

More Financial Services for Small Businesses

The Challenge

Cambodia's financial sector has 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 55% (9.2 billion USD) by 2014. In the same year, Cambodia's National Bank listed 38 licensed microfinance institutions (MFIs) 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 (MSMEs) 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.

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	Microfinance Institutions & Banks: AMRET, ACLEDA, MIFA Debt Fund, and others
Target Group / Output	More than 300,000 small and medium enterprises as well as low income households; strengthening of local microfinance institutions and their staff
Project Region	Countrywide
Duration	2009 – ongoing
Financial Scope	<ul style="list-style-type: none"> - 19 million USD direct lending - 275 million USD equity participation in Microfinance Funds with loan commitments of 150 million USD to 10 MFIs in Cambodia - 200 million USD lending through private sector arm KfW-DEG

Today, we provide loans directly to local MFIs and banks with funds from the German government and with own funds. We are equity shareholders in global and regional microfinance funds 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 370 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 MSMEs 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.



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

Excuse: The MIFA Debt Fund

The MIFA debt fund is the youngest of the locally active microfinance funds where we are engaged. We established the fund together with the International Finance Corporation (IFC, World Bank Group) as a flagship project of our joint Microfinance Initiative for Asia in 2013. It has a regional investment focus on Asia, with its head office in Phnom Penh.

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 attracted new investors 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 just three years of operation, it attracted more than 72 million USD from private investors and its total assets have reached 152 million USD until April 2016, far more than its initial target size. Cambodia is the second largest investment destination of the fund.

The Benefits

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

With 275 million USD of KfW investments in Microfinance Funds



150 million USD were invested in MFIs in Cambodia



so that 300,000 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 and ACLEDA Bank Plc. Both financial institutions receive long-term loan funds which they use for own microfinance lending activities. AMRET serves more than 300,000 loan clients in Cambodia whereas women benefit the most, as they make up about 84% of clients. Our cooperation with ACLEDA Bank Plc. dates back to the 1990th. Today we provide regional loan funds so that they can serve their clients in Cambodia as well as in Myanmar and Laos, where ACLEDA Bank Plc. has subsidiaries.

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 impressively 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. Over time this has reduced and still 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 AMRET's CEO, Mr. Chea Phalarin, in 2014 in Phnom Penh.

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In cooperation with Cambodian Microfinance Institutions and Banks