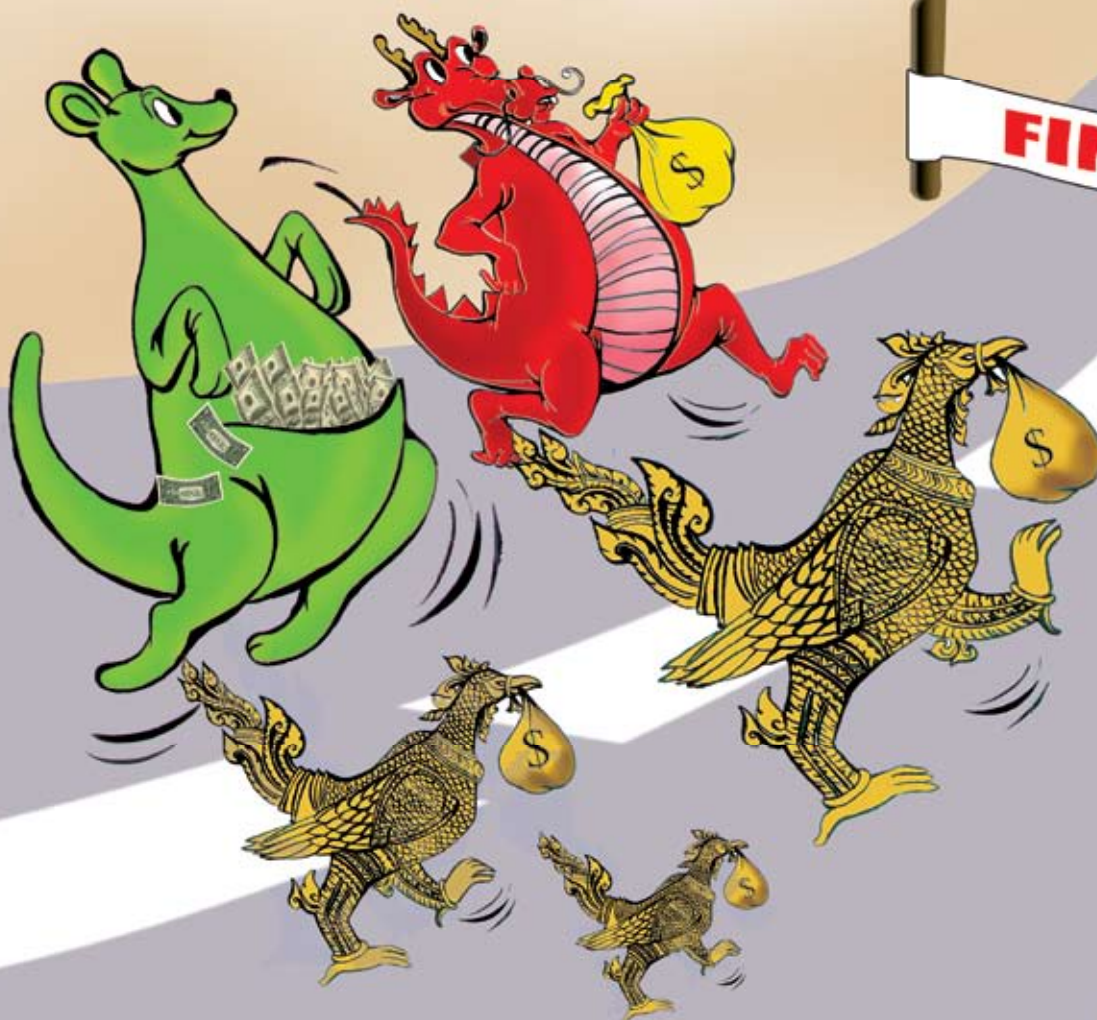
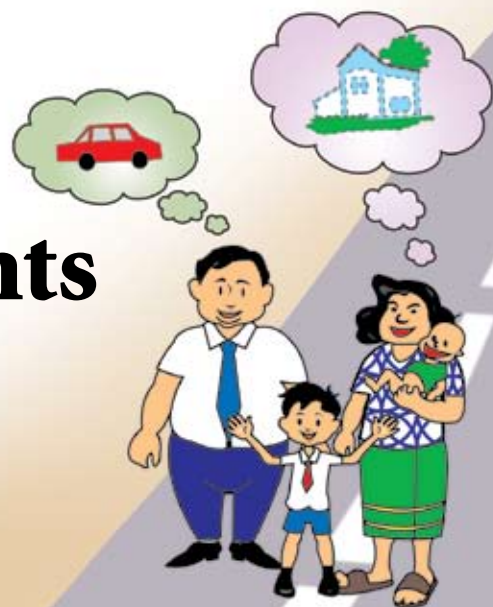


Economics Today

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- Cambodian Microfinance Miracle
- Business & Investment Opportunities
- Training Garment Workers Increases Productivity
- Local Production for Global Consumption

Banks Compete for Household Clients





On the Cover:

Cambodia's banking industry developed rapidly in 2007, as its loans to private companies and households rose more than 50 percent, according to the National Bank of Cambodia (NBC).

According to the Economic Institute of Cambodia estimates, major microfinance institutions have doubled their portfolios. This exceptional growth rate has been boosted by the diversification of services. (page 6)

Cambodian Microfinance Miracle

High growth of microfinance in Cambodia has opened up the tantalising prospect of inclusive economic growth and a prosperous future for its low income population

For anyone familiar with the Cambodian economy at the threshold of the twenty-first century, in Year 2000, the vibrancy of the economy today is nothing short of a miracle.

While high economic growth has become a familiar story through much of Southeast as well as South Asia, the 8-10% growth of the Cambodian economy over the past few years is right up there with China and India, the largest and fastest growing economies in the region. (page 10)



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Local Production for Global Consumption

The government is waging a war against poverty by helping the country's grassroots to promote their province trademark.

The "One Province One Product" is an innovative movement to help alleviate poverty by raising Cambodia's gross domestic product (GDP), said the Ministry of Commerce. (page 18)

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Business & Investment Opportunities

Overview of Cambodia: Garment & Tourism Industry

South East Asian countries are now one of the most attractive investment places and, among these countries, Cambodia takes an outstanding place, due to its position and natural resources, said the Ministry of Commerce.

Cambodia's efforts to "catch-up" with regional and world economies, Cambodia economy has to diversify trade activities. To do this, the Ministry of Economy and Finance said that it is adopting a "liberal economic and trade policy." (page 12)



Training Garment Workers Increases Productivity

The processes of globalization and industrialization put increasingly higher demands on the labor market to supply skilled workers.

Recently, several training initiatives have been launched within Cambodia's garment industry.

According to Garment Industry Productivity Center (GIPC), garment factory employees who participated in its training courses increased its productions. (page 16)



PM & UN Envoy Heat Up

A boxing match between Cambodian Prime Minister and UN envoy Yash Ghai has heated the boxing ring as many spectators, including thousands of Cambodians and human rights organizations are watching the outcome of the debate. (page 20)



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Cambodian Microfinance Miracle

High growth of microfinance in Cambodia has opened up the tantalising prospect of inclusive economic growth and a prosperous future for its low income population

By Sanjay Sinha*

For anyone familiar with the Cambodian economy at the threshold of the twenty-first century, in Year 2000, the vibrancy of the economy today is nothing short of a miracle.

While high economic growth has become a familiar story through much of Southeast as well as South Asia, the 8-10% growth of the Cambodian economy over the past few years is right up there with China and India, the largest and fastest growing economies in the region.

What makes the Cambodian economic miracle even better though is the impressive growth of the microfinance sector in the country. The developing microfinance revolution opens up the possibility of an economic growth that draws in the low income segments of the population; a phenomenon that is relatively rare and could make Cambodia the envy of its neighbouring countries over the next few years.

For the layperson, microfinance is the term used for the provision of small value financial services – loans and deposits of savings – to low income clients. The small size of the financial transactions undertaken by such micro-clients is of no interest to the commercial banking system that is the main provider of financial services in modern economies. In recent years, therefore, institutions providing microfinance services have moved in to help serve the financial services needs of low income families.

Over the past two decades microfinance worldwide has moved from being a little known adjunct to development programmes to becoming an economic activity in its own right. It was this that led to the award in 2006 of the Nobel Prize for Peace to the Bangladeshi economist and microfinance guru, Dr Mohd Yunus. From Latin America, Eastern Europe and Africa to Ban-

gladesh, India, Indonesia and the Philippines, microfinance is now hailed as an essential life support mechanism for millions of families otherwise excluded from the ambit of organized financial services.

In Cambodia, the microfinance institutions (MFIs) have grown impressively increasing from a coverage of an estimated 230,000 clients in 1997 to 750,000 clients today at a growth rate of nearly 13% per annum over a decade and a far higher 23% per annum over the past three years. More importantly, in a country with some three million families this indicates a growth from 7-8% coverage in 1997 to around 25% coverage today. If around 75% of Cambodian families are classified as “low income” and outside the ambit of financial services, this means that over one-third of those left uncovered by the banking system are now receiving financial services from MFIs. At current rates of growth, coverage would reach 95% within the next five years, an event in microfinance no less miraculous than the country’s economic growth performance.

In most countries such sustained growth would appear to be a pipe-dream. In Cambodia, however, the constellation of conditions today means that this type of achievement is well within the realm of possibility. From a high economic growth and political stability in the country to the government’s open and liberal financial policies and a conducive regulatory policy pursued by the National Bank of Cambodia (NBC), Cambodian MFIs now have the exciting opportunity to revolutionise financial and economic inclusion of low income families in the country’s economic growth.

Uniquely, the Cambodian MFI sector is actually poised to take advantage of this opportunity. The conducive macroeconomic environment and liberal policy have drawn socially conscious investors such



Sanjay Sinha, Managing Director of Micro-Credit Ratings International Limited (M-CRIL)

as Shorecap International of the US, Triodos Bank and FMO of the Netherlands and Blue Orchard Finance of Switzerland to the MFIs. There are a number of others actively scouting for investments in microfinance. This, combined with the foresight of many Cambodian MFI managers has led both to improving MFI governance and a commitment to obtaining the technical support necessary to enable the adoption of best practices in micro-finance delivery. From product development and staff training to the development of the good management information and internal control systems necessary to handle the larger amounts of money necessary to reach increasing numbers of people, MFIs are striving to achieve ever higher standards.

Further, socially conscious management and investors are pushing not only to increase outreach but also to cover traditionally underdeveloped parts of the country. Thus, while Aceda Bank, an erstwhile MFI that graduated into providing full banking services, already operates all over the country, the delivery of microfinance is poised to intensify through the expansion of some of the other leading MFIs to the under-served north and northeast provinces from Oddar Meanchey and Preah Vihear to Rattanakiri and Mondolkiri.

At the same time, loan products are being offered to provide for the needs both of consumption and production credit for the very poor (at around \$100) and of larger (\$500-\$1,000) loans for small businesses that do not have easy access to banks but provide employment to low income families.

Overall, the social motivation and desire for excellence in Cambodian microfinance, combined with healthy competition amongst MFIs has led to a situation where the country is poised to reach significant levels of financial inclusion over the next few years. Along with continuing high economic growth, the activities of the microfinance sector provide Cambodia with the tantalising prospect of improving the lives of its low income population and to look forward to the same prosperous future that is forecast for China and India. ■

* **Sanjay Sinha** is Managing Director of Micro-Credit Ratings International Limited (M-CRIL).

Cambodia, Thailand Sign Accord on Single Visa for Foreign Tourists

Cambodia and Thailand signed an agreement Monday that will allow foreign tourists to visit the two countries with a single visa, a move that will boost tourism.

The pact was inked in Phnom Penh by Cambodian Foreign Minister Hor Namhong and Thai Foreign Minister Nitya Pibulsonggram, who is on a two-day visit to Cambodia from Sunday.

Hor Namhong, concurrently deputy prime minister, said the agreement will come into effect soon after the two countries' agencies concerned have issued appropriate regulations.

According to the agreement, foreign visitors may obtain a visa in either Cambodia or Thailand and they can travel to both

countries without having to get another visa.

Hor Namhong said the agreement was worked out under an economic cooperation framework, called Ayeyawaddy-Mekong-Chao Phraya Economic Cooperation, which comprises five countries -- Cambodia, Thailand, Laos, Myanmar and Vietnam.

He said he hopes that the other three countries will join Cambodia and Thailand in the single visa program. "We have common views" on allowing foreign tourists to visit the five countries with a single visa, the Cambodian minister said.

Cambodia has so far formed agreements with Laos, Malaysia, the Philippines and Singapore on free-visa access.

Source: Kyodo

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