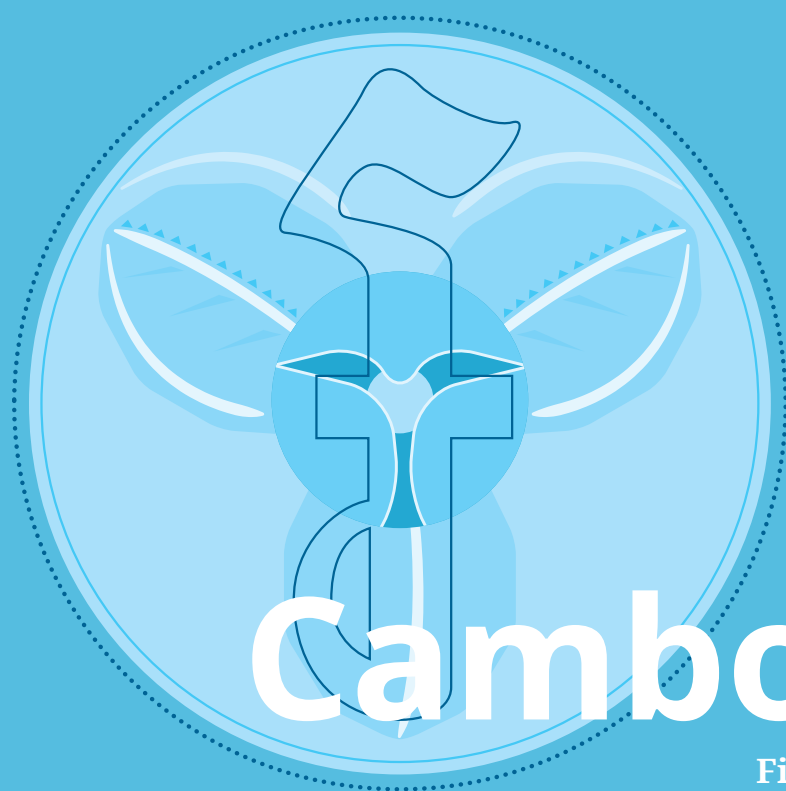


Making Access Possible



# Cambodia

Financial Inclusion  
Country Report

2017

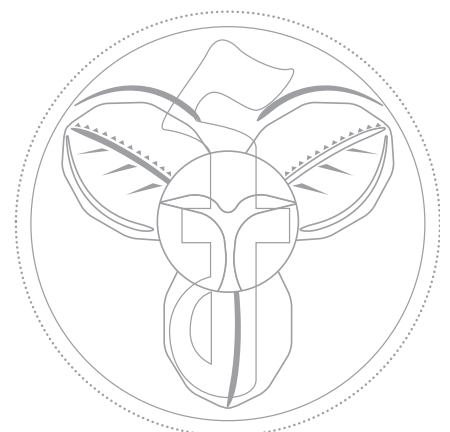
**PARTNERING FOR A  
COMMON PURPOSE**

*Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development*

*dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level. The MAP methodology and process have been developed jointly by UNCDF, FinMark Trust (FMT) and the Centre for Financial Regulation and Inclusion (Cenfri) to foster*

*inclusive financial sector growth. At country level, the core MAP partners collaborate with government, other key stakeholders and donors to ensure an inclusive, holistic process.*

*This report was produced by beed in association with Cenfri. MAP Cambodia was funded by United Nation Capital Development Fund.*



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## **PARTNERING FOR A COMMON PURPOSE**

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## **Acknowledgements**

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Finally, we would like to express our gratefulness to the various government stakeholders, financial service providers, associations, telecommunications operators and development partners, for meeting with us and providing their valuable insights which has guided and shaped this research.

## **USD/KHR Currency Exchange Rate**

The local currency in Cambodia is Khmer Riel (KHR). The United States Dollar (USD) equivalents shown throughout the document were calculated using a 12 month average exchange rate (as per National Bank of Cambodia's 2016 year-end statistics) of KHR 4055/ USD.

## List of Acronyms

AFI	Alliance for Financial Inclusion
APN	Asian Payment Network
ASEAN	Association for Southeast Asian Nations
ATM	Any Time Machine
HDR	Human Development Ranking
CBC	Credit Bureau of Cambodia
CICO	Cash in Cash Out
GDP	Gross Domestic Product
FSDS	Financial Sector Development Strategy
FSP	Financial Service Providers
IMWG	Inter-Ministerial Working Group
FISF	Financial Inclusion Strategy Formulation
KHR	Khmer Riel
LDC	Least Developed Country
MAP	Making Access Possible
MDG	Millennium Development Goal
MDI	Micro Finance Deposit Taking Institution
MEF	Ministry of Economy and Finance
MFI	Micro Finance Institution
MFSP	Mobile Financial Service Provider
MNO	Mobile Network Operators
MTO	Money Transfer Operators
NBC	National Bank of Cambodia
OTC	Over the Counter
RGC	Royal Government of Cambodia
SECC	Securities and Exchange Commission of Cambodia
THB	Thai Baht

UNCDF United Nations Capital Development Fund

USD United States Dollar

## Cambodia at a glance

**GDP: USD 18 billion**

**Total adult population: 9.9 million**

**Economically active population between 18-40 age group: 63%**

**Average monthly income: USD 232**

**% of adult population engaged in agricultural activities: 58%**

**% of population based in rural areas: 75%**

**Contribution of agriculture to GDP: 28.2%**

**Contribution of garment and footwear to total exports: 80%**

**% of adult population living below international poverty line: 10%**

### About MAP Cambodia

1. Making Access Possible (MAP) Cambodia represents a partnership between National Bank of Cambodia, UNCDF, FinMark Trust, Cenfri and the National Institute of Statistics for the Development of a Strategic Framework for Financial Inclusion in Cambodia. The National Bank of Cambodia is the Chair of the Inter-Ministerial Working Group on Financial Inclusion Strategy Formulation (IMWG-FISF) which govern the MAP Cambodia project.
2. This synthesis report summarizes a series of document produced as part of the MAP Cambodia Initiative. The preparation of MAP Cambodia was approved by the National Bank of Cambodia and IMWG-FISF.
3. **Note on the use of the FinScope Survey 2015:** Within this document (unless otherwise referenced), demographic, income and financial usage data is obtained from the 2015 FinScope Consumer Survey. A summary report and presentation of FinScope Cambodia is available as a separate deliverable, and the FinScope dataset is available on request for future research at [map.uncdf.org](http://map.uncdf.org).

## Introduction

4. This synthesis note summarizes a series of documents produced as part of the MAP Cambodia Initiative. The MAP study is based on the quantitative demand side data and qualitative supply side data. The demand side survey – FinScope (2015) was conducted during November 2015- January 2016, covering a nationally representative individual-based sample of adult population aged 18 years and older at regional and urban/rural level. The sampling frame and data weighting was conducted by the National Institute of Statistics (NIS) and weighted to the NIS estimates and validated against census data and Cambodia Inter-Censal Population Survey 2013. The supply side study based on qualitative interviews and research which validates the finding of the demand side while identifying the usage, need and barrier for uptake of financial services in the country.
5. This synthesis note covers the analysis of the country context as well as demand and supply of financial services and regulatory requirements. In order to do this, comprehensive interviews were undertaken with key stakeholders including government, development partners, associations and private stakeholders. The data from these interviews were analysed against the quantitative data from the demand side so as to create a set of practical actions targeted at extending financial inclusion tailored to the needs of Cambodian adults.
6. The main income source as reported in FinScope (2015) is used as a basis to segment the adult population into five target market groups with similar profiles and needs. With the target markets in mind, the analysis seeks to identify institutions that currently serve different parts of the market, as well as the potential and gaps for enhanced provision. The MAP study identifies the key barriers and opportunities to increase financial inclusion across four core product markets: payments, savings, credit and insurance.

## Government policy objectives to improve financial inclusion

7. The Royal Government of Cambodia has made it a strategic priority to adopt and implement a financial inclusion policy for the country. The government has adopted the Financial Sector Development Strategy (FSDS) (2016-2025), which includes a component on financial inclusion. Under this component, the government intends to develop a National Financial Inclusion Strategy with National Bank of Cambodia (NBC) as the lead agent. Furthermore, the Ministry of Economy and Finance (MEF) will take the lead to draft laws and regulations to establish a credit guarantee scheme that will facilitate increased access to credit and ultimately increased financial inclusion in the country.
8. Cambodia's Central Bank – National Bank of Cambodia is a principal member of Alliance for Financial Inclusion (AFI) with the Securities and Exchange Commission of Cambodia acting as an associate member. Under the membership of AFI, Cambodia is working towards advancing financial inclusion policy at the national level.
9. RGC's vision is to promote financial inclusion initiatives that 1) reduce the level of financial exclusion; 2) promote sustainable and inclusive growth; 3) enable the development of a comprehensive

ecosystem to support financial inclusion and 4) allow the benefits of financial inclusion to be shared by all people as per the objectives and strategies laid down by the FSDS.

10. Through the adoption of MAP Financial Inclusion Roadmap, the government intends to achieve the following financial inclusion priorities:
  1. Promote savings in formal financial institutions
  2. Improve the functioning of the credit market
  3. Increase usability of digital payment systems
  4. Prioritize the development of a well-functioning insurance market
  5. Build institutional capacity and facilitate regulatory reforms
  6. Improve financial literacy, awareness and consumer empowerment



## Financial access in Cambodia

- 1% of adult population use all four types of financial services (payments, credit, savings and insurance)
- 36% of adults use only one type of financial service
- 5% adults make use of only banks' services
- 12% of adults use only informal financial services
- 29% of adult population are financially excluded from formal and informal financial services

## Breakdown of financial access in Cambodia by product market

### 11. PAYMENTS

47% of payments are made through formal channel

11% of transaction is done through formal channel

89% of remittance sending population use mobile money as the channel of payment

### 12. SAVINGS

57% of adults do not report any saving

12% of adults save with a formal financial service provider

22% of adults save at home in cash

### 13. CREDIT

28% of adults borrow from formal financial service provider

10% of adults borrow from informal institutions

### 14. INSURANCE

4% of adults have insurance coverage from formal service provider

95% of adults do not have insurance coverage from formal or informal service provider

## Context for financial inclusion

15. One major achievement for the Cambodian economy is the graduation from Least Developed Country (LDC) to lower-middle income status in 2016 (The World Bank, 2016). This shift to lower middle income country, is reflected by the government's focus on social and economic structure changes and increased budget for capital expenditure. However, the United Nation still categorizes Cambodia under the Least Developed Country category.

16. *Population profile: young, mainly rural based population*

- Total population: 14.67 million
- Total adult population (18+ years): approximately 9.9 million
- Young population: 63% are below the age of 40
- Most rural based: 75% of population based in rural areas
- Gender split: 52% female; 48% male
- Male headed household: 81%

17. *Socio-economic development: steady development despite low global ranking*

- Average life expectancy at birth has increased from 66.4 years in 2010 to average 68.2 years in 2014 (The World Bank, 2016).
- Human Development Ranking (HDR): 143 out of 188 countries in 2014, but falls under the Medium Human Development category in terms of Human Development Index (UNDP, 2015).

18. *Income distribution: high level of income inequality*

- Average personal income: KHR 942,288 (USD 231.63)
- 75% population earn below KHR 1,000,000 (USD 245.82)
- 20% of highest income earning quartile earn a disposal income of about 18 times higher than 20% of the household with lowest income. At revised international poverty line of USD 1.90 per day, 2.2% of population were living below poverty line in 2012 registering a drop from 16.9% in 2007 (ADB, 2014).
- Achieved Millennium Development Goal (MDG) Goal 1 of halving property in 2009.

19. *Education attainment: low attainment and weak public schooling system*

- 43% of population have only basic education
- Net enrolment rate for upper secondary school is 21%.
- School drop-out rate is 8.7% at primary level and 19.6% for secondary level.
- 43% of population have only basic education and adult literacy level rate stood at 78%. Gender dimension of literacy shows that larger segment of male (84.95%) population are educated than females (72.3%)
- Net enrolment rate for upper secondary school is 21% and the school drop-out rate is 8.7% at primary level and 19.6% for secondary level.
- Preference for private school growing among middle and upper classes.

20. *Infrastructure development a key priority*

- The World Economic Forum's Global Competitiveness Index 2016-2017 ranked Cambodia 89th out of 144 countries. The government is focusing on the development of national and regional infrastructure networks and logistical capabilities and improving connection with the region. The Ministry of Planning's National Strategic Development Plan 2014-2018 outlines the infrastructure development strategy of Cambodia which includes investment in roads, bridges, ports, railways and waterways (Open Development, 2015). High priority is given to the expansion of low-cost energy production and supply and distribution network aimed at ensuring energy security, reliability and affordability to meet development needs. The country largely depends imported fuel, coal, biomass and hydropower for its power supply. Given the vision of the government to make electricity accessible for all citizens by 2020, investments are being made in hydropower projects, solar projects and electrical grid expansion throughout the country.

#### **21. Political scenario: Improving political scenario and stability**

- Cambodia is a constitutional monarchy with principles of liberal multiparty democracy, where the King is the head of state and prime minister is the head of government. Cambodia scored -0.10 in the Political stability index for 2015; showing improvement from -1.15 in 1996 (World Bank, 2016)

#### **22. Economic growth: rapidly growing economy driven by increasing exports**

- Economy growing rapidly in the last two decades at an average rate of 7.7% during 1995-2015; and registering an economic growth rate of 7% in 2015 (National Institute of Statistics, 2016)
- GDP in 2015: KHR 73,694 billion (USD 18 billion); GDP per capita was USD 1,301 (National Institute of Statistics, 2016) which is the lowest among its neighbours Lao PDR (USD 1,818.4), Vietnam (USD 2,110.9) and Thailand ( USD 5,814.8)
- In 2016, the preliminary estimated GDP stands at KHR 81,703 billion (USD 20.15 billion) (NBC, 2017)
- Predominantly agricultural country, moving from a primary agrarian-based economy to a secondary and an industrial one.
- In 2015, agriculture contributed 21.2% to the GDP, industrial share to GDP was 32.7% followed by Service sector contributing 39.6% (National Institute of Statistics, 2016).
- 33% of country's population comprises of farmers; and moreover 25% of formally employed, 27% of informally employed, 22% of self-employed and 19% of dependents are involved in farming as an additional source of income (FinScope, 2015)
- Industrial share to GDP increased to 32.7% in 2015 from 15% in 1995; focusing mainly on export based garment and footwear industry, utilizing the available cheap and unskilled surplus labour
- Low inflation: The year-on-year percentage change of the Consumer Price Index increased to 3.87% in December 2016 (NBC, 2017). SMEs (informal and formal) are owned mostly by women (65.1%) than men (34.9%) in the country; only 1.7% women-owned enterprises registered with Ministry of Commerce, compared to 6.6% male owned enterprises (FinScope, 2015).
- Ranked 131th out of 190 countries, on the Doing Business Index in 2017 slipping three spots from 128th in 2016 however, Cambodia climbed up 7 places to stand at 7 position from 14 in 2016 in terms of getting credit.

#### **23. Economic growth: supplementary income required to sustain livelihood for agriculture dependent population**

- Agriculture is a pre-dominant occupation; 33% of country's population are engaged in farming as a primary source of income.
- 25% of formally employed, 27% of informally employed, 22% of self-employed and 19% of dependents are involved in farming as an additional source of income.
- 2-3% of all target market receive remittances as supplementary source of income.

24. *Multi-currency economy: High circulation of US dollar with efforts to increase usage of local currency*

- US dollar accounted for an estimated 83% of total transactions in Cambodia in 2015
- Local currency (Riel) in circulation increased by 17.7% in 2015
- Deposit in riel increased by 29% in 2015
- Credit in riel stood at 33%
- Central bank is actively promoting the usage of local currency to mitigate the challenges of circulation of multiple currencies (KHR, USD, THB)

## Regulatory context

25. *Financial Sector Development Strategy emphasizes promoting financial inclusion.* Although Cambodia does not have an overarching national financial inclusion strategy, financial inclusion is a priority for the government. The Rectangular Strategy, the National Strategic Development Plan and the Financial Sector Development Strategy include a component of financial inclusion. The current focus is to promote financial inclusion initiatives that promote sustainable and inclusive growth. One of the pillar of the rectangular strategy is the promotion of agriculture sector with efforts directed towards maintaining sectoral growth rate of 5% per annum. Under which priority has been given to improve the access to finance for agriculture based business.

26. Moreover, access to finance for women is prioritized in Neary Rattanak 4 (NR4)<sup>1</sup> strategy, The Five-Year Strategic Plan for Gender Equality and Women's Economic Empowerment (2014-2018), which aims to improve women's access to finance and increase financial literacy among women through strategic partnership with the Cambodia Microfinance Association. One of the pillar of the strategy is women's economic empowerment through enterprise development, employment and social protection. The strategy also focuses on facilitating and creating women led micro, small and medium enterprises through increased access to business related services including access to finance. Moreover, the Royal Government of Cambodia's SME Development Strategic Framework highlights the issue of lack of information for SMEs on how to access finance and emphasizes on improving access to finance for SMEs.

27. Furthermore, the Association for Southeast Asian Nations (ASEAN) integration also prioritizes integrating financial inclusion as a component of development policy in the region with the overarching objective of development of financial sector infrastructure and distribution network for wider access to financial services.

28. *Structure of financial regulatory framework.* The regulators for specific providers is as follows:

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<sup>1</sup> This is the Five Year Strategic Plan for Gender Equality and Women's Economic Empowerment (2014-2018) led by Ministry of Women's Affair.

- **National Bank of Cambodia** is an autonomous body with one of the functions to license, de-licence, regulate and supervise banks and financial institutions
- **General Department of Financial Industry** under Ministry of Economy and Finance has the following departments to regulates the different financial sectors:
  - Insurance and Pension Department
  - Financial Markets and Institutions Department
  - Department of Gambling Management, Anti-money Laundering and Combating the Financing Terrorism
  - Department of Real Estate Business and Pawnshop
- **Securities and Exchange Commission of Cambodia** (SECC) regulates the securities exchange
- **Credit Bureau of Cambodia** is an independent organization providing credit reporting services
- **Ministry of Agriculture, Forestry and Fisheries** governs the functioning of agriculture cooperatives
- Social security provisions are governed by different ministries including Ministry of Labour and Vocational Training, Ministry of Interior, Ministry of Defence and Ministry of Social Affairs, Veterans and Youth Rehabilitation.

29. *Financial institutions operating in the country:* The term ‘bank’ specifically cover two different categories of institutions – commercial banks and specialized banks. While commercial banks are permitted to carry out all banking operations, specialized banks function the same way as finance companies since they are not allowed to collect deposits. Similarly, two type microfinance institutions operate in the Cambodian market –MDI (micro finance deposit taking institution) and MFI non-deposit taking institution. The other category of financial institution is leasing companies which primarily provide financing for an asset. Agriculture Cooperatives also operate in the financial landscape of Cambodia these are established as agriculture based economic enterprise working to enhance services related to agricultural production capacity, agro-industry or agri-business (RGC).

30. *Improve judicial process.* In the 2017 World Bank’s Doing Business Report, sub-indicators, Cambodia is ranked 178 out of 190 in terms enforcing contracts with the main issues being that claims take 483 days to finalize due to a lack of court automation and alternative dispute handling mechanisms. The cost of enforcing contracts is 103% of the average value. The high enforcement costs and delay would cause even secured credit to be priced on a par with unsecured credit. The lack of a specialized court for small matters also impacts the quality and access to justice. Despite the establishment of an Alternative Dispute Resolution (ADR) mechanism and National Commercial Arbitration Centre (NCAC) this initiative has not been effective. The role of the NCAC as defined in the law is unclear and does not ensure that parties have the freedom to choose their own arbitrator which is one of the key concepts in commercial arbitration.

**Other key issues:**

31. *Regulatory gaps for information submission at Credit Bureau creates opportunistic behaviour.* The credit bureau of Cambodia covers information on 44% of the adult population (The World Bank, 2016). Supply-side interviews highlighted concerns regarding the accuracy and reliability of the data available with Credit Bureau. If member financial institutions do not provide data, they are barred from accessing credit information. In practice, MFIs in particular have not delivered on information input requirements. This on one hand creates information gap and the resultant under-valuation of credit

risk while on the other hand provides unfair advantage for the selective few (individual and institution) benefiting from the information gap.

32. ***Issue of land ownership certificate.*** The key issue with property ownership in the country is the prevalence of hard title and soft title deeds resulting in issue regarding the individual's property rights. Since formal bank credit is mostly issued only against land collateral, the lack of land title or landlessness itself is a barrier to access for this segment of the population.
33. ***Repossession of secured lease asset.*** Generally, a critical advantage of leasing is the lessor's ability to take back (repossess) the asset if the lessee is in default or fails to comply with its obligations to the lessor. Practically, the lessor cannot repossess the assets because, in the Civil Code, all repossession on assets must go through the court's process (Financial Sector Development Strategy 2016-2025, 2016).
34. ***Issue of multiple IDs.*** Government issued IDs act as a proof of identity and address while also supporting KYC verification at financial institutions. At present people are using multiple identity including national ID cards, passport, family residence books, voters card and licence among others to access financial services. However, women are less likely to have suitable IDs to meet KYC requirement which can restrict their access to formal finance. Women disproportionately lack official identification documents compared to men since they deprioritize obtaining an ID and also women's name are not typically co-listed on utility bills making it difficult for women to provide enough documentation to access finance from formal institution. The availability of multiple government issued ID allows single individual to access credit based on different identification numbers creating an information gap and duplication of records at CBC. The CBC is attempting to tackle the issue of recording data for individuals using multiple IDs through adoption of new algorithms. In addition to this, the Royal Government of Cambodia has started the process of issuing new identity card since 2011, to replace old national identity cards.
35. ***Consumer protection law being drafted.*** In order to establish mechanisms for consumer protection, the government has recently drafted Consumer Protection Law, Trust Law and Competition Law. Currently a number of acts including Law on Banking and Financial Institutions touch upon the issue of consumer protection. The Consumer Protection Law is expected to centralise the issue to one core piece of legislation that will also cover financial services. Furthermore, as a member of ASEAN, Cambodia will be taking into consideration the strategic measures outlined in the ASEAN Strategic Action Plan for Consumer Protection (ASAPCP) 2025 which is being implemented by the ASEAN Committee on Consumer Protection. The strategy intends to ensure high common level of consumer empowerment and protection (ASEAN, n.d.). However, there are concerns regarding the protection of consumers who access finance informally through mechanisms such as Tong Tin. The low level of financial literacy results in the lack of financial information, experience and competence to make appropriate financial decision. This contribute to the lack of access to formal financial service and usage and increases reliance on informal providers. Women are slightly more vulnerable as they are more likely than men to save and access credit from informal channels and family and friends.

## Understanding Cambodian Customers

36. **Moderate financial inclusion level.** Cambodia has a moderate level of access to financial services with 71% of adults included, of which 59% of adult's access financial services through formal providers. Cambodia is a country characterized by almost equal access to financial services between men and women. Access to formal financial services stands at 60% for females and 57% for males and almost an equal proportion use informal sources of finance at 12% for males and 13% females. While 29% of Cambodian adults remain excluded from access to any form of financial services the gender split show that 31% male remain excluded compared to 27% female. Whether people use informal sources out of preference rather than an inability to access formal sources is unclear. However, the literature indicates that this may be out of necessity such as due to an inability to fulfil the documentation requirements from formal institutions.
37. The data collected through FinScope survey is analysed and presented in the form of a financial access strand which enables comparison of the levels of financial inclusion. The access strand consists of four categories:
- Banked
  - Other formal
  - Informal
  - Excluded
38. **Other formal channels are the most popular.** In terms of usage of channel, 42% of Cambodian adults only use other formal channels to access financial services. When overlaps are considered 52% of adults use other formal financial service. The use of informal channels follows closely behind with 34% of adults accessing them.



Figure 1 Financial inclusion access strand

Source: FinScope 2015

39. **Non-bank financial institutions are the most common** means of financial access in Cambodia for both women and men, however distinctly more females (45%) access finance through these institutions than males (39%) with a gender gap of 5%. More males use banks as financial service providers with more males (18%) banked than females (15%). Given that a large proportion of men and women are excluded or using informal sources of finance, there remains a clear need to advance formal access among both women and men through addressing the barriers as to why they do not have formal access. The MDIs in Cambodia offers suite of financial products that are comparable to banks and hence leading the efforts of formal financial inclusion in the country. The MDIs have one of the largest outreach compared to most of the banks, and offer low value financial products that are affordable and customized towards the need of the rural and low income population. The ultimate objective is

to have the adult population access banking services which includes MDI services. With MDI's overall penetration being 17% (FinScope, 2015), if MDI's are considered as part of the banked segment, then the overall access to banked services stands around 34%, which is encouraging. Around 47% of 'other formal' are MFIs (MDIs and other MFIs) out of which 33% of 'other formal' is through MDIs. Overall MFIs have a penetration of 24%, of which MDIs have a 73% share.

#### **A closer look at the FinScope financial access strand**

The Financial Access Strand is used to enable comparison of levels of financial inclusion across countries or market segments. The explanation below applies to FinScope in the context of MAP Cambodia diagnostic exercise (2015). In calculating the access strand, a hierarchical approach is used in order to depict the following:

**Banked:** The percentage of adults who have/use financial products and/or services provided by formal institutions regulated by National Bank of Cambodia. This is not necessarily exclusive usage, and these individuals could also be using financial products from other formal financial institutions, or informal institutions.

**Other formal:** The percentage of adults that use financial products from non-bank formal institutions regulated or supervised by a formal institution, e.g. savings and credit unions and postal savings institutions. These individuals could also be using informal products.

Banked and other formal segments, together form the formally included population.

**Informal:** The percentage of adults that is not formally served, but use informal financial products or mechanisms. This is exclusive informal usage and does not include individuals who are within the banked or other formal categories of the access strand who also use informal services.

**Excluded:** The percentage of adults who do not use any financial products- formal or informal- to manage their financial lives.

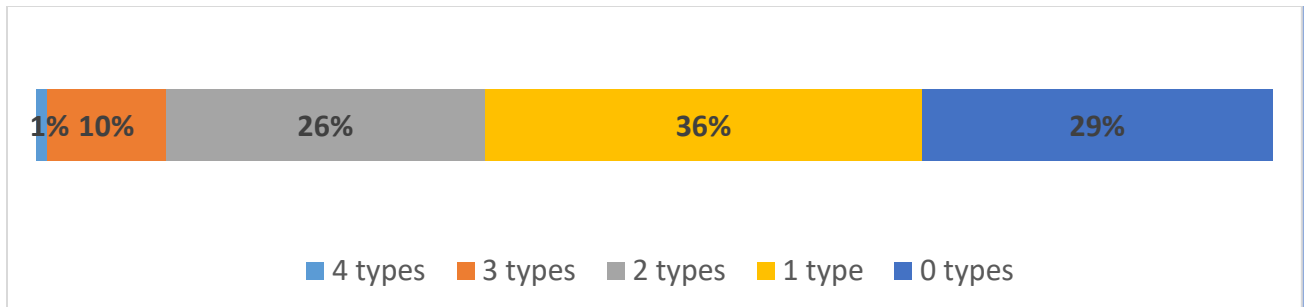
**The access strand does not show overlaps between the various categories.** Consequently, the 'other formal' or 'informal only' segments do not indicate total usage of non-bank formal or informal financial services, but only indicates those individuals who use non-bank financial services and not a bank account, i.e. an informal channel over a formal one. An individual with both a formal and an informal financial product would only appear under formal uptake.

40. *Moderate usage of range of formal financial services.* Over and above measuring the number of channels and products accessed (termed "depth" of access), it is also valuable to understand what the behaviour is of consumers in terms of number of channels and products taken up per person served (termed "breadth" of usage). Individuals have a range of needs that can be fulfilled using financial services and accordingly require a portfolio of financial services to fulfil this. The usage can vary based on the demographic profile and gender, with the difference mainly arising out of differential lifecycle risks and financial needs and economic strategies.

41. In Cambodia, consumers use only one to two types of financial services:



- Majority of usage is only one type of financial services (36% of adults).
- Of those who use two types of financial services: savings and payments is the most popular combination with uptake by 10% adult.
- Of adult consumers: Only 1% of Cambodian adults use four types (i.e. payments, credit, savings and insurance) of financial services.



**Figure 2 Multiple financial product usage by Cambodia adult**

Source: FinScope 2015

42. **Significant overlap between formal and informal.** The usage of formal and informal channels is high with 16% of the population using financial services provided by other formal and informal providers. There is a high usage of formal channels with 26% of the population using only formal providers followed by 12% adults only using informal providers. Banks have the lowest uptake with only 5% adults using only banks to access financial services.
43. **Barriers to access and usage need to be considered.** The access and usage of financial services is generally constrained by barriers that limit the ability of individuals to avail financial services. In terms of access, the following scenario is prevalent:
- **Issue of proximity:** Proximity to formal institutions, specifically commercial banks is an issue given the concentration of distribution touchpoints near key markets in urban areas despite a majority rural population. The cost and time trade-off to travel long distances to reach these points discourages usage. In order to address the gap created by distant banking touch points, other formal providers, mainly micro finance institutions, have been expanding rapidly to serve primarily women clients, with MFI branch expansions registering a growth of 66.74% from last fiscal year 2014. Expanding mobile financial services offer a solution to this barrier. However, FinScope data indicates that a higher proportion of males (78%) own a mobile phone than females (73%), and so any MFSP policy solution will need to account for the 5% gender gap in mobile ownership for women.
  - **Inadequate product features:** Product features offered by formal institutions do not match the need of the population. The value proposition of formal services are not aligned with the needs of Cambodian customers. For instance, there is a lack of products and services for SMEs in general or for those that are unable to meet KYC requirement. As a result, these population segments are served by informal channels or remains unserved
  - **High-collateral requirement to access credit:** Majority of loans from formal institutions are only provided against collateral such as property and land as security for loans. The other criteria for availing loans is the availability of steady and regular cash flow for servicing the debt. The only solution for individuals who are not able to meet these criteria is to approach informal providers.

- **Low ability for entrepreneurs to meet other requirements for credit access:** Most SME's in the country are not registered. Also they fail to meet the regulatory compliances like auditing, tax filings etc. As such, these entrepreneurs lack access to the formal registration documents for their business to access a business account and credit. Moreover, there is a need to raise awareness of the benefits and process of implementing business registration and complying with the reporting standards.
- **Low awareness of insurance:** Low levels of awareness of the concept of insurance and on how it works (partly driven by low financial literacy) have led to low take up of insurance. Social norms and superstition mean that people do not like to talk about potential accidents in the future as they believe it may cause the accident to happen. Moreover, there is a lack of understanding of risk transfer mechanisms and benefits of insurance and in some cases lack of awareness of insurance coverage by some population segment who may have coverage as a rider to other financial products.

44. In terms of usage, the following barriers exists:

- **Low income levels:** Even when financial services are accessible, low levels of income make financial services unaffordable. Majority of the population (75%) earn less than USD 245 per month implying low disposable income for financial services costs.
- **Low financial literacy:** In general, women and men in Cambodia do not have the financial information, experience and competence to make appropriate financial decision for their own situation including choice and usage of financial products and services. Cambodia ranked the lowest among 143 economies in S&P Global Financial Literacy ranking. The low financial literacy rate of 18% (S&P Global Financial Literacy ranking) indicates that the larger population has an impaired ability to engage with financial services. Populations with lower levels of literacy are less likely to save and more likely to have problems with borrowing. The low levels of financial competence results in a reliance on informal providers with the associated consumer protection risks.
- **Low real returns on formal savings:** The real return on savings provided by formal financial service providers is low, especially in comparison to savings in assets or with informal providers. Despite banks being the most trusted institutions, it has not translated into a large customer base due to the mismatch in the returns expectations of the customers.

## Segmenting the population

45. To assist with exploring the nature and dynamics of the need for increased financial inclusion, the MAP diagnostic has segmented the adult population into five distinct target market groups based on main source of income as shown in Figure 3.

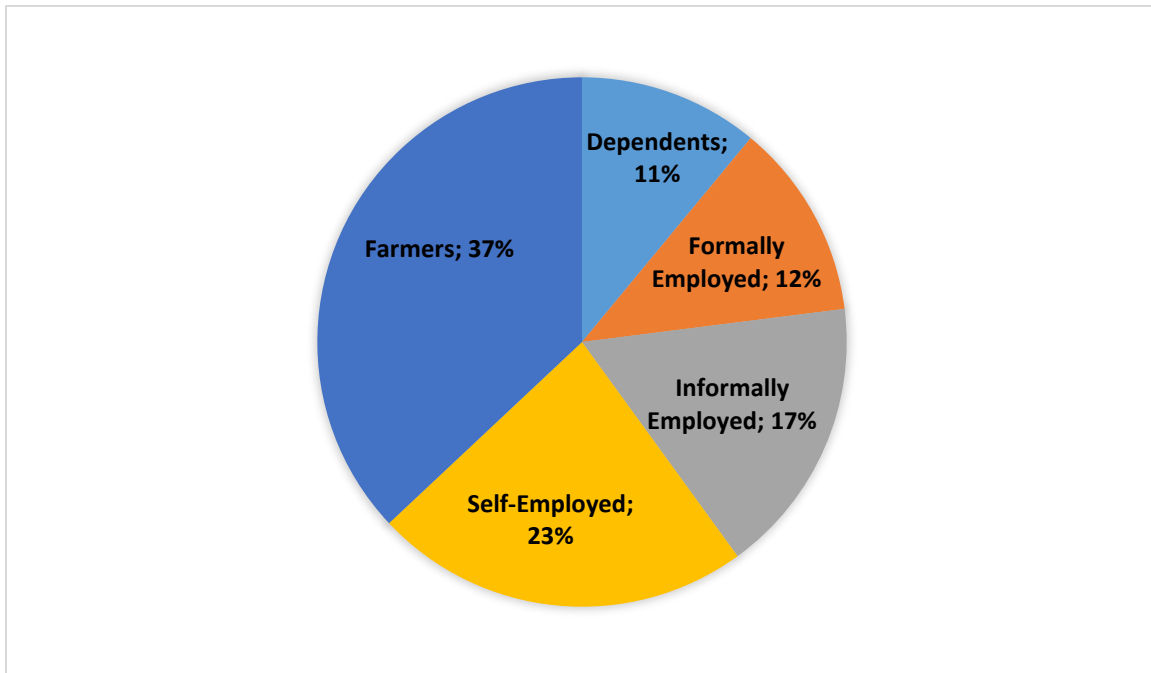


Figure 3 Size of target markets as percentage of total adult population

Source: FinScope 2015

46. The adults grouped into one target segment share similar financial needs and constraints. The target market split and key features are as follows:

- **Farmers** (3,282,829 individuals- the largest target market at 33% of total adult population). This target segment comprises of individuals who obtain their income from farming activities. Of these, 32% are subsistence farmers and 68% both consume and sell their produce.
  - Second lowest median monthly income of KHR 250,000 (USD 61).
  - Second highest percentage of individuals over the age group of 60 (10%).
  - Majority (97% of total farmers) are based in rural areas.
  - Male female participation ratio at 47% and 53% respectively.
  - Least educated target segment with 17% of farmers having no formal education, 53% of farmers having primary or lower education and only 1.41% having tertiary or higher education.
  - 55% of this target market primarily use formal financial services; 10% banked and 45% other formal, whereas 21% are excluded.

- **Self-employed** (2,029,851 individuals – the second largest target market at 20% of total adult population). This target segment includes individuals with their own business as the main source of income. These businesses may or may not be registered with a government entity.
  - Second highest median income earners at KHR 600 000 (USD 147).
  - Lowest percentage of young individuals under the age group of 30 or lower (34.2%).
  - Compared to other target markets, highest percentage of population (47% of self-employed) in urban areas. Male female participation ratio at 47% and 53% respectively.
  - Second most educated group with 7% having tertiary and higher education and 39% with primary education or less.
  - 63% of this target market use formal financial services; 22% banked and 41% other formal, whereas 18% are excluded.
  
- **Informally employed** (1,503,306 individuals – the third smallest target market comprising 15% of the total adult population). This target segment includes individuals whose main source of income is either through salary and wages from non-registered individuals or piece work.
  - Lowest median income of KHR 200,000 (USD 49).
  - Second highest percentage of young individuals under the age group of 30 or lower (49%).
  - Mostly rural based with urban rural split at 25% and 75% respectively.
  - Lowest percentage of adult population having tertiary and higher education at 1.75%, whereas 60% with primary or lower education.
  - Highest target market excluded from access to financial services at 26%. Meanwhile 51% of this target market use formal financial services; banked (8%) and other formal (43%).
  
- **Formally employed** (1,112,375 individuals – the second smallest target market at approximately 11% of the total adult population). Individuals whose main source of income is either through salary or wages from the government and state or private companies registered with a government institution are categorized under the formally employed target segment.
  - Highest median income of KHR 620,000 million (USD 152) per month.
  - Highest percentage of young individuals under the age group of 30 or lower (56%).
  - Urban rural split at 39% and 61% respectively.
  - Male to female ratio at 57% and 43% respectively.
  - Most literate among the adult population with 26% having tertiary and higher and only 25% having primary or lower educational attainment.
  - Highest access to formal financial services; with 42% banked and 32% using other formal services, and only 12% excluded.
  
- **Dependents** (1,038,147 individuals- the smallest target group at 10% of total adult population). This target segment includes those individuals who rely on remittances sent by relatives or friends (internationally or domestically), or procure their income from a household member.
  - Highest percentage of females at 73% and males at 27%.
  - The third poorest target market receiving a median monthly income of KHR 200,000 (USD 49).
  - Highest percentage of individuals over the age group of 60 (30%).
  - Urban rural split at 34% and 66% respectively.

- Relatively high percentage with tertiary or higher education (6%); whereas 61% having only primary or lower education.
- 61% of this target market use formal financial services; 14% banked and 47% other formal, whereas 17% is excluded.

47. Based on the diagnosis of each target market segment the key financial services needs identified for each of each target market segment is shown below:

**Key target market needs**

<p><b>FARMERS</b></p> <ul style="list-style-type: none"> <li>• Upfront capital and flexible repayment options that match their seasonal income, including out grower schemes.</li> <li>• Flexible low cost savings that enable consumption smoothing to mitigate issue of irregular cash flow.</li> <li>• Low cost insurance products that help mitigate risk associated with natural calamities, agriculture, individual life cycle health risk key-person risk (main income earning individual).</li> </ul>	<p><b>SELF-EMPLOYED</b></p> <ul style="list-style-type: none"> <li>• Capital for investment in business</li> <li>• Easy and convenient access to savings</li> <li>• Cost effective and easily accessible digital payment mechanism</li> <li>• Products to assist with mitigating risk attached to household and business especially products that reduce key-person risk (main income earning individual).</li> <li>• Products to facilitate investment in productive potential and skills training</li> </ul>	<p><b>INFORMALLY EMPLOYED</b></p> <ul style="list-style-type: none"> <li>• Flexible low value savings product to facilitate savings of irregular income so as to help in consumption smoothing.</li> <li>• Accessible and cost effective remittance products which facilitate savings and provides access to credit against savings.</li> <li>• Products to facilitate investment in productive potential and skills training.</li> </ul>
	<p><b>FORMALLY EMPLOYED</b></p> <ul style="list-style-type: none"> <li>• Cost-effective transaction account for salary receipt, with functionality and affordable pricing that enable digital transactions.</li> <li>• Deposit mobilisation by providing deposit guarantee on savings</li> <li>• Recurring deposit accounts enabling savings in disciplined manner while allowing flexibility.</li> <li>• Long term products facilitating retirement savings.</li> <li>• Key potential market for medical and life insurance products.</li> <li>• Potential for bundled savings, credit and payment product to enhance access further.</li> </ul>	<p><b>DEPENDENTS</b></p> <ul style="list-style-type: none"> <li>• Low cost reliable payment channels for receiving remittance.</li> <li>• Financial products that leverage remittances and facilitate savings for consumption smoothing.</li> <li>• Products to facilitate investment in productive potential and skill training</li> </ul>

48. **Majority of the population is poor and based in rural areas.** Farmers, dependents and informally employed target market, together accounts for more than half (59%) of the country’s total adult population. These target market segments are most rurally based groups and have the lowest median income. Farmers (USD 61) and dependents (USD 49) have median income lower than the national median income of KHR 400,000 (USD 98) while informally employed (USD 98) have median income which is at par with the national median income.
49. **Significant percentage of the population has more than one income source.** Although segmentation is based on the main source of income, a significant (33%) section of the adult population depends on more than one income source. Additional income for majority of the adult population is derived from farming activities, as well as remittances.
50. **Uptake of financial services is highest with other formal financial service providers.** The usage of formal financial services is driven by other formal financial service providers such as Micro Finance Institution (MFI’s), Micro finance Deposit taking institution (MDI’s), and Agriculture Cooperatives. The uptake of formal financial services from such institutions is higher than with banks. One key reason is that the majority of the population is rurally based where such institutions have a significant presence. Aside from being easier to access due to proximity, these institutions (MFIs, MDIs and Agriculture cooperatives) also provide appropriate products that match the needs of a large segment of the population.

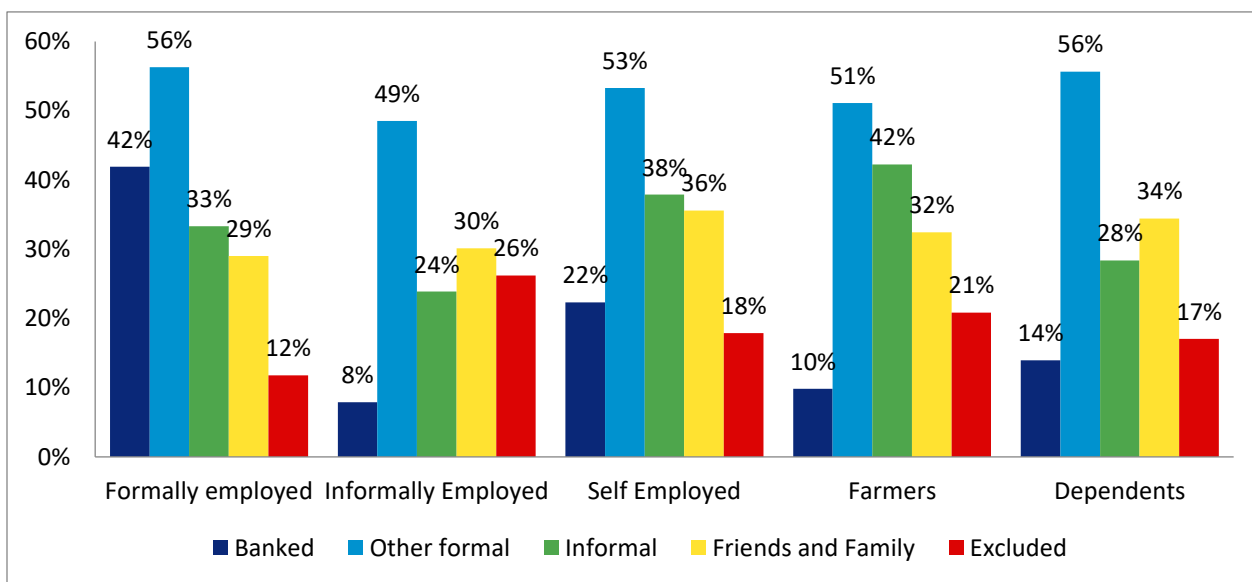


Figure 4 Financial service usage by target market segment.  
Source: FinScope 2015

51. **High usage of informal financial services across target markets.** There is a relatively high usage of informal financial services across all target market segments as shown in **Figure 4** which shows the overlap data of usage of financial services. Farmers (42%) are the key users of informal channel followed by the self- employed segment (38%). It is notable that self-employed segment is also the highest users of friends and family (36%) as a channel of financial services. The usage of formal

financial services is lower for rural and low-income target market segments with only 8% informally employed, 10% farmers and 14% dependents using banks.

52. ***Women financial inclusion.*** Non-bank financial institutions are the most common means of financial access in Cambodia for both women and men, however distinctly more females (44%) access finance through these institutions than males (39%) with a gender gap of 5% (FinScope, 2015). Conversely, more males use banks as financial service providers with more males (18%) banked than females (15%) (FinScope, 2015). More females (46%) save than males (39%) – a gender gap of 7%. The most common mechanism for saving through informal providers for both females (37%) and males (28%), with more females saving informally than males at a difference of 9% (FinScope, 2015). However, UNCDF’s big data customer journey research (based on data from 4 FSPs in Cambodia - covering around 20% of the loan and savings market), found that women’s average saving amounts were much lower compared to men and their accounts were more likely to be dormant.

## The landscape of financial services provision

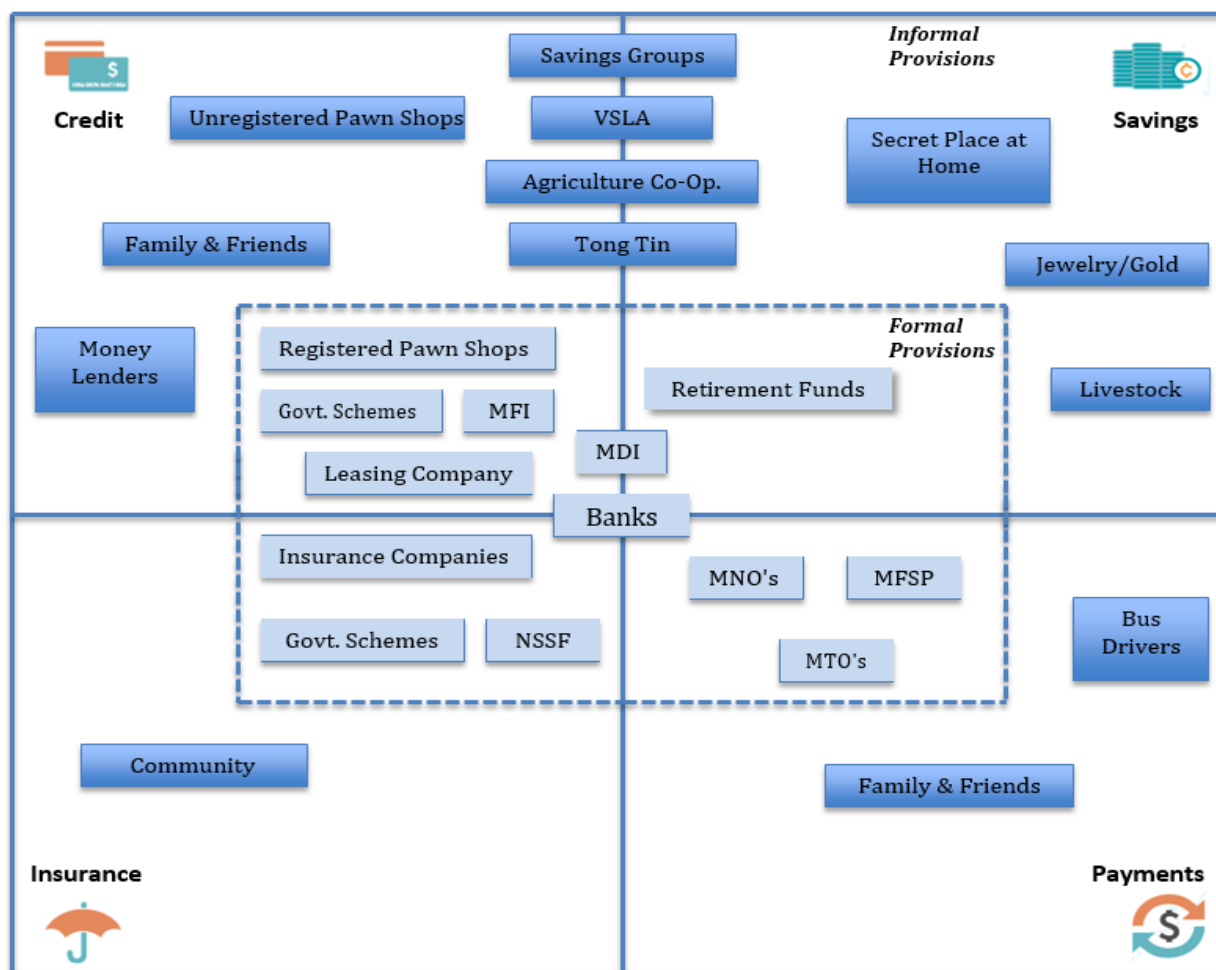


Figure 5 Overview of providers currently operating in Cambodia

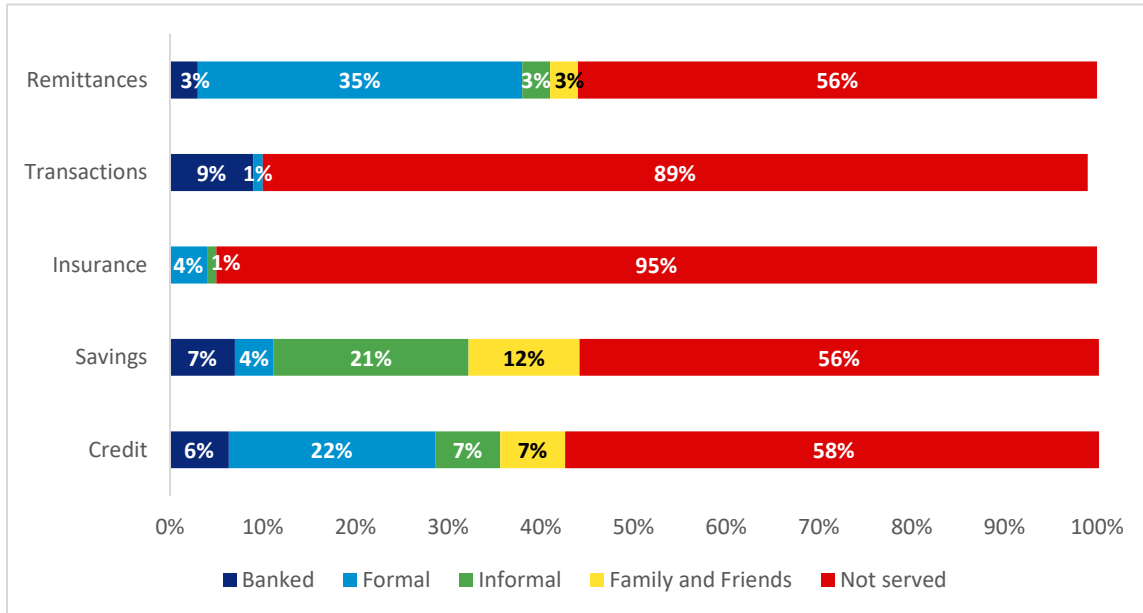
Source: Authors' own

53. **Large number of banks operating in the country.** As of 2016 there are 52 banks (37 commercial and 15 specialized banks), 64 microfinance institutions, 7 microfinance deposit taking institutions, 857 agriculture cooperatives, 12 leasing companies and 112 registered pawn shops operating in Cambodia.
54. **Banks dominate formal provider landscape in terms of portfolio value.** Cambodia has a high concentration of formal financial service providers. There is an increasing trend amongst financial service providers to merge, acquire or graduate into a higher category financial institution. Although in terms of usage, other formal channels including MFIs and mobile money have a higher uptake the banking system holds 75.5% of total assets in the financial system, 80% of total loan value and 90% of total deposit value (NBC, 2016).
55. **MFIs extending outreach rapidly.** As of December 2016, there are over 71 MFIs in operation, moreover taking into consideration 170 registered microfinance operators the total rises to 241, with over 6,237 branches in operation.



56. ***Banks use variety of channels to improve distribution, however still concentrate in urban centres.*** Given the financial constraints and low incentive to venture into rural markets, expansion of traditional branches has been deemed a costly investment in Cambodia. The establishment of traditional branches can work on the hub and spoke model where branch acts as a hub to support other linked distribution channels with services such as cash reticulation. However, the concentration of branches of commercial banks and microfinance institutions is mostly in large cities and economic belts such as Phnom Penh, Battamabang, Prey Veng, Kampong Cham, Siem Reap which are some of the largest cities of Cambodia and Kandal which serves as the economic belt. The extension of the banking footprint through digital channels increases the need and reliance upon encashment points and cash reticulation systems and infrastructure.
57. ***MFIs expanding reach in rural areas.*** Although the head offices of almost all MFIs are concentrated in the capital Phnom Penh and certain urban centres of Cambodia, MFIs have extended their services in the remote areas of the country. In 2014, 31,359 villages had access to MFIs whereas the number increased to 41,027 in 2015 indicating a 30.83% increase in access to finance in villages. However, this number declined to 38,896 villages (NBC, 2016). However, MFIs are more extended in provinces and communes of the country with proximity to markets and denser population.
58. ***Insurance providers mainly targeting urban population.*** As of December 2015, Cambodia has seven general insurance companies, four life insurance companies and one reinsurance company. Insurance companies are partnering with banks and MFIs to distribute their products. Banks mostly cater to the urban population and insurance companies are leveraging the network of MFIs to market micro insurance products. Lately, mobile-delivered micro-insurance is also gaining traction.
59. ***Potential to leverage mobile financial services.*** The alternative distribution landscape in Cambodia is still in its infancy. In Cambodia, mobile money holds the potential to support traditional distribution channels and increase access to financial services. While an estimated 23.82 million people have mobile phone and fixed telephones subscription (Royal Government of Cambodia, 2014), access via this channel is widespread across the adult population. Moreover, there are a total of 17,840 mobile money agents operating throughout Cambodia implying a coverage of 1 mobile money agents per 580 adults. Mobile money providers are currently providing fund transfer services along with utility payments and micro-insurance payments. Given the ease of access to the widespread mobile money agent network in the country, the uptake of mobile money has been witnessing encouraging growth. The availability of financial products in the same platform will provide access to the larger population.

## Provision of services



**Figure 6 Financial service usage across the four product markets (savings, payments, credit, and insurance)**

Source: FinScope, 2015

60. **Remittance and savings are the most commonly used financial services:** Remittance products are the most commonly used financial products with 44% of adults either sending or receiving remittances. Of those who use remittance, 35% of adults use formal channels which is led by mobile money. 43% of adults have taken-up savings products; 42% have accessed credit. Only 10% of adults accessed transactional services. The uptake of insurance is low at 5% of adults.
61. **Credit mostly through formal channels.** While 6% access credit through banks, 22% rely on formal channels comprising of MFIs.
62. **Informal transactions dominate in cash-based economy.** Cash transactions are dominant in Cambodia, including both USD and KHR. In terms of digital transactions, banks are the most used channel with 19% adults carry out their digital transactions through banks.
63. **Savings mostly informal or in-kind.** Savings is the second most accessed financial service with the majority (21%) using informal savings products. FinScope shows that 49.1% of adults save in cash, jewellery, livestock and assets or in cash with family and friends - indicative of large un-intermediated savings.
64. **Insurance uptake is low.** Only 5% of the adult population have insurance, the split of which is 4% formal and 1% informal. There is a very high exclusion of 95% adults without access to any form of insurance. The irregularity of income makes it difficult for individuals to commit to regular premium payments for risk events which is generally followed by financial support from the community.

## Opportunities for increasing financial inclusion

65. The MAP diagnostic has identified six priority opportunities for increasing financial inclusion in Cambodia.

### 1. Promote savings in formal financial institutions

66. Savings enables capital formation that promotes growth and development of the economy through investments facilitated through the financial sector. The Rectangular Strategy and Financial Sector Development Strategy (2016-2025) has prioritised upon the mobilisation of savings to provide capital for growth and development. Initiatives to promote local savings and channelling them into investment to reduce dependence on the current system of offshore funding, and reduce the amount of overseas investment, has been the priority of the Royal Government of Cambodia.

67. *Preference to save in informal due to ease of access and usage.* Reasons given during the FinScope survey regarding savings with the formal channels being considered expensive when compared to informal channels is because of combination of reasons like annual charges, account maintenance and inaccessible because of high minimum balances, along with low interest earnings. Accordingly, people with savings often save in-kind assets (such as livestock, gold, real estate) or in cash. Cash is the most widely used savings instrument in Cambodia by a wide margin (22% of adults save in this manner). The primary reason behind holding savings in these forms are high liquidity, convenience, low transaction costs and better real returns on assets. This is indicative of savings outside the financial sector forming an important part of the consumer's financial lives.

68. *Formal savings are often short-term in nature.* Majority of savings products on the market are for the short term (ranging from 3-12 months) and there are limited beyond one year saving instruments being offered. Cambodian adults were also found to be saving money in their non-interest bearing mobile money accounts mainly due to zero deposit or service fees. This is because the overall value proposition of the product is more suited to the market. A major advantage of saving with mobile money rather than with banks is the greater distribution network of mobile money agents. For regular low value savings contributions, travel costs from a rural area to access banking infrastructure may constitute a major proportion of the value of the savings. In light of this, it is important to develop innovative and long term savings products and encourage the usage of the same through adaptations to make it suitable for the users. These longer-term deposits are necessary to support capital formation that can be mobilised for developing a strong credit market and finance projects. At present, foreign funds are the main capital source to catalyse long term credit by the financial institutions.

69. *Most of the population struggle to find income to save and those that do, save infrequently.* Most adults struggle to save because no money is available after settling living expenses or they do not have an income stream at that time.<sup>2</sup> Further, most adults do not save frequently. The majority of savers do so less than once a month (67% of adults that save), with only a small amount saving more frequently (20% of adult savers that do so monthly and 12% that save weekly). This is understandable in a population with very low income levels, where sourcing any level of surplus income is difficult – although not impossible. There is evidence across the MAP studies to date of populations that manage

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<sup>2</sup> Of adults that do not save, 86% state the reason as not having any surplus after settling living expenses and 29% state no income stream at the time.

to save small amounts despite sitting below international poverty lines. This is often driven by saving for key needs. In Cambodia, the priority needs are to saving for consumption smoothing and risk mitigation.

70. ***Innovative products addressing consumer needs will assist in expanding savings uptake.*** There is an opportunity for mobilizing savings into the formal system through products that would align with the need of the Cambodian adults in terms of flexibility and high rate of returns. Most of the adult population trust formal institutions, especially banks, for saving. Yet, evidence indicates that formal institutions are not the key providers for savings. This brings in opportunities for formal institutions to increase their outreach and market share which can be done through product interest correlation, development of product design or service offering around the product and making it affordable by reducing charges around the product. Individuals place their key savings with informal savings groups, the formal cooperatives and MDIs. Their success and the popularity of in-kind savings present a case for the formal channels to learn and replicate similar value propositions through exploration of working modality with such providers. It is also important to promote savings as part of personal financial planning and could be achieved through commitment saving products.
71. ***Consumer education key for encouraging savings habit.*** The Government can commence initiatives to encourage people to save through educational campaigns and also incentivize saving in formal channels through the provision of benefits such as deposit guarantees, credit provisions and tax benefits.

## 2. Improve the functioning of the credit market

72. ***Credit, when allocated efficiently, can be a core driver of economic growth and development.*** The balance between enhancing access to credit and consumer protection is fundamental to the development of a sustainable credit market, and requires a comprehensive view of the market from both the consumer and provider's perspectives.
73. ***Rapidly growing credit sector without long-term sustainability.*** The economy of Cambodia has seen a rapid growth in credit, mainly brought about from the entry of foreign banks, increased foreign funding of domestic banks and buoyant domestic activity in a growing number of micro finance institutions. Commercial banks are providing the largest proportion of credit by volume, but is almost negligible in terms of the proportion of the overall credit client base that they serve. Their focus is mainly on corporates and high net worth individuals, with low evidence of movement downmarket despite growth in account figures. Only 6% of Cambodian adults take up credit from banks, and 22% (2,203,784) access credit from micro finance institutes. Borrowing from informal providers stood at 7.27% (722,567) and family and friends stood at 7% (696,171) while 58% (5,755,025) of the adults did not have access to any form of credit. MFIs, in particular, are a source of credit for majority of the population who could not access loans from banks or were borrowing at very high interest rates from the informal providers. These providers therefore hold the potential to provide value to clients, but sometimes do not comply with formal credit reporting and controls against over-indebtedness. While the opportunity for value exists, it should be balanced to ensure appropriate consumer protection controls are in place.
74. ***Credit against movable asset can be a key driver.*** All loans and advances from banks and MFIs are backed by immovable assets as collateral. This limits the access to credit facilities for people without

collateral. The implementation and operationalization of the Secured Transaction Registry, value chain financing group guarantee schemes, expedited legal support for realising security on loans, and other schemes supporting enhanced categories of collateral would expand credit uptake for the greater population. Further, this highlights an opportunity for unsecured credit products.

75. ***Credit is mainly taken up for productive purposes and therefore market holds high potential to repay.*** Credit uptake is highest amongst farmers (also the largest target market), informally employed and self-employed target markets. This is a good match to the top uses of credit that are largely for productive purposes, namely, 25% of credit users borrow to finance farming expenses, with 17% invest in business start-ups and related activities, 14% in vehicles and 10% in property purchases. Credit is accessed by 15% of adults as a means of smoothening their consumption (FinScope, 2015). Supporting this analysis are data from the NBC that indicates business lending represents more than 80% of the formal credit portfolio of banks and MFIs. This shows a target market which is investing the capital they gain from credit in productive purposes and therefore building their ability to repay. Making good clients for credit providers. There exists potential to extend inclusion further to this target market. For example, supporting their understanding of how to build a good credit profile.
76. ***Measures to prevent multiple borrowings and protect vulnerable groups will be necessary.*** Qualitative evidence indicated that the fact that consumers can access credit from multiple sources means that a portion of these individuals are able to hide over-indebtedness by using one form of credit to repay another. As per the CBC data Mar 2016. 24% of loan customers hold more than one loan account within the formal providers and 28% of the total outstanding balance in the market is involved with multiple institution relationship. However, by end 2016, as per CBC, the number of borrowers from one institution is 83.13%, from two institutions are 13.7%, from three institutions are 2.83%, from four institutions is 0.33% and from more than four is 0.04%. The multiple institution relationship and related Portfolio at Risk (PAR) for borrowers from more than three institutes indicate signs of over-indebtedness. Refinancing of loans often puts extra financial burden on the borrowers as they need to repay and then borrow, thereby incurring extra charges. Although no indication of widespread consumer abuse was found, there have been indications of over-indebtedness and loan defaults. Strong credit reporting and mechanisms to evaluate the capacity to borrow should be in place to support mitigating this risk.
77. ***Accurate credit reporting for risk assessment.*** The Credit Bureau is playing an important role in improving the credit market but it needs to be strengthened and the credit reporting and credit risk assessment by BFIs will be necessary. All registered Financial Service Providers (FSPs) are linked to the bureau, and can be further enhanced in terms of customer details for example on collateral submission. CBC aims to provide data to help manage credit risk, prevent fraud and provide real-time data to consumers. In the last 4 years of its operation, CBC has managed to maintain records on approximately 3 million Cambodians. This is a rough match to the number of adults that indicated borrowing through registered institutions in the FinScope survey. However, collection of information on the borrowers, especially from MFIs, has been an issue in terms of timely reporting and accuracy. Though with the issued Prakas of use of CBC data to determine the credit worthiness of the borrower becoming mandatory, there is a need to review the same in practice. Once this is effectively done it will facilitate in tracking the loans and also prevent cases of multiple borrowings and rolling over of loans between credit reporting cycles.

### **3. Increase usability of digital payment systems**

78. Access to affordable and enhanced payment system can be the driver for availing low cost financial products including remittance, transaction, savings, credit and insurance, through alternative distribution channels. The key impact would be on remittance- itself a crucial source of secondary income and transactions – by reducing the cost of doing business or managing household finances.
79. *Digital payment channels hold the potential to support cash and cheque transactions.* Cambodia is a highly cash based economy with 89% adults use cash for transactions (FinScope 2015). There has been a slow but steady increase in the usage of cheque. In the short term, digital payment channel can be the efficient conduit of payments but should be facilitated by increased access to cash-in-cash-out (CICO) points such that cash and cheque transactions are also facilitated. MAP study shows that the issue of access, cost, convenience and trust are the key impediments for the uptake of digital channels. In order to increase uptake of digital payment, the digitization of salary payments of government and private employees will provide a key push. The establishment of these cash out points needs to be driven by the market while NBC needs to promote electronic payment. Increased access to CICO points will allow customers to conveniently deposit and withdraw cash through channels such as agents, bank branches, POS and ATMs.<sup>3</sup> CICO points and the formal cash reticulation infrastructure is a critical bridge between the real economy and the digital financial system and represents a crucial step towards the increase, acceptance and usage of digital channels in the long run.
80. *Plan for transition to digital transactions, including enhancing cash support of these channels in the short-medium term.* Digital payment channels provide speed, security and cost efficiency to carry out transactional operations particularly over distance. Cambodia is a highly cash based economy that would benefit from shifting to greater digital transaction usage. A key catalyst for the adoption of digital channels is first the uptake of deposit/transaction accounts with providers such as banks and MDIs, and payment account with mobile money operators. These are the resource pools from which digital transactions take place and income flows into. One means to ensure the usage of these accounts is a push for digital payment into these accounts from government payments and employer payments. For example, social security pay-outs, procurement payments and salary payments. It is critical to ensure that there are a sufficient digital transaction and encashment points to enable employees to access these funds without undue hardship. Further to this point, digital transactions need to be supported by readily available encashment points and cash reticulation infrastructure to allow consumers the choice of transacting in cash until digital payments are sufficiently widespread to eclipse the use of cash. Cash out points and the formal cash reticulation infrastructure is a critical bridge between the real economy and the digital financial system and represents a crucial step towards the increase, acceptance and usage of digital channels in the long run. Cheques exist as a bridging payments instrument between digital and cash transactions. Their use should be discouraged and eventually discontinued as their function is already accommodated in EFT payment streams and they introduce unnecessary risk, logistic complexity and a layer of cost to banks and financial institutions that can be better applied to digital transactions. Currently, the NBC has put a lot of effort in promoting the use of electronic payment with the development of infrastructures and the introduction of enabling regulatory environment. However, it is realized that the financial literacy is still limited, so public awareness initiatives on digital payment instruments and channels should be taken into consideration especially for the people in rural area, government employees, and retired individuals.

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<sup>3</sup> The king is (not) dead; <http://map.uncdf.org/sites/default/files/Documents/note05.pdf>

81. *Domestic and international inbound remittance traffic can be directed through alternative distribution channels.* Cambodia receives international remittances (equating to 2.2% of national GDP in 2015). These international inbound remittances are mainly channelled through banks and money transfer operators. (The World Bank, 2016). In the domestic remittance sector mobile money is the preferred channel for both receiving and sending money (The World Bank, 2016). The preference for over the counter (OTC) assistance is one of the reasons for higher usage of mobile money. Mobile money providers are key players supporting the expansion of access to financial services through the transactional footprint they extend to rural and urban areas with their agent networks, as well as the lower-cost mobile money product they offer. Both male (3%) and female (3%) have equal level of uptake of bank to send and receive remittance however, female (37%) have a slightly higher uptake of other formal channels compared to male (32%). Female appear to be more comfortable using mobile money and other formal providers. However, it is notable that more men (59%) are excluded than female (54%). Given the high level of informal migration, the easy documentation requirement of mobile money transfers is a key element in redirecting remittance informal remittance transfers into the formal channel and additionally that remittance transfers can readily be accessed through ATMs, mobile money agents and kiosks. In terms of international remittance, the majority of receivers in Cambodia have received money from formal remittance channel, mainly from money transfer operator including Western Union, Money Gram, and IME. In fact, Cambodia has the highest percentage of people receiving domestic remittances. Thus, adopting the conducive environment for mobile money operator to provide cross-border remittance service is a key. Given this importance, the NBC has introduced new regulation on “the Management of Payment Service Institution” which enables mobile money providers to open channel and corridor for cross-border remittance.
82. *Utilize regional platforms and incentivize development of local retail payment infrastructure.* The development of payment infrastructure to support the clearing and settlement of inter-bank payment transactions will be essential. On the retail side, the National Clearing System (NCS) was launched in late 2012 to facilitate the central clearing of payment via checks and electronic payment orders, and Fast Payment System in July 2016 to enable real-time fund transfer in local currency across banks and microfinance deposit taking institutions (MDI) with the service network located all over the countries. Fast Payment allows the beneficiary to receive fund immediately to meet their liquidity need. The NBC has now encouraged member institutions to expand their Fast Payment System’s channels to internet/mobile banking for customer convenience. Apart from this, the NBC is working on the development of Cambodian Shared Switch (CSS), a newly developed system, which is now in the testing stage with member bank and MDI. The system allows customers to transact across banks and MDIs via ATM and POS terminals using debit card. This system is scheduled to go live within 2017. To promote the use of CSS, the expansion of the ATM and POS should be considered especially in the rural area. The acceleration of the access channel of Fast Payment and ATM and POS will become a catalyst in enhancing interoperability and increased usage of digital payments interoperability and increased usage of digital payments. In addition, the NBC also allows the payment service provider, specialized bank, Switch operators to become members of the systems in order to expand the service network outreach to the rural area. On the large value side, the NBC is now developing the Real-Time Gross Settlement (RTGS) system to clearing and settlement of large value payment. The introduction of the RTGS will substantially reduce the settlement risk of large value payment.
83. *Explore possibility for ASEAN inter-linkages and review interconnection options:* NBC introduced FAST system to promote Riel based transactions, enabling real time electronic fund transfers and mobile banking transactions. In order to integrate the local payment system with the regional system,

NBC has considered participating in the Asian Payment Network (APN) and connect the Large Value Payment System (LVPS) to the RTGS of other ASEAN members(APN). No doubt, connecting to the APN holds the possibility of significantly reducing the cost of international remittances for select regional corridors. It is key that the establishment of ATMs and POS is prioritized while mobile money acceptance and ATM – Mobile Money integration is emphasized to improve access and usage of retail payment infrastructure.

84. ***Forward looking regulations to encourage market growth.*** In order to ensure the development of retail payment infrastructure and services in the country, it is key that the regulator works with the private sector and addresses regulatory issues. Forward looking regulations need to facilitate interoperability at the channel, device, instrument and payment systems levels whilst also promoting competition among the providers at the consumer service level. Moreover, given the rapid pace of development in the payment technology landscape, the regulations should encourage adoption of new business models and innovative payments instruments using international standard and best practices. Given the rises of new business model, formalizing the role of agent banking should be taken into consideration as part of initiatives in promoting the financial inclusion.

#### **4. Prioritize the development of a well-functioning insurance market**

85. Cambodia has a nascent insurance market with very low uptake. Irregular and low income makes the population highly susceptible to risk events that mostly result in wealth erosion. In case of risk events, individuals tend to borrow or use savings to mitigate financial needs. Moreover, men and women face different risk profiles requiring the tailoring of insurance products. Since women are represented in greater numbers among the poor and have fewer assets to fall back on when a risk event happens, they can benefit more from such risk protection mechanisms. Establishing a well-functioning insurance market will improve individual’s ability to tackle the financial implications of risk events.
86. ***Young uninsured population – a potential market for insurance companies.*** Cambodia’s insurance sector is still at a nascent stage with the sector focusing mainly on insuring foreign investment projects. The uptake of insurance is very low at 5% of adults with a large potential for enhanced market penetration. Cambodia’s economically active population is mostly under the age of 40 (63% of population), therefore including a youth focus in increasing insurance penetration can potentially drive uptake. The young population accompanied by a growing economy provides ample potential for the growth of insurance sector. These products need to be tailored to the different risk profiles of men and women and their differential ability to pay for insurance considering the gender differences in risk appetite. Educating the young population on the need and benefits of insurance will be crucial in developing the market.
87. ***Mandatory insurance provision assist in driving uptake.*** Mandatory insurance in Cambodia is currently limited to Motor Vehicle Third Party Liability Insurance, Construction Insurance and Insurance for Passenger Transport (Insurance Law of The Kingdom of Cambodia, 2000). The mandatory vehicle insurance has assisted in the increased adoption of vehicle insurance, wherein the sub-sector registered a 14.5% growth in 2015 (IAC, 2015). In a nascent market, mandatory insurance is known to drive uptake and can be a useful tool for driving uptake of products essential for the full population’s well-being such as health insurance schemes. It should be applied with caution as it adds an expense to the underlying asset covered by the insurance which can limit use or uptake of that asset where costs are prohibitive.



88. ***Incentives needs to be in place to drive uptake for segments that can afford insurance.*** In the current situation, insurance premiums are subject to double taxation. While individuals are paying tax, administrative fee and fronting fees, insurance companies are subject to tax on gross premiums received and on non-insurance income. Insurance intermediaries charge non-deductible VAT on their commission and insurance companies are liable to pay a 0.5% contribution of their total premium collected to the MEF's Insurance Industry Development Fund.
89. ***Micro-insurance supported by regulation can drive uptake.*** The Ministry of Economy and Finance has defined micro- insurance as the provision of insurance contract to low-income group of population and provided a specific institutional licensing framework. For example, the minimum capital required to establish a micro insurance company (life or non-life) is substantially lower than traditional insurance companies at KHR 600 million (USD 147,492). Take-up in rural areas is mostly driven by low cost micro insurance and group based insurance products. With support of micro-insurance in regulation and evidence that it holds potential for enhancing market take-up, this product class should be explored for its potential to enhance inclusion specifically for low income individuals by availing low cost crop insurance products and endowment life insurance products.
90. ***Insurance products can be customized to meet the population's need.*** The immediate potential to expand market penetration is in the agriculture and health space. In an agriculture based economy risk events affecting harvest impacts a large section of the population as 58% (5,749,834) of Cambodian adults are engaged in farming. Non-life insurance companies dominate the insurance market in Cambodia and holds the potential to expand into agri-insurance products. Secondly, a large section (18%) of the population experience illness in the household that require to assist with mitigation. Potential exists for the few life insurance companies operating in the market to offer low cost health coverages. Further exploration on the viability of servicing these needs via insurance is needed.
91. ***High cost agent based model providing space for telco based providers to grow.*** For distribution, Insurance companies largely work with individual and corporate agents on a commission basis. As the capital requirement for registering as an insurance broker is high, insurance consultants are filling the gap. However, in rural areas, the gap created is being filled by the alternative agent of telco based providers. The telco based model is being leveraged to provide convenient access in rural areas. This is mostly being done through micro general insurance and micro life insurance products. It holds the advantage of being a lower cost model than the traditional distribution channels and with much wider physical reach as the telecommunications providers already have access to a high percentage of the adult population.

## 5. Build institutional capacity

92. Reforms need to be initiated at various fronts to shape a more financially inclusive sector in Cambodia.
93. ***Technical skill development to address the operational issues.*** Given the high number of financial service providers operating in the country, effectively monitoring and regulating the sector has become a key challenge for the regulators. The limitation arises mainly due to limited skilled human resource and limited financial capacity of the regulator. In order to address these limitations, investments need to be made to develop technical skills of the regulators. This is supported by the

FSDS which includes a focus on building the human resource capacity of the regulators and also seeks to strengthen the regulation and supervision mechanism in the country.

94. ***Expanding coverage of single ID for easing requirement for access to formal services.*** Fast tracking of the complete replacement of Identity cards with new national IDs will facilitate a complete and integral record of individuals, the impact of which will greatly enhance supervision of the credit market and underpin AML/CFT compliance. A potential avenue for this is a uniform biometric ID backed by a centralized database. Experience in other jurisdictions points to significant net savings for both government and financial institutions alike which eclipse the cost of a slim line implementation of standardized biometrics on open system architecture, with the caveat that poorly designed biometric implementations that are closed system or data heavy can have severe cost benefit implications. Design of a reliable system is key to ensure it provides the trusted information resource required by financial services institutions. The expansion of the coverage of single ID will greatly benefit women who disproportionately lack the ownership of suitable ID qualifying them to access formal finance.
95. ***Strong judiciary key to build confidence.*** Despite having the regulations and judiciary system in place the robustness and effectiveness of the Commercial Court and the National Commercial Arbitration Centre, have been marred with bureaucratic process delays. Strengthening the weak and inefficient judiciary systems by reducing the case load and increasing access to justice and resolution of financial matters will provide key support to financial services function. Potential initiatives include developing streamlined mechanism(s) to handle financial services disputes through well-resourced Ombudsmen, arbitration and/or specialized commercial courts and consumer courts or tribunals. This will enable reasonably priced and timely settlement of disputes between consumers and financial businesses. The ability to provide effective redress will enable the financial sector to provide a valuable service offering. Access to effective redress is also aimed at increasing the level of trust in particularly formal financial services.

## **6. Improve financial literacy, awareness and consumer empowerment**

96. ***Individual's*** ability to positively benefit from their engagement with financial service providers and usage of appropriate financial products rest on their financial capability. Interventions ensuring enhanced financial literacy, awareness and consumer empowerment will be key in increasing financial uptake in the country.
97. ***Low level of financial literacy.*** There is a general low level of financial literacy in Cambodia with considerable number of adults unable to understand the basic function of banks in particular. Cambodia ranked the lowest among 143 economies in S&P Global Financial Literacy ranking, with 18% financial literacy rate. This implies that the general population has an impaired ability to engage with financial services, which ultimately restricts their willingness to engage and their depth of access. Regarding women financial competencies, there is a need to build the financial competence and management skills of high potential women entrepreneurs in the garment and financial services sector through implementing financial literacy initiatives. Also ensure a gender sensitive consumer protection regulatory provisions and consumer protection mechanisms for security and recourse against abuses in the provision of financial services.
98. ***Expand current financial literacy programs.*** In order to promote financial inclusion and help vulnerable consumers, the central bank is implementing the Enhancement of Consumer Protection

and Financial Literacy Campaign. Similarly, Neary Rattanak 4 aims to improve women's access to finance and increase financial literacy among women through strategic partnership with the Cambodia Microfinance Association. A number of stakeholders including private players such as micro finance institutions are involved in efforts to increase financial literacy in the country. Engaging in increased levels of consumer education through targeted financial literacy campaigns can make individuals aware of the benefits of using financial services, thereby encouraging greater usage of the services. Financial literacy programs need to be targeted at consumers at teachable moments and can be implemented through financial service providers. There is a need for tailored financial literacy programmes to address the specific financial competence needs and behaviours of individuals and delivery mechanism of the programme which is appropriate to reach them based on their time poverty and mobility constraints especially for women with household responsibilities.

99. ***Strengthen consumer protection provisions.*** In order to increase uptake of financial services and trust on formal financial service providers, it is key that strong consumer protection and recourse provisions are adopted and implemented. Consumer protection mechanisms should ensure that users have security and resource against abuses that could result from poor literacy. Moreover, given the high uptake of credit, protection mechanisms should be in place to ensure that individuals who do not need credit or who cannot afford it have the choice to refuse uptake. NBC had issued a Prakas requiring financial institutions to deal with customers in a transparent, fair, reasonable and responsible manner when granting credit. The Law on Banking and Financial Institutions touches on the issue of consumer protection which entailed the adoption of policies mandating microfinance companies to disclose prices. This at one end facilitates healthy competitive environment and on the other hand empowers individuals to take informed decision. The Draft Law on Competition, also intends to establish provisions to promote and protect the benefits of a competitive market economy. Consumer protection and disclosure regulations need to be laid out for establishing complaint procedures, interest rate calculations, service fee and charges and collection practices among others. An absence of clear and effective consumer protection and recourse mechanisms will directly and continually impact the adoption of formal financial services.

## Going forward

100. The government of Cambodia through its prioritization of financial inclusion has been able to achieve significant progress with 71% Cambodian adults using financial services. Other formal providers (including MFIs, Mobile financial service providers, and savings group) have greatly driven inclusion in the country. However, potential still exists for further inclusion. This can only be achieved in a sustainable manner if the needs of the population are aligned with the incentives of providers to offer appropriate products that match these needs. Given the large number of financial service providers and their rapid growth, the possibility of further expanding access is immense. Moreover, given that 29% of Cambodian adults are still excluded from financial services, there is room to significantly increase penetration.
101. The MAP process has identified six priority areas of intervention which have the greatest potential impact in expanding financial inclusion. The successful implementation of the priority initiatives is expected to have positive impact on financial inclusion and thereby economic growth and welfare by facilitating the deepening and broadening of financial services. Financial inclusion is challenging to achieve and requires a clear vision, sufficient resources and effective collaboration across a broad range of stakeholders.

102. The MAP process draws inputs from a range of key stakeholders, which is an ongoing process that helps to ensure stakeholder buy-in for the implementation of the Financial Inclusion Roadmap document which will detail the opportunities highlighted in this document. Drawing on the diagnostics recommendations, the ongoing stakeholder engagement process is leveraged to develop and adopt a Financial Inclusion Roadmap. After the finalization of the roadmap recommendations, a set of strategic priorities and implementable activities will be formulated in consultation with the MAP steering committee. The roadmap details the actions necessary to address key barriers and capitalize on opportunities to increase financial inclusion while also improving quality and depth of services.