

Project Formulation Study
on
Two-Step-Loan Project for SMEs and Rural Infrastructure
in
the Kingdom of Cambodia

March 2009
Engineering and Consulting Firms Association, Japan
KRI International Corp.



This work was subsidized by Japan Keirin Association
through Promotion funds from KEIRIN RACE

<http://ringring-keirin.jp/>



Project Formulation Study on Two-Step-Loan Project
for SMEs and Rural Infrastructure
in the Kingdom of Cambodia
Study Report

Table of Contents

	Page
1. INTRODUCTION	
1.1 Background	1
1.2 The Objectives of the Study	1
1.3 Study Schedule and Team Member	1
2. SMEs SECTOR	
2.1 Definition of SME	1
2.2 Recent Trend of the SMEs Sector	2
2.3 Salient Features of the SMEs Sector	2
2.4 Donor Assistance	2
2.5 Overview of Visited Sectors	2
2.6 Financial Demand of Manufacturing SMEs	3
3. SMEs IN THE PUBLIC UTILITY SECTOR	
3.1 Water Sector	4
3.2 Electric Power Sector	6
4. FINANCIAL AND BANKING SECTOR	
4.1 Overview of Current Financial Sector	7
4.2 Flow of Funds and the Financial Policy	8
4.3 Banking Sector	9
4.4 Overview of Large 3 Banks and the Largest Specialized Bank	11
4.5 Microfinance Sector	13
4.6 Donor Assistance	13
5. PROPOSED TSL SCHEME FOR CAMBODIA	
5.1 Necessity of TSL	15
5.2 Targeted SMEs and Sectors	15
5.3 Financial Demand of SMEs	15
5.4 Proposed Structure of TSL (including Technical Assistance)	16
5.5 Next Step	17
Appendix-1: Schedule of the Field Study	18
Appendix-2: Outline of Proposed Two-Step Loan	19

1. INTRODUCTION

1.1 Background

The new administration of the Royal Government of Cambodia (RGC), established in 1993 by the first general election, has made continuous effort to formulate market economy structures with a wide range of assistances by Donors. After the Asian financial crisis in 1997, RGC has focused on financial sector reform and has made Cambodia's financial situation stable. Since then, Cambodia has achieved smooth economic growth and during past three years the average growth rate of Cambodia is at a high level of 16%. In this progress RGC has become aware that this strong growth has been derived by Small and Medium Enterprises (SMEs) and SMEs will continuously contribute to further economic growth. RGC has officially announced that RGC will support the SMEs sector further especially by assuring financial source and developing financial scheme for the long-term loan to rehabilitate and expand their equipment along with SMEs' demand.

1.2 The Objective of the Study

The objective of the study is as follows;

- To formulate financial framework of Two- Step Loan (TSL) for the development of SMEs in the manufacturing, water and electricity sectors after reviewing current situation of the SMEs sector and financial sector.

1.3 Study Schedule and Team Member

The field survey of the Study has been undertaken from 13th August to 24th August 2008. The study team visited related government and other offices, such as Ministry of Industry, Mining and Energy (MIME), Ministry of Economy and Finance (MEF), National Bank of Cambodia (NBC), other major banks, 8 SMEs, etc. Detailed study schedule is shown in the appendix 1. The Study Team would like to note with thanks that the Study Team had a great support from Mr. Hiroshi Suzuki, an executive advisory economist of JICA expert scheme, and Mr. Vongsy Sam, an economist for the office of executive advisory economist in MEF, by introducing concerned governmental officials and financial institutions.

The Study Team consists of the following members.

Team Leader / Financial and Utility Management Expert	:	Makoto SUNAGAWA
Financial Sector Expert	:	Hidefumi ASANISHI
SMEs Expert	:	Maiko OHTSURU

2. SMEs SECTOR

2.1 Definition of SME

According to the SME Sub-Committee established by RGC in 2004, SMEs are defined as microenterprises (less than 10 employees), small enterprises (11 to 50 employees) and medium

enterprises (51 to 100) in terms of statistic definition, and microenterprises (less than US\$ 50,000), small enterprises (US\$ 50,000 to US\$ 250,000) and medium enterprises (US\$ 250,000 to US\$ 500,000) in terms of capital definition¹.

2.2 Recent Trend of the SMEs Sector

By a industry wise, SMEs concentrate into the manufacture of food, beverage and tobacco sector (82% in 2006) while the majority of large enterprises concentrate into the textile and wearing apparel sector (concentrate ratio is approximately 80%).

The number of SMEs in the textile and wearing sector was 1,689 in 2006, however, its growth ratio was beyond 4 times compared with 1999. It shows that local SMEs have been fostered, while foreign enterprises have been an only driving force in the sector for a long period.

As newly emerging sectors in SMEs, the Study Team also identifies that the chemical, rubber and plastic products sector shows 1.5 times growth and the fabricated metal products sector shows 2 times growth even though their absolute numbers of SMEs remain in small.

2.3 Salient Features of the SMEs Sector

Three salient features of the sector are indicated as follows;

- Majority of SMEs in the manufacturing sector are microenterprises which operate with less than 10 employees.
- Most of SMEs operate with no license. They do not have approval from the authorities concerned.
- Predominant of SMEs remains at low level of productivity arising from less capacity of both capital equipment and human capital.

2.4 Donor Assistance

Until now many donors, such as ADB, USAID, World Bank, IFC, GTZ, UNIDO, EU, etc., have emphasized its support to SMEs. Particularly ADB has recently increased its assistance in this field. There are two types of supports.

- Supports to RGC itself: Donors focus on capacity development of RGC on good governance and policy making on SMEs development, investment promotion, export facilitation, and institutional development.
- Supports to SMEs directly: Donors directly support the private sector through technical assistances on technical upgrading of SMEs, organization of micro and small enterprises, improvement of business development services and financial access, and so on.

2.5 Overview of Sub-sectors of visited SMEs

During the field survey the study team visited 8 SMEs in several manufacturing and public

¹ RGC Sub-committee on SMEs (2005), Small and Medium Enterprise Development Framework

utilities sectors which were introduced by Canadia Bank and Rural Development Bank (RDB) to understand current situation and investment trend of the sectors.

Salient features of these sub-sectors are described as follows,

- **Manufacture of Food, Beverage and Tobacco Sector:** In this sub-sector, rice milling is the most predominant business that has 23,103 SMEs and employs total 47,887 workers.

Table 1 List of Visited SMEs

No.	Sub-Sector	Sector	Location
1	Rice Mill	Manufacture of Food, Beverage and Tobacco	Battambang
2	Mize Production		Banteay Meanchey
3	Pure Drinking Water and Ice Production		Phnom Penh
4	Fish Source		Phnom Penh
5	Agricultural Equipment Production and Repairing	Manufacture of Fabricated Metal Products, Machinery and Equipment	Kampong Chhang
6	Clay Brick	Manufacture of Non-Metallic Mineral Products, except Production of Petroleum and Coal	Kandal
7	Electric Power Supply	Energy	Kampong Chhang
8	Clean Water Supply	Water	Kandal

Source: Study Team

Most of them are microenterprises, but it is noteworthy that 70% of them operate with license. As far as maize sector concern, absolute number of maize processing SMEs does not reach to the number of rice mills, its growth in production is remarkable with six times increase in past decade.

- **Manufacture of Fabricated Metal Products, Machinery and Equipment Sector:** 466 SMEs in car repairing business and 402 SMEs in other fabricated metal production out of 2,380 SMEs of the sector. Demand for purchasing and repairing agricultural equipment and machinery is robust as agriculture sector has steadily grown.
- **Manufacture of Non-Metallic Mineral Products, except Production of Petroleum and Coal Sector:** There are 430 SMEs produce clay bricks out of 797 SMEs in this sub-sector. Compared with other sub-sector, enterprise size is relatively larger and its average number of labour is 16. Over 95% of them have license.

2.6 Financial Demand of Manufacturing SMEs

In the preliminary field survey it is found that SMEs in the manufacturing sector in Cambodia suffer from quite low level of productive facilities compared with surrounding countries. It affects their low productivity. On the other hand, demand for manufactured products is markedly increasing these years, especially for agricultural, food and beverage processing products, construction materials, and textile and garment products. Additionally robust demand for equipment necessary for production is noticeable.

Under these circumstances, most of SMEs strongly expect to increase their capital investment.

The Study Team tried to calculate their financial demand from the tendency of recent capital investment and the interviews of SMEs made during the field survey. An assumed amount of financial demand by SMEs in the concerned 6 sub-sectors is calculated as roughly US\$ 12.3 million which is shown as sub-sectors' examples to total financial demand of the manufacturing sector (Table 2).

Table 2 Trial Calculation for Financial Demand

Sub-sectors	Financial Demand (US\$)	No. of Projects	Sub-total (US\$)
Manufacture of food, beverage and tobacco			
- Rice mill	150,000	30	4,500,000
- Maize	400,000	5	1,000,000
- Others (fish source, ice, etc.)	200,000	20	4,000,000
Manufacture of non-metallic mineral product except product of petroleum and coal			
- Clay brick	120,000	15	1,800,000
Manufacture of fabricated metal products			
- Agriculture equipment and repairing	50,000	20	1,000,000
Total			12,300,000

Source: Study Team

3. SMEs IN THE PUBLIC UTILITY SECTOR

3.1 Water Sector

Overview of the Sector

Purified water system in Cambodia has been ravaged by the prolonged civil war. After the middle of 1990s, Japan and other donors have firstly started to support the water sector development by rehabilitating and expanding water facilities in major urban areas like Phnom Penh. As an outcome of these supports, water accesses in major urban areas have been significantly improved (60% in 1998, 72 % in 2004).

On the other hand, water conditions in rural areas have been remained at low level of water access (24% in 1998, 39.6 % in 2004). Moreover, if the situation of piped network improves water safely than other source such as deep well, dug well, rainwater and water vender, it spreads to urban areas as 37.4 %, while rural area as only 3.3 %. That is to say, rural areas in Cambodia require further improvement to access safe water.

SMEs in the Sector

From the middle of 1990s, private water supply enterprises have started to provide clean water in rural areas where necessary infrastructure has not been developed. These private enterprises are counted up to around 300 and 68 of them have licenses to operate. Majority of them are small and micro enterprises who cover 200 households in the villages. Around 60 enterprises are medium size enterprises provide clean water to 300 to 600 households. In total, more than 90 % of them are SMEs.

Government Policy

RGC sets a focus on urban areas with high density of population first and requests to Donors to make direct assistance. On the other hand, for middle and small size towns and villages in rural areas, RGC encourages private sector to supply safe water. In Urban Water Strategic Framework (2004) prepared by the water department of MIME with assistance of World Bank. RGC clearly indicates that private sector involvement in purified water sector would be highly encouraged to ensure necessary investment in the sector.

Donor Assistance

Donors began in earnest to support water sector in Cambodia since the middle of 1990s. Donor assistances in this sector are categorized in three tiers by the population of targeted areas.

- Urban areas: In 1990s, as the first stage, World Bank and Japan concentrated to improve Penom Penh water system. In the middle of 2003, ADB conducted the Rural Water Supply and Sanitation Improvement Projects targeting eight provincial capitals and 5 provinces around Tonle Sap Lake. In 2006, Japan also extended its grant to Siem Reap.
- Middle and small towns: World Bank launched the Urban and Peri-Urban Water Supply and Sanitation Project in 2004 to encourage private SMEs to enter water business. This project supported private water suppliers in middle and small towns to increase their supply capacity by installing new facilities through the design-build-lease (DBL) scheme or the combination of design-build-operate (DBO) and the output-based -aid (OBA) scheme².
- Communes: AFD implemented the Small-scale Piped Water System Project by public-private partnership in 2001. This project conducted 14 sub-projects in small communes in Takeo province by 2005. The target size of subsidized piped water systems in this project was rather small which construction cost assumed less than US\$ 20,000.

Financial Demand of Water SMEs

As above mentioned, there are 68 licensed SMEs which provide clean water privately. Their targeted areas are relatively larger with 500 to 1,000 household. As a rule to give a license in SMEs in the water sector, MIME sets a standard for capital investment for SMEs from US\$ 350 to US\$ 500 per household as a cost for installing water purification and piped system.

Here it is assumed that each licensed 60 SMEs will invest average US\$ 500 to install their water system for middle size towns with average 500 household, and ask loans for 80% of total investment cost. Then financial demand of the water sector can be estimated as follows;

² DBL is the scheme that private sector shall design and construct the facility and operate this as lease from public sector based on the plan by public sector. DBO is the scheme that private sector contract, own and operate the facility based on the plan and design by public sector. Responsibility for the facility design shall be taken by private sector. OBA is a performance based subsidy for the project cost linked to the number of connection to poor households.

$$60 \text{ SMEs} \times 500 \text{ household} \times \text{US\$ } 500 \times 0.8 = \text{US\$ } 12,000,000$$

3.2 Electric Power Sector

Overview of the Sector

Similar to the water sector, the electric power sector in Cambodia were damaged during war. After the war, RGC has emphasized its effort to increase the capacity of electricity supply and achieved 253MW in the end of 2006. This capacity is, however, only able to cover the demand of Phnom Penh and surrounding area through the only one existing grid (South Grid) so far. It is a serious issue to cover remaining off-grid areas where currently covered partly by private rural electricity enterprise (REEs). Statistically electrification ratio by national grid is not more than 15.3% throughout the country. On the other hand, only 5% of off-grid area can access to electric power by REEs provision of electricity. Remaining around 80% is facing their life without electricity.

Government Policy

RGC plans electrification at step by step basis in the Power System Development Plan 2007-2010 starting from the south grid which covers Phnom Penh, Kanda, Kampong Speu, Takeo, Kampot and Sihanoukville. The eastern zone (Banteay Meanchey, Battambang and Siem Reap) and the north-eastern zone (Kampong Cham and Steung Traing) are also planned afterwards. Overall goal of electrification by transmission grid is to cover 70% of population even by year 2030. It means it is not realistic to entirely cover the nation only by transmission grid in Cambodia by itself.

As a supplemental measure to promote rural electrification by private sector, RGC established the Rural Electrification Fund (REF) in 2004 supported by World Bank and ADB. REF incentives private enterprises to establish payable price system depend on purpose base, to pursue further rural electrification, and to encourage usage of renewable energy.

Rural Electricity Enterprises (REEs)

Electricity in many medium scale towns in rural areas has been supplied by SMEs, so called Rural Electricity Enterprises (REEs). Most of them are micro and small enterprises with less than 10 employees. To provide electricity in rural areas, REEs mainly use their own diesel power generation system and supply electricity through own distribution network. Since electricity demand has grown steadily, REEs expect to install new facilities and require existed facilities if they can access to finance.

Financial Demand of REEs

Financial demand by REEs to upgrade and expand facilities for electricity generation, transmission and distribution is quite high in Cambodia. One of the visited REE invested US\$ 40,000 for installing new facilities to supply electricity to a 500 household town.

Here the Study Team assumes that 1/3 of all REEs (in total 220) need US\$ 50,000 per project for equipment investment covers 500 to 1000 household and ask loans for 60% of total investment

cost. Then financial demand of the electric power sector can be estimated as follows;

$$(220 \times 1/3) \text{ SMEs} \times \text{US\$ } 50,000 \times 0.6 = \text{US\$ } 2,200,000$$

4. FINANCIAL AND BANKING SECTOR

4.1 Overview of Current Financial Sector

Background

After its establishment in 1993, RGC stepped forward into the transition to market economy with the assistance of Donors. As the first stage of financial sector enhancement in 1991, separation of commercial banking function from the National Bank of Cambodia (NBC) which was the sole bank in the country at that time led to incorporation of several new commercial banks. By 1994, a total of 30 commercial banks of either foreign or domestic investment had entered into operation. The growth of these banks was gradual, and the total amount of individual deposits did not grow as much as expected mainly because Cambodia used to rely heavily on the informal banking as a traditional habit.

The 1997 Asian Financial Crisis had a negative impact on the Cambodian economy, which drove many banks there into bankruptcy. It urged the government to take measures to reinforce financial institutions, and to amend the Law in Banking and Financial Institutions (Banking Law) with the contents including the raised minimum capital amount. NBC attempted to reform the banking sector with the assistance of IMF, including reorganization and financial reinforcement of the banks. It drastically improved the safety of financial institutions. The capital requirement jumped up recently in accordance with the booming economy, while fund raising was also accelerated successfully due to, but not limited to, increased deposit interest rates. This seemingly resulted in the non-performance loan (NPL) ratio of 3.4% at the end of 2007 improved from 9.5% at the end of 2006.

Financial structure

Cambodian formal financial institutions under NBC control at the end of 2007 include 17 commercial banks, 7 specialized banks, and 16 microfinance institutions (MFIs). While all of them operate both credit and debt³ activities (i.e., both provision and acceptance of credit) based on the Banking Law, their main differences lie in the minimum capital amount and the reserve deposit with the central bank and the lending regulations. The most significant among all is the minimum capital amount; KHR 50 billion for the commercial banks; KHR 10 billion for the special banks; KHR 250 million for the MFIs. They are all controlled by the NBC in accordance with the above regulations. It is therefore judged that the governmental supervision of the three sorts of financial institution seemingly aims at converting funds remaining in the informal sectors into those in the formal sectors.

³ Banking activities by definition generally consist of both (i) providing credit in the forms of loan, guarantee, etc and (ii) receiving credit in the forms of deposit, debenture, etc. In this report, the bank “credit” side means the former (i) and the bank “debt” side refers to the latter (ii).

On the other hand, a securities market had long been undeveloped in the absence of interest of domestic firms. At present, however, there is a growing expectation for opening a securities market. The government officially announced that it would be opened in 2009.

4.2 Flow of Funds and the Financial Policy

Historical change in the flow of funds

The amount of total assets of formal financial sectors can be an indicator of money flows in the market. The aggregated total assets of the 17 commercial banks and the 7 specialized banks at the end of 2007 was KHR 14.4 trillion, 3.5 times as much as those in 2004 (KHR 3.8 trillion). Compared with the GDP growth rate for the same period of 80.9%, the growth rate of the total assets was overwhelmingly higher. This shows that the banking sector pushes up the national economic growth, and that the funds concealed in the informal sectors has come to flow into the formal sectors as a consequence of the rise of bank credibility (Table 1).

Table 1 Banks / Comparison of Total Assets (2005 -07)

	(million of KHR)							
	2007		2006		2005		Growth Rate (%)	
	Share (%)	Share (%)	Share (%)	Share (%)	2007 over 2006	2006 over 2005		
Commercial Banks								
1 Cambodian Public Bank	2,260,384	16.8	983,973	12.8	664,892	11.9	229.7	148.0
2 Canadia Bank Plc.	2,242,342	16.7	1,522,579	19.7	1,225,674	22.0	147.3	124.2
3 ANZ Royal Bank (Cambodia) Ltd.	2,241,988	16.7	830,301	10.8	370,364	6.6	270.0	224.2
4 Aceda Bank Plc.	1,899,200	14.1	900,576	11.7	508,287	9.1	210.9	177.2
5 Foreign Trade Bank of Cambodia	882,057	6.6	896,493	11.6	673,701	12.1	98.4	133.1
6 Cambodian Commercial Bank Ltd.	651,741	4.8	519,549	6.7	460,263	8.3	125.4	112.9
7 May Bank Phnom Penh Branch*	579,078	4.3	339,710	4.4	271,471	4.9	170.5	125.1
8 Vattanac Bank Ltd.	525,085	3.9	287,390	3.7	220,643	4.0	182.7	130.3
9 Union Commercial Bank Plc.	484,253	3.6	423,585	5.5	348,780	6.3	114.3	121.4
10 Krung Thai Bank Public Co. Ltd., P.P. Branch*	286,990	2.1	203,423	2.6	203,342	3.7	141.1	100.0
11 Cambodia Mekong Bank Public Ltd.	248,674	1.8	109,339	1.4	88,076	1.6	227.4	124.1
12 First Commercial Bank, Phnom Penh Branch*	239,441	1.8	210,930	2.7	164,916	3.0	113.5	127.9
13 Singapore Banking Corporation	195,825	1.5	150,818	2.0	127,163	2.3	129.8	118.6
14 Advanced Bank of Asia Ltd.	163,154	1.2	111,765	1.4	87,015	1.6	146.0	128.4
15 Shinhan Khmer Bank	146,180	1.1	-	-	-	-	-	-
16 Cambodia Asia Bank Ltd.	129,027	1.0	89,866	1.2	72,187	1.3	143.6	124.5
17 CAMKO Bank Ltd.	94,792	0.7	-	-	-	-	-	-
Sub-total	13,270,211	98.7	7,580,297	98.2	5,486,774	98.5	175.1	138.2
Specialized Banks								
18 Rural Development Bank	73,534	0.5	65,195	0.8	53,703	1.0	112.8	121.4
19 First Investment Specialized Bank	28,623	0.2	26,938	0.3	-	-	106.3	-
20 Specialized Bank Peng Heng S.M.E. Ltd.	20,503	0.2	16,909	0.2	16,167	0.3	121.3	104.6
21 Prosperity Investment Specialized Bank Plc.	18,771	0.1	-	-	-	-	-	-
22 Cambodia Agriculture Industrial Specialized Bank	12,788	0.1	15,684	0.2	12,997	0.2	81.5	120.7
23 Anco Specialized Bank	10,688	0.1	11,030	0.1	-	-	96.9	-
24 Cambodia Development Specialized Bank	9,986	0.1	-	-	-	-	-	-
Sub-total	174,893	1.3	135,756	1.8	82,867	1.5	128.8	163.8
Total	13,445,104		7,716,053		5,569,641		174.2	138.5

Source: National Bank of Cambodia, Annual Report 2007

* Foreign Branches

Note: All figures are unaudited and as reported by banks

The total assets of MFIs have increased, though, at a lower growth rate than the commercial banks. The aggregated total assets of the 17 MFIs at the end of 2007 were KHR 32 billion, a 75.8% increase from KHR 18.2 billion in 2004. The growth after 2005 is at a lower level than that for the period 2002-2004. The funds retained in the MFIs have presumably been flowed into the commercial banks (Table 2).

Table 2 MFIs / Comparison of Total Assets (2007)

	(million of KHR)							
	2007		2006		2005		Growth Rate (%)	
	Amount	Share	Amount	Share	Amount	Share	2007/2006	2006/2005
Microfinance Institutions								
1 AMRET	153,280	21.1	92,388	22.0	62,416	25.2	165.9	148.0
2 PRASAC	148,067	20.3	106,511	25.3	52,176	21.1	139.0	204.1
3 Cambodia Enterprenur Building	95,808	13.2	53,959	12.8	28,205	11.4	177.6	191.3
4 Hattakaksekar	65,590	9.0	26,639	6.3	16,940	6.8	246.2	157.3
5 Thaneakea Phum Cambodia	62,577	8.6	31,218	7.4	21,068	8.5	200.5	148.2
6 Vision Fund Cambodia	54,211	7.4	27,831	6.6	16,973	6.9	194.8	164.0
7 Angkor Microherhvatho Kampuchea	49,318	6.8	25,305	6.0	13,191	5.3	194.9	191.8
8 CREDIT	43,758	6.0	22,628	5.4	12,313	5.0	193.4	183.8
9 SEILANITHIH	15,429	2.1	7,898	1.9	6,594	2.7	195.4	119.8
10 Intean Poalroath Rongroeng	11,855	1.6	8,665	2.1	4,863	2.0	136.8	178.2
11 CHC	7,666	1.1	4,884	1.2	2,354	1.0	157.0	207.5
12 Entean Akpevath Pracheachun	6,790	0.9		0.0		0.0		
13 Farmer Union Development Fund	4,387	0.6	3,936	0.9	2,986	1.2	111.5	131.8
14 Cambodian Business Integrate in Rural Developm	3,941	0.5	3,977	0.9	3,335	1.3	99.1	119.3
15 MAXIMA	3,679	0.5	2,891	0.7	2,001	0.8	127.3	144.5
16 Pisit Akphiwat Sethakech	1,135	0.2	1,560	0.4	1,366	0.6	72.8	114.2
17 Tong Fang Microfinance	504	0.1	602	0.1	662	0.3	83.7	90.9
Total	727,995	100	420,892	100	247,443	100	57.8	170.1
GDP	32,980,000	2.2	29,513,000	1.4	25,350,000	1.0	154.8	146.1

Source: National Bank of Cambodia, Annual Report 2007

* Foreign Branches

Note: All figures are unaudited and as reported by banks

Currency

According to IMF, the US dollar accounts for over 95% of the entire bank credit and debt. KHR deposits are concentrated in Foreign Trade Bank of Cambodia (FTB) for an unknown reason. Currency exchanges seem to be made through informal money changers, authorized but not supervised by NBC. Since the dollarization is said to be caused by the foreign aids that has long been a considerable portion of money circulation, and by major foreign direct investments made by international firms in US dollars, it will continue for the time being.

Financial policy

The anxiety about inflation and bank credibility has been restored, since the financial sectors have made too rapid growth in the past couple of years. IMF executed a special survey focusing on this in August 2007, and concluded that anxieties on either macroeconomic and bank credit were not very serious thanks to the financial reforms made since 2002.

4.3 Banking Sector

Bank capital composition

The banking sector receives abundant foreign capital investment. As few as 4 banks out of the 17 commercial banks were of fully domestic capital, and just 3 others are joint venture of Cambodian capital and foreign⁴. The funding ability of domestic investors is considered to be relatively weak. Foreign investors are Malaysian (in three banks), and Thais, Singaporeans, Taiwanese, Hong Kong, Koreans (in two banks each). The sole international organization investor is IFC which provides both equity and loans to Aceda Bank.

⁴ The nationalities of foreign joint investors of the three banks are Malaysia (UCB), Australia (ANZ Royal Bank), and Germany (Aceda Bank).

In regard to the specialized banks, 4 of them are fully domestically invested, and the three others are also invested majority by domestic capital. This implies the specialized banks were set up for promotion of domestic investment in the banking sector.

RDB, a specialized bank, is fully of governmental capital, while all the others are of private capital and without any limitation in providing loans. It shows that the specialized banks are ranked as the second tier to following the commercial banks of the first tier.

Capital and liability

The own capital ratio of commercial banks is regulated at minimum 10% in Cambodia. In 2007 the top eight banks did not achieved this criterion, while other lower banks and specialized banks held much more than 10% of it ratio (Table 3). This strange situation could be explained by the fact that creditable banks could obtain more deposit but it eventually makes the ratio lower in comparison to less creditable banks.

Table 3 Banks / Share of Paid-up Capital (2007)

	Foreign Share		Cambodian Share		Total Paid-up Capital (A)	(A) / Total Assets (%)	Market Share
	Share (%)	Amount paid	Share (%)	Amount paid			
Commercial Banks							
1 Cambodian Public Bank	100.0	180,135			180,135	8.0	11.9
2 Canadia Bank Plc.			100.0	162,302	162,302	7.2	10.7
3 ANZ Royal Bank (Cambodia) Ltd.	55.0	88,066	45.0	72,054	160,120	7.1	10.5
4 Aceda Bank Plc.	49.0	58,844	51.0	61,246	120,090	6.3	7.9
5 Foreign Trade Bank of Cambodia			100.0	52,039	52,039	5.9	3.4
6 Cambodian Commercial Bank Ltd.	100.0	52,039			52,039	8.0	3.4
7 May Bank Phnom Penh Branch*	100.0	53,640			53,640	9.3	3.5
8 Vattanac Bank Ltd.			100.0	52,039	52,039	9.9	3.4
9 Union Commercial Bank Plc.	47.1	26,701	52.9	29,941	56,642	11.7	3.7
10 Krung Thai Bank Public Co. Ltd., P.P. Branch*	100.0	52,039			52,039	18.1	3.4
11 Cambodia Mekong Bank Public Ltd.			100.0	140,105	140,105	56.3	9.2
12 First Commercial Bank, Phnom Penh Branch*	100.0	52,039			52,039	21.7	3.4
13 Singapore Banking Corporation	100.0	52,039			52,039	26.6	3.4
14 Advanced Bank of Asia Ltd.	100.0	72,054			72,054	44.2	4.7
15 Shinhan Khmer Bank	100.0	52,039			52,039	35.6	3.4
16 Cambodia Asia Bank Ltd.	100.0	52,039			52,039	40.3	3.4
17 CAMKO Bank Ltd.	100.0	52,039			52,039	54.9	3.4
Sub-total		843,713		569,726	1,413,439	10.7	93.0
Specialized Banks							
18 Rural Development Bank			100.0	27,871	27,871	37.9	1.8
19 First Investment Specialized Bank	32.0	4,868	68.0	10,344	15,212	53.1	1.0
20 Specialized Bank Peng Heng S.M.E. Ltd.			100.0	14,011	14,011	68.3	0.9
21 Prosperity Investment Specialized Bank Plc.	10.0	2,002	90.0	18,014	20,016	106.6	1.3
22 Cambodia Agriculture Industrial Specialized Bank			100.0	12,009	12,009	93.9	0.8
23 Anco Specialized Bank			100.0	10,408	10,408	97.4	0.7
24 Cambodia Development Specialized Bank	20.0	2,402	80.0	9,607	12,009	120.3	0.8
Sub-total		4,404		102,264	106,668		7.0
Total		848,117		671,990	1,520,107	11.3	100.0

Source: National Bank of Cambodia, Annual Report 2007

* Foreign Branches

Note: All figures are unaudited and as reported by banks

The debt side is dependent on domestic deposits as a whole. Since depositors concentrate on the banks with larger equity amount, the deposit amount gap has become wider between top and bottom banks.

Loans and the interest rate levels

The rapid growth of financial requirement at borrowers accompanying the recovery of economy

boosts the quantity of bank lending. This tendency is not limited to the urban areas such as Phnom Penh, and the same in the rural areas. This also applies for a wide range of sectors.

Loans are requested for a longer term and by a larger amount, in order to meet the demands of capital investments. The sectors with especially strong demands of long-term funding include agriculture-related manufacturing, food-related manufacturing, and construction materials manufacturing. Furthermore, SMEs in the power and water sectors are facing financial necessity in their capital investment in rural areas.

Profitability and NPLs

In spite of a big difference between loan and deposit interest rates, Cambodian banks in general show lower levels of profitability. The main reason is that they cannot afford lending much, since they are required to make a reserve deposit in a relatively high ratio in order to reinforce their creditability. Banks with much lending tend to pay a higher funding cost since they depend on interbank borrowing.

The averaged return on assets (ROA) of the 17 commercial banks in 2007 was 2.8%, while the averaged return on loans was 6.0%, both at comparatively lower levels. The reasons are presumed to be higher levels of NBC deposit rate and lower levels of loan deposit ratio. The loan deposit ratio in 2007 was 62.9%, a little bettered from 59% in 2005 but still at an absolutely low level.

The return on loan differs greatly from one bank to another. It varies from 0.4% to 16.6%, except two banks which resulted in annual loss. The difference is derived from their credit analysis ability.

Under the strong supervision of NBC, the average NPL ratio of 17 banks in 2007 was 3.5%, which was far improved from 9.6% in the previous year. However, further individual instruction by NBC is needed, since the NPL ratio shows a large variety by banks.

4.4 Overview of Large Three Banks and the Largest Specialized Bank

During this survey, the team visited the following 4 banks, and had interviews with the management of them. The following is an overview of the 4 banks based on their annual reports, other materials, and the interviews.

Canadia Bank

Canadia Bank is the top commercial bank with a 100% Cambodian capital that repatriated emigrants to Canada founded in 1991. It came second to Cambodian Public Bank (CPB) by a slight difference in 2007 in terms of equity and total assets, but still was substantially at the top in terms of profitability, etc. It has 28 branch offices and 36 ATMs, mainly in the Phnom Penh metropolitan area. It has 633 staff members, which is the second to Acleda. The total amount of loans was US\$ 334 million in 2007, 30% of which was provided to the service industry, and the rest to a wide range of industries including wholesalers, retailers, and the industries of real estate, construction, manufacturing and agriculture. It has more corporate borrowers than other banks, which makes the financial results more stable than others.

On the debt side, Canadia Bank which has as much as US\$ 459 million of deposits, consequently, it has a relatively low loan deposit ratio, stable financial results, and a high profit ratio of 4.6% in 2007.

Canadia Bank has constructively utilized IFC and KfW loans in middle- and long-term lending, and their technical assistance as well, which is positively evaluated.

Aclede Bank

Aclede Bank (Association Local Economic Development Agencies) was converted into an authorized commercial bank in 2000, from an MFI founded in 1993. It has 214 branch offices throughout Cambodia, showing overwhelming strength in the rural areas. It opened three branch offices in Laos, as the first Cambodian bank operating abroad.

The equity has been increased in January 2008 and at present is US\$ 50 million, the largest among the Cambodian banks. The shareholder list seems rather unique as a bank: the Aclede NGO and the bank ESOP (Employee Stock Ownership Plan) in aggregate own 51% shares of the bank, while international organizations and donor agencies such as IFC, KfW, FMO⁵ own the remaining 49%.

The lending amount of the bank was US\$ 31.6 million in 2007. Many loans were at a very small amount, with the bank's average loan amount as little as US\$ 2,158, however SME loans had gradually increased to 68.7% of the total lending amount in 2007.

On the debt side, the features consist in its many small depositors and the loans provided by international organizations and governmental institutions of industrialized countries. The bank's profitability is good in general. The business is expected to expand steadily.

ANZ Royal Bank

ANZ Royal Bank is a bank founded jointly by a Cambodian entrepreneur and ANZ Banking Group, the fourth biggest bank group in Australia and New Zealand, in 2005. The initial equity was US\$ 22 million, and was increased to US\$ 40 million in 2007. ANZ owns 55% of its capital and Mr. Meak Okhnha Kith Meng, the Cambodian founder, owns remaining 45%. He was educated in Australia, succeeded in mobile phone, hotel and discotheque businesses after repatriation, and proposed this joint banking business to ANZ. The bank has 20 branch offices, 127 ATMs, and 376 staff members, all of which are relatively small-sized compared with its successful financial results.

Rural Development Bank (RDB, a specialized bank)

RDB was founded as a wholesale bank by 100% government funding for rural agricultural development in 1998. It is the most outstanding specialized bank with the total assets of KHR 72.5 billion at the end of 2007, after several gradual fund increments by capital increases, government loans, grants and loans from international organizations (ADB, etc) and an NGO

⁵ Netherlands Development Finance Company (in Dutch, "Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.")

(KOSAN).

The borrowers are mainly financial institutions including MFIs, credit operators that will re-lend to their customers. In some special projects, the bank provides direct loans to rice mill associations, communities, and SMEs. The major projects include a rubber plantation project in Kompon Cham (loan amount US\$ 1.2 million), a maize production increase in a province along the Thai border (US\$ 1.5 million), and community water system in Takeo (US\$ 50,000), paddy rice project in 9 Western provinces near the Thai border (for rice millers).

It is recommended to take a careful look at financing and credit-screening abilities of RDB. Its loans to other financial institutions are indirect finance, whose risks RDB does not take, and its direct finance to projects are mostly in cooperation with, and with advice by, the donors. Thus, in consideration of the nature of work, it is relatively hard to understand that RDB has its own sufficient capacities to formulate and to screen projects. If RDB is selected as a participant bank in this TSL, it is deemed that considerable scale of technical assistance will be necessary.

The funding cost of RDB is relatively low, since a majority of resources are aid funds from the government and the other agencies, while a little are deposits. The interest rate of the government loan is 3% p.a. Therefore the ROA is 8.7%, and the loan deposit ratio 9.6%, both of which are higher than the average of the commercial banks. The specialized banks as a whole resulted in a loss, since profitability of 4 specialized banks from the second through the fifth are quite low and the last two are in deficit.

4.5 Microfinance Sector

Overview

Cambodian MFIs are developed from the existing informal financial organizations with the assistance of NGOs. Their growth for the past ten years is remarkable. Slightly less than 30% of the entire families in Cambodia (2.7 million) reportedly utilize MFIs. RGC has promoted organizational strengthening of microfinance providers in the informal sector, and assisted their formalization, namely, to be under NBC supervision. It is said that there are about 60 MFIs in Cambodia, of which 26 are registered and furthermore 17 of 26 have been licensed by NBC.

Overview of MFI – a case of Amret

Amret was initially founded to provide microcredit in the name of GRET in 1991, by a French NGO, GRET, starting from solidarity credit, a sort of group lending scheme. Later, it began dealing with other activities including loans to individual borrowers. On the debit side, it has increased equity and funds available by loans from commercial banks from 1999. NBC authorized it as an MFI in 2001. It was renamed as Amret in 2004.

4.6 Donor Assistance

IFC and KfW have extended their loans to the local financial institutions for their projects. ADB provides loans to 7 banks including RDB for small enterprises exclusively in the agricultural sector. The following is the outline of these donor activities.

IFC financial assistance

IFC has provided two loans to Aceda Bank and one to Canadia Bank.

- 1) The first loan to Aceda Bank (agreement signed in May 2004)
IFC provided a loan to assist microfinance and other activities of Aceda Bank. The loans were fully repaid within two years from the beginning (amount: US\$ 6 million, interest rate: 8.40-8.87% per annum, (domestic funding rate plus 1-2%), term: 4 years).
- 2) The second loan to Aceda Bank (signed on 21 May 2006)
This loan was provided for the same purpose as the above first loan. The loan is still under operation (amount: US\$ 5 million, interest rate: 9.0% per annum (domestic funding rate plus 1-2%), term: 4 years).
- 3) The loan to Canadia Bank (signed on 20 September 2004)
This loan was provided to support promotion of real estate loans (long-term mortgage loans). Real estate loans were available so far only in big cities like Phnom Penh, and this loan was designed to accommodate rural borrowers with mortgage loans and to raise the home ownership rate of the middle class (amount: US\$ 2.5 million, interest rate: 6.67-8.67% per annum in 2006, 8.67-9.36% per annum in 2007).

KfW financial assistance

- 1) SME Term Lending I (signed on 23 April 2003)

This is to provide long-term loans to SMEs through Canadia Bank and Aceda Bank. KfW also provided technical assistance to the 2 banks to facilitate them with procedure and credit analysis' know-how.

The government (MEF) borrowed from KfW, and lent to SMEs through the mentioned two banks at a market interest rate. The total assistance amount was €2.5 million (approximately ¥400 million) for the loans and €0.5 million (approximately ¥80 million) for the technical assistance.

- 2) SME Term Lending II (signed on 18 October 2000)

Amount: €1.59 million (approximately ¥260 million) to Canadia Bank, €3.0 million (approximately ¥500 million) to Aceda Bank

On-lending interest rate: 4.34-8.67% per annum in 2006, 5.01%-6.00% in 2007

Sub-loan interest rate: 1% per month (12% per annum) in the case of Canadia Bank

ADB loan for small enterprises in the agriculture sector

In 2001, ADB provided a soft loan (interest rate: 1.0%, term: 24 years) of US\$ 20 million to RDB through way of the government. The loan is for rural minor SMEs, especially in the agricultural sector, which are not accessible to formal financial institutions. The on-lending interest rate was 8-9% per annum, while the sub-loan interest rate was very high at approximately 30% per annum since the implementation of sub-loans was through MFIs.

This loan is exclusive to microfinance. The total of US\$ 3.3 million was credited in the first few years to the agricultural sector such as rice mills, pig farming, poultry farming and retailers. The average sub-loan amount per project was US\$ 195. This loan was, however, suspended in 2005, for RDB internal monitoring and evaluation systems were considered insufficient. It was terminated upon repayment to ADB of the balance of US\$ 15 million at the end of October 2006.

5. PROPOSED TSL SCHEME FOR CAMBODIA

5.1 Necessity of TSL

Cambodian economy has been left from reconstruction and now is obviously at the early stage of growth. The growth is led by SMEs in all the sectors including the public utility works. These SMEs face difficulty in obtaining of financial resources for capital investment. The financial sector, on the other hand, is not able to meet the financial demands fully, even though it admits there is such a strong market. The available long-term fund resources for the banks to make loan to SMEs are only from the funds from IFC and KfW in addition to their own resources derived from their deposit. Under this circumstance, TSL to be provided by JICA for SME promotion will have a great significant impact on Cambodian economy.

5.2 Targeted SMEs and Sectors

MIME defines internally that enterprises with the number of employees below 50 are small enterprises; 50-99 are middle; 100 and more are large. Appropriate selection criteria of SMEs which will be eligible to receive TSL will be in line with the MIME standards, but it will be better to limit the maximum number of employees to 100. The target number of SMEs will probably be round 10,000 excluding microenterprises and large ones.

It will be better to be open to a wide range of sectors except for military industry, real estate industry, and industries against public order and standards of decency. The expected sectors will be rural small-scale water systems and power projects, as well as general manufacturing (agriculture-related, food, construction material, manufacturing and fixing machine, furniture and wood products, in particular).

5.3 Financial Demand of SMEs

The Study Team undertook several interviews with the relevant governmental and public offices and some major banks about the outline of financial demand of SMEs. In addition, the Study Team visited 8 SMEs in various sectors which had been provided long-term loans by Canadia Bank and RDB. Throughout the survey, it was figured out that every corporation had a very strong incentive to invest further and that there were firm demands for funds among them. Since their project costs are usually small, many of them under US\$ 200,000, the debt proportion is only 50% to 80% of the costs. However, there are large-scaled capital investments in the agriculture-related sectors, US\$ 300,000 to 500,000 of maize dryers for instance. Besides, the loan amount for water system projects for approximately 500 families is at least US\$ 300,000, while it depends on the project size.

As mentioned earlier, the financial demand in the eight sectors in this preliminary survey will be US\$ 12.3 million for the general SMEs in the six industries, US\$ 12 million for water SMEs, US\$ 2.2 million for electric power SMEs, which all would be very probable borrower industries.

On the other hand, the government set minimum investment amounts of the various sectors assisted by their SMEs promotion scheme, which are US\$ 500,000 in most cases, but US\$ 300,000 in a few cases including leather and ceramic industries. This implies RGC prefer larger investment.

5.4 Proposed Structure of TSL (including technical assistance)

The proposed TSL structure, the above-mentioned background taken into consideration, is as follows.

TSL scheme

JICA would disburse to the Cambodian government in yen based on the loan agreement between JICA and the Cambodian government. The Cambodian government would then exchange it to US dollar or KHR, and would lend it to the participating banks (On-lending Loan). The participating banks would provide sub-loans to eligible SMEs for their projects. The participating banks would be to reimburse the repayments of sub-loans to their accounts with NBC, which would be used for loans for a number of times until the JICA loan due dates (Revolving Use).

Eligible projects and enterprises of sub-loan

A sub-loan will be extended to the projects in a wide range of sectors except for military industry, real estate industry, and industries against public order and standards of decency. However, it is anticipated that not much sub-loans will be extended to product retailers that would need usually shorter-term funds, since the sub-loans will be long-term up to ten years and should be utilized for capital investments.

Risks occurred in projects and borrowers SMEs will be taken by participating financial institutions (PFIs).

Proposed total amount of TSL

The Study Team estimates the total TSL amount to be provided by JICA approximately ¥4 billion for a implementation term of three years, considering the actual disbursements of similar loans in the Asian countries (¥4 billion to the first TSL to Vietnam in 1999, ¥2.9 billion to TSL to Mongolia in 2006), the results of the IFC and KfW loans in this country, and that the targeted TSL borrowers would include water, power and other wide range of industries as well as general manufacturing.

PFIs

Among the 17 commercial banks and the 7 specialized banks in Cambodia, around 4 to 5 of them would be appropriate for the participating banks with regard to the size of JICA TSL loan and current development stage of commercial banks and specialized banks. The important selection criteria will be experience of long-term lending and corporate finance, as well as soundness

(prudential requirement) and growth. It will be better to select from among the 7 banks with domestic capital, while many of the Cambodian banks are foreign affiliated.

Sub-loan amount per lending

Appropriate amount will be US\$ 10,000 at minimum, US\$ 600,000 at maximum. Co-finance could be allowed to accommodate larger projects.

Applicable conditions (term and interest rate)

Sub-loan term of 2 to 10 years will be relevant, with a grace period of a half to 3 years. That of on-lending loans will be to match it. The principal repaid could be lent several times as revolving fund during the period of JICA loan of 40 years.

The most significant factors in determining the interest rate will be repayment ability of SMEs and available market interest rate in terms of macroeconomic matters. KfW sets the sub-loan interest rate at 12% p.a., lower than the market rates, and the on-lending loan interest rate at round LIBOR flat (i.e. 4.5-5.0% p.a.), supposedly leaving the bank margin of 7.0-7.5%. As the JICA loan interest rate is .01% (virtually 0%), the proposed sub-loan and on-lending interest rates would be 12% and LIBOR +0% respectively in this case.

Necessary technical assistance

For the successful implementation of this TSL project, it would be necessary to provide a variety of technical assistances to MEF/NBC, the participating banks and the SMEs that include mainly the following points. Details will be formulated by an expected the further study.

[TA for MEF/NBC]

- How to design a financial policy framework for SMEs promotion and its implementation measure

[TA for Banks]

- How to make evaluation of the candidate projects
- How to make financial projection of the project
- How to prepare financial documents (P/L, B/S, Cash Flow) of the projects
- How to formulate the loan conditions

[TA for SMEs]

- How to prepare their business plan as a bankable project
- How to apply for a loan and get it

5.5 The Next Step

The SAPROF (Special Assistance for Project Formulation) for realizing TSL would like to be implemented focusing on the exact funds required by each industrial sector including water and power, the present financial state, and the selection of participating banks. It is expected that the SAPROF should cover the above-mentioned technical assistance in detail.

Schedule of the Field Study

Date		Activities
13 August	Wed	Departure from Tokyo - Arrival at Penom Penh
14 August	Thu	Rural Development Bank World Bank/IFC KfW
15 August	Fri	Canadia Bank Association of Bank in Cambodia National Bank of Cambodia
16 August	Sat	SMEs - Agricultural Equipment Production and Repairing - Electricity Power Supply - Cray Brick - Clean Water Supply - Pure Drinking Water and Ice Production - Fish Source
17 August	Sun	Team Meeting
18 August	Mon	Aceda Bank, Ministry of Economy and Finance
19 August	Tue	Ministry of Industry, Mines and Energy (MIME) Amret (MFI) Cambodia Microfinance Association
20 August	Wed	ADB
21 August	Thu	SMEs (Maize, Rice Mill)
22 August	Fri	Embassy of Japan ANZ Royal Bank MIME (Department of Industrial Affairs) Electricity Authority of Cambodia JICA
23 August	Sat	Team Meeting
24 August	Sun	Team Meeting
25 August	Mon	SMI Cambodia Council for the Development of Cambodia
26 August	Tue	Departure from Phnom Penh
27 August	Wed	Arrival at Tokyo

**Outline of Proposed Two-Step Loan (TSL)
To be extended to
the Government of Cambodia (GOC)
By Japan International Cooperation Agency(JICA)**

**October 2008
KRI International Corp.**

TABLE OF CONTENTS

1. Background
2. What is TSL?
3. Objectives of TSL
4. Structure of TSL
5. Outline of JICA ODA Loan
6. Outline of On-lending Loans
7. Outline of Sub-loans
8. Eligibility and Selection Criteria of Participating Financial Institutions (PFIs)
9. Eligibility of Sub-loan Project
10. Preferred Sub-loan Projects in Water Sector
11. Lending / Repayment and Revolving scheme of TSL

1. BACKGROUND

1. SMEs in Cambodia are under-developed
2. SMEs are playing important roles for Cambodia economic development
3. Government of Cambodia puts its priority on the growth of SMEs
4. SMEs feel their most crucial handicap is lack of access to long-term financial source
5. Government of Japan intends to support Cambodian SMEs through ODA loans

SMEs = Small Medium Enterprises
ODA = Official Development Assistance

2. WHAT IS TSL?

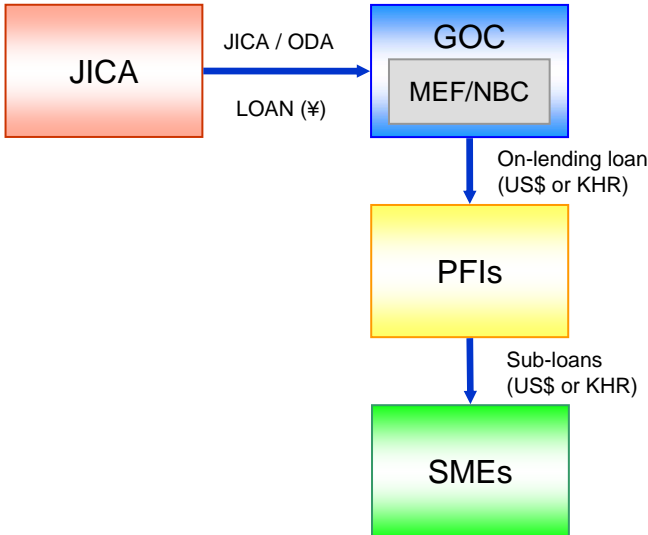
1. It is a financial facility with concessional conditions (long-term, low interest rate)
2. Its source is Japan ODA loan which is extended by JICA to Cambodia Government
3. ODA loan will be extended through PFIs to SMEs
4. Its end borrowers are SMEs in Cambodia
5. Repaid fund from SME will be re-lended to other SME projects (Revolving)

PFIs = Participating Financial Institutions

3. OBJECTIVES OF TSL

- 1. To promote development of SMEs by providing long-term loans
- 2. To promote development of PPP water supply system in provincial towns by providing long-term loans
- 3. To promote development of financial system by making available with long-term finance sources

4. STRUCTURE OF TSL



5. OUTLINE OF JICA ODA LOAN

1. Lender	JICA
2. Borrower	Government of Cambodia (MEF / NBC)
3. Amount	40 million USD
4. Use of loan	(1) For promotion of general SMEs (2) For promotion of water SMEs
5. Terms of Conditions	
Term	40 years (incl. grace 10 years)
Interest Rate	0.01% pa.
Interest Payment	Semi-annual
Service Charge	0.1% of amount disbursed
6. Disbursement	4 year by 10 installments

6. OUTLINE OF ON-LENDING LOANS

1. Lender	MEF / NBC
2. Borrower	PFIs (3 - 4 PFIs to be selected)
3. Amount	Same amount to correspond to its sub-loans
4. Currency	US Dollars or KHR
Terms of Conditions	
Term	1-10 years (incl. grace 1/2-3 years)
Interest Rate	US Dollars : Libor + 0% KHR : Averaged interest of saving deposit of top 5 banks (6 months) (No grace for interest payment)
6. Disbursement	To match sub-loan

7. OUTLINE OF SUB-LOANS

1. Lender	PFIs
2. Borrower	SMEs (1) SME (under Cambodian law and concept ex. no. of employees 100 or less) (2) Established and operating in Cambodia (3) Majority privately owned (4) Creditability will be examined by PFIs
3. Currency	US Dollars or KHR
4. Amount	Max. loan size: US\$600,000 or equivalent Min. loan size : UD\$10,000 or equivalent
5. Terms of Conditions	
Terms	1-10 years (grace 1/2-3 years)
Interest Rate	12%
Interest Payment	Semi-annual
6. Security	All loans to be secured

8. ELIGIBILITY AND SELECTION CRITERIA OF PFIs

1. Eligibility

- Majority of shares owned by Cambodian

2. Selection Criteria

- Growth
- Prudential ratios
- Experience of Corporate Finance

3. Preference

- Experience of term loan

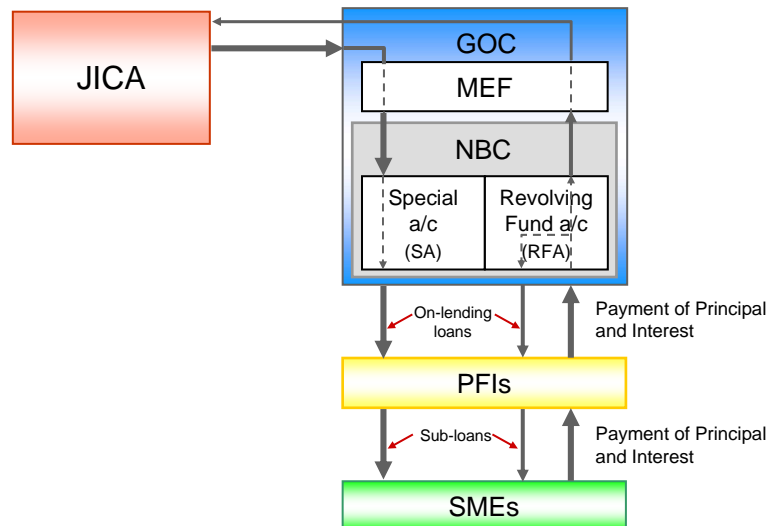
9. ELIGIBILITY OF SUB-LOAN PROJECTS

1. Corporate loan
2. Long-term loan
3. Capital investment loan
4. No refinancing or takeover loans
5. No military loans
6. No consumer loans
7. No real estate or housing loans
8. No loan for projects contradict to public moral

10. PREFERRED SUB-LOAN PROJECTS IN WATER SECTOR

1. GOC encourages SME to invest in provincial water sector
2. Application of licensed Water SMEs could be preferably accepted
3. Allocated amount could be set up
4. Terms and Conditions could be softer than to general SMEs
5. Loan procedure is the same as general SMEs

11. LENDING / REPAYMENT AND REVOLVING SCHEME OF TSL



12. NEXT STEPS TO BE TAKEN

1. Financial demand of SMEs in various sectors could be surveyed in details
2. PFIs should be carefully selected after reviewing of their performance / experience