

Kingdom of Cambodia
Nation Religion King

National Bank of Cambodia
No. NBC/B700/06
January 11, 2000

Prakas
on the Licensing of Micro-Financing Institutions

The Governor of the National Bank of Cambodia

- Referring to the 1993 Constitution of the Kingdom of Cambodia;
- Referring to Kram No. NS/RKM/0196/27 of January 26, 1996 promulgating the Law on the Organization and Functioning of the National Bank of Cambodia;
- Referring to Kram No. NS/RKM/1199/13 of November 18, 1999 promulgating the Law on Banking and Financial Institutions;
- Referring to Kret No. CS/RKM/0398/85 of March 10, 1998 on the appointment of H.E. Chea Chanto as Governor of the National Bank of Cambodia;
- Pursuant to the request of the Banking Supervision Department of the National Bank of Cambodia.

IT IS HEREBY DECIDED

Chapter 1
General Provisions

Article 1: The National Bank of Cambodia (NBC) shall issue a license to carry out micro-financing operations (MFI license) to any micro-financing institution (MFI) that satisfies the requirements of this Prakas. All other non governmental organization, associations, entities or MFIs which cannot satisfy the license requirements, and are involved in credit services, for individuals or solidarity groups, shall register with the NBC.

Article 2: A licensed MFI shall only conduct banking operations as defined in Article 2 of the Law on Banking and Financial Institutions. Credit services and savings shall be deemed to be permitted thereunder, unless prohibited by this Prakas or the terms of the decision granting the MFI license.

All MFIs, non governmental organizations, and associations, whether licensed or registered, shall be excluded from:

- (a) Leasing, derivatives and dealing in gold, precious metals, raw materials and commodities, whether spot and forward.
- (b) Providing payment services through checking accounts or swap or forward dealings in foreign currencies.

Article 3: An applicant for an MFI license shall be incorporated as a limited liability company or a cooperative.

Article 4: A licensed MFI shall have a minimum registered capital of Riels 250 million.

Chapter 2
Procedure for Submitting a License Application

Article 5: The application for a license shall be drawn up by a duly authorized person (manager or person expressly empowered to such effect) and shall indicate the following:

- (a) Name or business name of the institution.
- (b) Registered address of the headquarters.
- (c) Legal form and the Articles of Association or other founding instrument.
- (d) Type of securities representing the capital, and connection between the holding of such securities and the exercise of voting rights.
- (e) Amount of authorized and paid-in equity capital.
- (f) Distribution of shares and voting rights and possible agreements between shareholders acting in concert with a view to directing the policy of the institution.
- (g) Capital contributors which will hold 5 percent or more of the voting rights must provide the information listed in Article 6 below.
- (h) Identity of at least two persons responsible for the effective direction of the MFI's business.
- (i) Identity of the members of the decision-making body. This information must be supplemented by a curriculum vitae and a statement certifying that none of the individuals concerned is subject to the prohibitions set forth in Article 18 of the Law on Banking and Financial Institutions.
- (j) If the legal entity for which the application is made has already been formed, provide a description of its business and certified copies of its audited balance sheets for operations in any of the previous three years.
- (k) Description of the planned activity over the next three years:
 - Nature and volume of the different types of lending liable to appear on the balance sheet, and other possible services offered to customers or members (for loans: nature, form, purpose, main terms and conditions, annual volume, and amount outstanding);
 - Type of clients that the institution intends to seek;
 - Nature of planned financial resources: own funds, subsidies, subordinated debt, deposits, borrowings, etc... As appropriate, specify the nature and ownership of these resources in the event of any ambiguity (subordinated debt for example);
 - Likely number of employees over the next three years and corresponding payroll, broken down by category of staff;
 - Location of existing branches or planned branches;
 - Planned organization and resources, especially as regards accounting procedures and computer system;
 - Balance sheet and profit and loss account forecasts for the next three accounting periods. Forecast level of main prudential ratios (as defined by the NBC) at the end of the next three accounting periods.
- (1) Audit procedures:
 - Planned internal audit organization for application of provisions of Article 43 of the Law on Banking and Financial Institutions;
 - Identity of proposed external auditors; nature of assignments given to external auditors.

Article 6: Capital contributors holding 5 percent or more of the capital or voting rights of the institution must provide the following information:

- (a) Identity of the capital contributor. In the case of a legal entity, indicate the business name, legal form, and address of the headquarters and furnish the Articles of Association. In the case of an individual, state his or her full name, date and place of birth, nationality and domicile. Indicate whether this person is to be appointed one of the managers of the institution. State whether the capital contributor is to be represented on the institution's board of directors; if so, ensure that this representative is not subject to the prohibitions laid down in Article 18 of the Law on Banking and Financial Institutions.
- (b) Indicate the amount and percentage of the proposed participation and its equivalent in voting rights. Describe in detail the legal and financial arrangements for the acquisition of the securities. State whether the transaction is subject to particular formalities in respect of regulations such as those applicable to foreign direct investment in Cambodia and whether such formalities have been complied with.
- (c) Describe the activities of the capital contributor. If the capital contributor is part of a group, provide a description of the main entities of said group together with an organization chart. Indicate whether the

capital contributor has significant equity holdings in other credit institutions. Indicate whether the group to which the capital contributor itself belongs has significant equity holdings in credit institutions. If so, list such interests.

- (d) State whether the capital contributor and the companies possibly associated with it carry on a financial activity. If so, indicate the regulations and the authorities to which they are subject in this respect.
- (e) Indicate the internal and external audit procedures of the capital contributor.
- (f) Indicate whether, over the preceding ten years, the capital contributor has been the subject of an investigation or of a professional, administrative, or judicial proceeding of a material nature.
- (g) State the capital contributor's objectives for the acquisition of an equity holding in the institution. Give all relevant information.
- (h) Indicate whether there is significant business between the capital contributor and the institution and how these relations are likely to develop in the future.
- (i) Indicate the main banking relations of the capital contributor in Cambodia and how long these relations have existed.

Article 7: A capital contributor which will directly or indirectly hold at least 20 percent of the capital or voting rights shall be considered as an influential shareholder in accordance with the provisions of Article 26 of the Law on Banking and Financial Institutions. Influential shareholders might be enjoined by the NBC to increase the net worth of the institution under the conditions described in Article 27 of the Law on Banking and Financial Institutions. For that purpose, a letter in accordance with the model set forth in Annex I must be sent to the Governor of the NBC.

Such a provision will only be removed once a deposit insurance scheme (or other customer deposit guarantee) is set up in Cambodia.

Moreover, in accordance with the provisions of Article 40 of the Law on Banking and Financial Institutions, the NBC will be able to grant a written waiver from the provisions of Article 7 at the time of the license approval.

Chapter 3 License Approval and Related Fee

Article 8: The NBC shall provide written notification of its decision within 6 months from the receipt of application. Where appropriate, the approval shall set out the specific conditions laid down by the NBC for its entry into force and the timetable for the project. If the project has not been completed upon expiry of the deadline, the approval becomes void, except if an extension has been requested and taken into consideration by the NBC.

Article 9: An MFI License is valid for a period of 3 years, from the approval date. Said license may be renewed only if all possible infractions of relevant laws and regulations have been remedied. An application for renewal of a license shall be submitted to the NBC at least two months prior to the expiration of the existing license. In the event this deadline is not met, a fine of Riels 10,000 per day of delay up to the submission date shall be imposed.

Article 10: The institutions shall pay a fee of Riels 50,000 upon submission of the application for a license.

Article 11: An institution shall pay an annual license fee of Riels 1 million before January 15 of each year. For institutions established during year, the license fee shall be calculated on a pro rata basis for the period remaining to the year's end. In the event of late payment of license fee, the institutions concerned shall be fined by paying interest on the overdue payment at the existing refinancing interest rate for a period up to 30 days. If they are not in order after this period, their license shall be revoked.

Chapter 4 Prudential Rules

Article 12: Applicants or registrants with no operating history must pay up 100 percent of registered capital into an account open with the NBC prior to commencement of operations.

Article 13: Each licensed MFI shall maintain an amount bearing no interest, equal to 5 percent of its registered capital in a permanent account with the NBC, including any licensed MFI which has paid in its capital to the NBC as required by Article 12. A licensed MFI may withdraw the balance of such funds.

The NBC will only reimburse the capital deposit to a licensed MFI if it is voluntarily liquidated and has no deposit liabilities.

Article 14: A licensed MFI shall deposit 5 percent of its deposits into its account maintained with the NBC. This reserve requirement shall be maintained under the conditions set forth in the Prakas on reserve requirement.

Article 15: A licensed MFI shall maintain a capital adequacy ratio (CAR) of at least 20 percent between "eligible capital" and its "weighted risks". Eligible capital will include, "core capital" (Tier 1), and "hybrid capital instruments" such as "non refundable subsidies" (public grants), "public guarantee funds to cover risks on credit to the clientele", and "perpetual subordinated debts" (elements of Tier II capital), The weighting of risks will be specified by Prakas.

Article 16: A licensed MFI shall maintain a liquidity ratio of at least 100 percent. This liquidity ratio shall be computed as follows:

- . *Numerator:* cash in hand, plus deposits with the NBC, plus deposits with banks, minus the amount owed to the NBC and banks (net liquidity), plus the portion of lending with not more than one month to run (excluding loans to customers with no specified maturity);
- . *Denominator:* a percentage of the time deposits due within the next month, plus a percentage of current accounts and of savings accounts. These percentages will be specified by Prakas.

Article 17: A licensed MFI shall be in compliance with regulatory requirements concerning classification of the loan portfolio and the related level of loan loss provisioning.

Article 18: Loan commitment aggregate to an individual borrower or to a group of borrowers constituting a single beneficiary because of connections among themselves shall not exceed 10 percent of an institution's net worth.

Chapter 5 Other Provisions

Article 19: All provisions contrary to those of this Prakas are hereby repealed

Article 20: The General Directorate, the General Secretariat, the General Cashier, the General Inspection, all NBC departments, and all banking and financial institutions under the NBC supervisory authority shall be responsible for the enforcement of this Prakas.

Article 21: This Prakas shall enter into force from the date of its signature.

Phnom Penh January 11, 2000

The Governor

Chea Chanto

cc:

- Board of Directors members

- Parties stipulated under Article 20
- Archives
- Council of Ministers "for info"
- Council of Ministers Administration Department
"for publication in the Official Gazette"

Annex I
Model Letter

To be sent to the Governor of the National Bank of Cambodia by capital contributors who directly or indirectly hold 20 percent or more of the capital or the voting rights of an Institution.

Dear Sir;

In my capacity as (indicate the status of the signatory), please find herewith the information requested by the National Bank of Cambodia (Prakas No) with regard to the equity holding that (contributor's name) intends to take in (name of institution).

I hereby certify that this information is complete and accurate and that, to the best of my knowledge there are no other material facts of which the National Bank of Cambodia should be informed.

I undertake to inform the National Bank of Cambodia immediately of any change which would significantly alter the information provided.

I have taken note of the provisions of Article 7 of the Prakas on licensing of micro-financing institutions, pursuant to which the National Bank of Cambodia may, where the situation requires, enjoin the influential shareholders of an institution to provide such institution with the support it needs.

CURRICULUM VITAE
and
Questionnaire for individuals who are, or who propose to become,
Managers of a Micro-Financing Institution

- 11- Family name
2. Given name(s)
3. Other name(s) by which you are or have been known
- 4-1. Please describe the particular duties and responsibilities attaching to your position.
- 4-2. Indicate if you are a capital contributor to the applicant and if you intend to carry out directly or through an intermediary; personal or professional transactions with the applicant.
5. Your private address.
6. Your previous private address(es) during the last 5 years:
7. Your date (day/month/year) and place of birth (including, district, town or city).
8. Your nationality and how it was acquired (birth, naturalization, marriage).
9. Name(s) and address(es) of your bankers within the last 5 years.
10. Your academic degrees and/or professional qualifications and the place and year they were obtained.
- 11-1. Your current occupation and employment and over the past 10 years including the name and address of the employer in each case, the nature of the business, the position held and relevant dates.
- 11-2. Indicate whether you are or over the past ten years have been a significant shareholder (namely holding directly or indirectly at least 10 percent of the share capital or voting rights) in a company other than the applicant. If so, state the name and activities of such companies and the amount of your shareholding or interest in them.
- 11-3. Indicate to the best of your knowledge, which of the companies in which you have held or hold a position of responsibility, or in which you have been or are a significant shareholder, has or might soon have significant business relations with the applicant.
12. Have you or any entity with which you are associated as a director shareholder, or manager, ever held or applied for a license or to carry on any business activity in any country? If so, if any such application was refused or withdrawn after it was made or if any authorization was revoked, give particulars.
13. Have you, or any entity with which you have been involved in the conduct of its affairs, been disciplined, warned as to future conduct, publicly criticized, or the subject of an investigation by any regulatory authority or any professional body? If so, give particulars.
14. Have you, in any country, been dismissed from any office or employment by your employer or barred from entry to any professional or occupation? If so, give particulars.

15. Have you failed to satisfy any debt adjudged due and payable by you under an order of a court, or have you been declared bankrupt by a court in any country or has a bankruptcy petition ever been served on you? If so, give particulars.
 16. Have you, in connection with the management of any entity been adjudged by a court, in any county, to be legally liable for any fraud or other misconduct by you toward such an entity or any of its members? If so, give particulars.
 17. Are you, now, or do you, other than in a professional capacity, expect to be, engaged in any litigation in any country? If so, give particulars.
 18. Please supply an audited statement of personal net worth providing a breakdown of your assets and liabilities.
 19. Indicate the names, addresses, telephone numbers and positions of three individuals of good standing who would be able to provide a reference on your personal and professional integrity. The referees must not be related to you, and should have known you for at least five years.
 20. Is there any additional information which you consider to be relevant for the consideration of your suitability for the position(s) listed in Question 4.1? The omission of material facts may constitute the provision of misleading information (see declaration below).
- N.B.** The information provided in response to this questionnaire shall be kept fully confidential by the supervisory authority, the National Bank of Cambodia, except in cases provided for by law.

DECLARATION

I am aware that it is an offense to knowingly or recklessly provide any false or misleading information in connection with an application for a banking license or a renewal of bank license.

I certify that the information provided in response to the above questions is complete and accurate to the best of my knowledge, and that there are no other facts relevant to this application of which the supervisory authority should be aware.

I undertake to inform the supervisory authority of any changes material to the application which arise while the supervisory authority is considering the application.

Name:

Position held:

Signature:

Date: / /