by micro, small and medium enterprises (SMSEs) as well as low income households is still high and can hardly be met by local MFIs. One challenge is that MFIs have limited access to the international financial market due to rather high country risk and low economies of scale.

## Our approach

KfW Banking Group is a leading partner in financial sector development throughout the globe with more than 8.1 billion USD of ongoing investments. In Cambodia we supported financial sector development on behalf of the German government since 1997. With the professionalization and growth of the sector, we could change our approach from pure grant operations to a more market-based approach and lending.



*Ms. Lay Yen is a micro-entrepreneur. She operates a small bakery and could expand her business through a microfinance loan from AMRET MFI.*

Programme Name	Promotional Loans to Microfinance Institutions, Equity Participation in Microfinance Funds with activities in Cambodia, Grants for vocational training
Commissioned by	German Federal Ministry for Economic Cooperation and Development (BMZ)
Programme Executing Agency	Local Microfinance Institutions: AMRET, ACLEDA, MIFA Debt Fund, and more
Target Group / Output	More than 250,000 small and medium enterprises as well as low income households; strengthening of local MFIs and their staff
Project Region	Countrywide
Duration	2008 – ongoing
Financial Scope	<ul style="list-style-type: none"> <li>- 10 million USD direct lending</li> <li>- 275 million USD equity participation in Microfinance Funds with loan commitments of 121 million USD in Cambodia</li> <li>- 110 million USD lending through private sector arm KfW-DEG</li> </ul>

Today, we provide loans directly to local MFIs and we are equity shareholders in global and regional microfinance funds and holdings which are also active in Cambodia. And KfW-DEG, our subsidiary for private sector development, is focusing on lending to local banks and MFIs in order for them to extend their loan products and other financial services especially with slightly bigger loan amounts to small and medium enterprises. Together, we have committed 241 million USD in loans since 2009. We also provide technical assistance and know-how transfer to strengthen these financial intermediaries, encourage them to lend to MSME as well as to low income households. These partnerships go hand in hand with fostering responsible finance principles in the region and further develop local financial expertise. With grant funds from the German government, we also support the ACLEDA Trainings Center as a regional hub for vocational training in the banking and MFI industry.

### Excuse: The MIFA Debt Fund

The MIFA debt fund is the youngest of the locally active microfinance funds where we are engaged. We have established the fund together with IFC as a flagship project of our joint Microfinance Initiative for Asia in 2012. It has a regional investment focus on Asia with offices in Phnom Penh, Cambodia and Bishkek, Kyrgyzstan.

The establishment of the fund was only possible with budget funds by the European Union and the German government. With these donor funds and our own equity participation we attract new investors in microfinance from international capital markets. This increases funds available to lend to local MFIs and banks. It generates broader impact and ensures long term sustainability for SME growth.

In the two years since the start, the fund already attracted almost 80 million USD. And Cambodia is the No. 1 investment destination of the fund with loans to 6 MFIs, bypassing even India or Indonesia.

### The benefits

In the past villagers depended on informal money lenders, who ask for monthly interest rates of 10% or more. Consequently, supporting MFIs with significantly lower interest rates translate into a long term improvement of livelihoods: with more reliable and affordable access to finance farmers and rural entrepreneurs are able to make investments so that their business can grow.

With 275 million USD of KfW investments in Microfinance Funds



121 million USD were invested in MFIs in Cambodia



So that 250,000 MSMEs and low income households received funding.

In addition, thousands of more rural households and micro-entrepreneurs benefit as clients from our direct cooperation with AMRET MFI. This cooperation is two-fold. On the one side, we are a strategic investor in Advans Holding. Advans Holding is shareholder or in many cases even majority shareholder in MFIs in Asia and Africa and has a significant stake in AMRET as well. On the other hand we directly cooperate with AMRET through the provision of a 10 million USD loan which they use for own microfinance lending activities. AMRET serves more than 100,000 rural people whereas women benefit the most, as they make up about 84% of clients.

Our cooperation and lending programmes go hand in hand with know-how transfer and technical support to our partners in developing financial services further, such as savings products or mobile and branchless banking.

### Success factors

The striking success factor is the impressive increased outreach to micro-entrepreneurs and people with low income. At the same time our partner MFIs show a very high quality of their loan portfolio with only few loans overdue. That is an indicator of their increased professionalism and understanding of the clients businesses. Overtime this reduced and reduces interest rates.

And through our MFI funds we were able to attract new private investors for microfinance in Cambodia.



Signing ceremony of the new cooperation agreement between KfW and AMRET with KfW project manager Mr. Florian Arneht and AMRET's CEO Mr. Chea Phalarin on May 19th in 2014 in Phnom Penh.

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In cooperation with Cambodian Microfinance Institutions and Banks