

PRASAC Microfinance Institution Limited

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Brief History

The PRASAC project started in 1995 as a support programme for the agriculture sector in Cambodia, funded by the European Union until the end of 2003. The credit component used a village banking methodology (25-120 members), but was found difficult to develop as cases of mismanagement appear at local level. The village banking approach gradually evolved into a more direct group-lending and individual lending methodology. After the transformation of the project into a credit institution, PRASAC Credit Association (PCA), registered in 2002 as a rural credit operator. The remaining portion of E.U. funding available in 2004 allowed PCA to transform into PRASAC Microfinance Institution Limited, a limited company with two initial shareholders - PRASAC Staff Company and the Cambodia Rural Development Foundation (CRDF), acting as a trust fund. PRASAC MFI received a licence from the National Bank of Cambodia in November 2004. The credit fund is in the process of being transferred from E.U. to the government of Cambodia, to be made available as a subordinated credit facility to PRASAC MFI.

Methodology

PRASAC concentrates exclusively on lending operations. PRASAC offers group loans and individual loans.

Group loans (75% of total loans, but 44% of loan portfolio) are mainly catered for rural people, especially poor villagers who lack access to formal financial services and need capital for income generating activity purposes. Villagers organise themselves into solidarity groups consisting of 4 to 8 members. The loan amount ranges from KHR 50,000 to 5,000,000, over a 12 months loan term. The interest rate is between 36% and 42% per annum, on a declining balance.

Individual loans (25% of total loans, but 56% of loan portfolio) are targeted at microentrepreneurs operating their business in the rural economy. The loan size can range between KHR 300,000 and KHR 15,000,000, with a loan term up to 24 months. The loan cost between 36% and 42% per annum for agricultural purposes. A physical collateral is needed.

Area of Operations

PRASAC operates in around 3,300 villages in 9 provinces through 12 branch offices, in Kompong Cham, Kompong Thom, Kompong Chhnang, Pursat, Kompong Speu, Kompot, Takeo, Kandal, Prey Veng, and Svay Rieng.

Clients

PRASAC targets rural village households, small farmers that have income-generating activities and debt capacity to be able to borrow through a group methodology. PRASAC targets microenterprises for individual business loans.

Active clients	Active savers	Active borrowers	Gender
67,553	0	67,553	62% women.

As of October 2004.

Poverty Focus

64% of the loan portfolio is allocated to credit in the agriculture sector.

Average Loan Outstanding	Average outstanding loan size / GNP per capita	Average deposit size
US\$116	39%	n/a

As of October 2004

Distinctive Features

PRASAC is the only major MFI focusing only on credit, with a strong focus on agriculture credit.

Innovations

n/a

Financial results

The EU will transfer the fund ownership to the government of Cambodia, with the condition that it is transformed into a subordinated credit facility to PRASAC. The main shareholders of PRASAC are CRDF (95%), a trust fund, and PRASAC Staff Company (5%). CRDF is an NGO-trust fund set up temporarily to hold shareholding rights and credit fund on behalf of the EU, before the funds be transferred to new shareholders.

Loan Portfolio	Portfolio at risk	Savings Deposits	OSS / FSS	RoE / RoA
US\$7,864,255	14.2%	0	164% / N.A.	N.A. / 9%

As of October 2004.

Challenges and development plans

One of the main challenges for PRASAC is to successfully transform into a sustainable MFI, improving efficiency and quality of portfolio, which is low (PaR 14%). The organisation also seeks to develop credit discipline among the staff and clients and to strength the internal control system. It also aims to diversify loan portfolio and review financial products and services in order to stay competitive and suit clients' demands, mobilizing investors and to avoid drifting from its mission. It needs to identify external ownership to fully transform into a sustainable MFI.

Inclusion in financial Sector

PRASAC MFI is a non-bank financial institution, regulated by the National Bank of Cambodia. PRASAC is currently identifying a new ownership structure and potential new investors.

Sources

- Information booklet on PRASAC as of November 2004
- The MIX market profile on PRASAC www.mixmarket.org
- CMA statistics as of September 2004