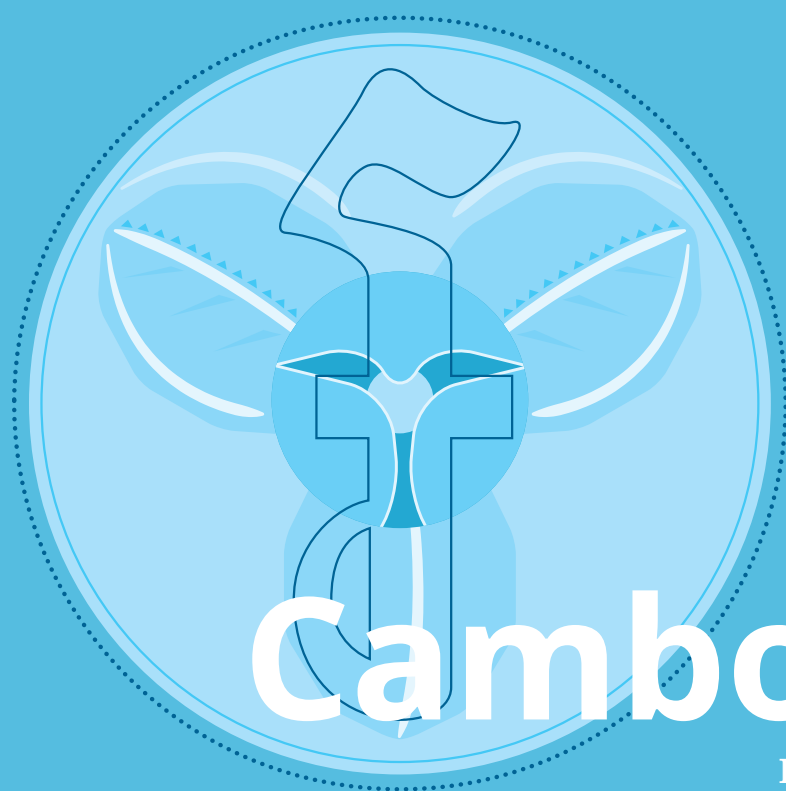


Making Access Possible



# Cambodia

Diagnostic Report

2017

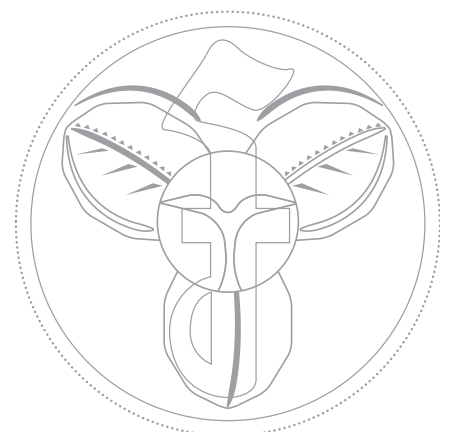
**PARTNERING FOR A  
COMMON PURPOSE**

*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 doors 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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### **About MAP Cambodia**

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.

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).

The Report also uses data from the Annual Report of the National Bank of Cambodia (NBC) and the Annual Supervision Report of the NBC for the year 2016.

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

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### **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 the National Bank of Cambodia's 2016 year-end statistics) of KHR 4055/ USD.

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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.

## Abbreviation and Acronyms

ACH	Automated Clearing House
ADR	Alternative Dispute Resolution
AIC	Association of South East Nations Insurance Council
AML	Anti-Money Laundering
APN	Asian Payment Networks
ASEAN	Association of Southeast Asian Nations
ATM	Automated Teller Machines
BFI	Bank and Financial Institutions
CAC	Co-operative Association of Cambodia
CAFIU	Cambodia Financial Intelligence Unit
CBC	Credit Bureau of Cambodia
Cenfri	Centre for Financial Regulation and Inclusion
CEO	Chief Executive Officer
CFT	Combatting the Financing of Terrorism
CRF	Cambodia Rice Federation
CSX	Cambodia Securities Exchange
DBI	Doing Business Index
DTF	Distance to Frontier
EBA	Everything-but-Arms
EDC	Electricity du Cambodge
EFT	Electronic Funds Transfer
EU	European Union
FASMEC	Federation of Associations for Small and Medium Enterprises
FAST	Fast and Secure Transfer
FDI	Foreign Direct Investment
FSP	Financial Service Providers
GDCE	General Department of Customs and Excise
GDP	Gross Domestic Product

HDI	Human Development Index
HDR	Human Development Ranking
HIV	Human Immunodeficiency Virus
IAC	Insurance Association of Cambodia
IFRS	International Financial Reporting Standards
IPD	Insurance and Pension Department
KHR	Cambodian Riel
LDC	Least Developed Country
LVP	Low-Value Payment
LVPS	Large Value Payment System
M2	Broad Money
MAP	Making Access to Financial Services Possible
MDG	Millennium Development Goals
MFDI	Micro Finance Deposit Taking Institution
MFI	Micro Finance Institutions
MFSP	Mobile Financial Service Providers
MEF	Ministry of Economy and Finance
MOU	Memorandum of Understanding
MTO	Money Transfer Operator
NCAC	National Commercial Arbitration Centre
NBC	National Bank of Cambodia
NFV	National Fund for Veterans
NFV	National Fund for Veterans
NGO	Non-Governmental Organizations
NSSF	National Social Security Fund
NSSFC	National Social Security Fund for Civil Servants
PAP	Phnom Penh Autonomous Port
PoS	Point of Sale
PWDF	Persons with Disability Foundation
QAB	Qualified ASEAN Banks

RMF	Revenue Mobilization Strategy
ROE	Return on Equity
RTGS	Real-Time Gross Settlement System
RWSSH	Rural Water, Supply, Sanitation and Hygiene
SAP	Sihanoukville Autonomous Port
SECC	Securities and Exchange Commission of Cambodia
SEZ	Special Economic Zone
SMEs	Small and Medium Enterprises
SSS	Shared Switch System
UNCDF	United Nations Capital Development Fund
US	United States
USD	US Dollar
VSLA	Village Saving and Loan Associations
WEF	World Economic Forum



## Executive Summary

- i. The Making Access Possible (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.
- ii. The study 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 stakeholder including government, development partners, association 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.
- iii. The main income source as reported in FinScope (2015) is used as a basis to segment the adult population into five target market groups<sup>1</sup> 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 market: payments, savings, credit and insurance.
- iv. The MAP research shows that 59% of Cambodian adults have access to formal financial services while 29% adults are completely excluded having no access to either formal or informal financial services. The level of financial inclusion in Cambodia is better than Myanmar which has 39% exclusion however Cambodia falls behind Laos which has 25% exclusion and lags significantly behind Thailand which has only 1% exclusion.
- v. The uptake of financial services is significantly higher among the population segment with higher income level. Although, farmers are the largest target market in Cambodia their median monthly income of KHR 250,000 (USD 61.65) is among of the lowest. The highest earning target market i.e. the formally employed also have the highest level of uptake of formal financial services. The level of financial inclusion is similar across the genders with inclusion for females (73%) slightly higher than male (69%).

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<sup>1</sup> Target markets are distinct groups based on the main source of income. In Cambodia, the population has been segmented into five target markets – farmers (farming activities), dependents (remittance or income from household members), formally employed (salary and wages from government, state or private registered companies), informally employed (salary and wages from non-registered individuals or piece work) and self-employed (own business).

- vi. The key barrier to financial inclusion has been the low level of awareness and financial literacy in the country. The ability to engage with information on financial services is an important precursor to effective usage of financial services. 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. Moreover, the value proposition of formal services are not aligned with the needs of Cambodian adults whereby those not served by the formal institutions are currently being served by informal channels or otherwise remains unserved.
  
- vii. The Royal Government of Cambodia has made it a strategic priority to adopt and implement a financial inclusion policy for the country. The government intends to develop a national strategy for financial inclusion with the National Bank of Cambodia (NBC) as the lead agent. The MAP analysis identifies the need for interventions and opportunities that will support the national objective of increasing the level of financial inclusion in the country. The MAP diagnostics has identified six priority opportunities that can help stakeholders to address the challenges of extending financial inclusion in Cambodia:
  - 1) Promote savings in formal financial institutions
  - 2) Improve the functioning of the credit market
  - 3) Increase the usability of digital payment systems
  - 4) Prioritize the development of a well-functioning insurance market
  - 5) Build institutional capacity of the regulators
  - 6) Improve financial literacy, awareness and consumer empowerment

# INTRODUCTION

## Methodology and process

1. Making Access to Financial Services Possible (MAP) is a multi-country initiative rooted on a process of evidence-based country analysis. It is a partnership between the United Nations Capital Development Fund<sup>2</sup> (UNCDF), FinMark Trust<sup>3</sup> and the Centre for Financial Regulation and Inclusion (Cenfri)<sup>4</sup>.
2. The MAP Cambodia Diagnostic Report 2017 uses a robust diagnostic and programming framework<sup>5</sup> to support broadening access to, and deepening provision of, financial services for individuals and micro and small businesses. The diagnostic study provides a comprehensive analysis of financial inclusion scenario in Cambodia. The study focuses on Cambodian adults (aged 18+ years) and their interaction with four financial product markets: savings, payments, credit and insurance.
3. The MAP framework incorporates a comprehensive analysis of the country context as well as demand and supply of financial services and regulatory requirement. In order to do this, comprehensive interviews are undertaken with key stakeholders including government, development partners, association and private stakeholders.
4. MAP Cambodia diagnostic study is supported by 276 in-field interviews with representatives of the Cambodian target markets and information and data derived from 152 supply-side stakeholder interviews with regulators, financial service providers, third party service providers<sup>6</sup> as well as 4 focus-group discussion (Microfinance institutions, Agriculture Cooperatives, Development Partners and Insurance Association) with a range of stakeholder groups and associations carried out during September- October 2016. The study also analysed statistical data sourced from the National Bank of Cambodia along with significant desktop research to identify trends and validate findings. The data from these interviews are analysed against the quantitative data from the demand side which is provided by the nationally representative Cambodia FinScope Consumer Survey 2015<sup>7</sup>. The analysis leads to the creation of a set of practical actions targeted at extending financial inclusion tailored to the needs of the country.

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<sup>2</sup> **UNCDF** ([www.uncdf.org](http://www.uncdf.org)) is the UN's capital investment agency for the world's least developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF focuses on the poorest countries in Asia and Africa, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions reach more poor households and small businesses and local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives.

<sup>3</sup> **Finmark Trust** ([www.finmark.org.za](http://www.finmark.org.za)) is an independent non-profit trust whose purpose is 'Making financial markets work for the poor by promoting financial inclusion and regional financial integration'. The trust was established in March 2002 with funding from the UK's Department of International Development (DFID).

<sup>4</sup> **Cenfri** ([www.cenfri.org](http://www.cenfri.org)) is a non-profit think-tank based in Cape Town. Cenfri's mission is to support financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. They do this by conducting research, providing advice and developing capacity building programmes for regulators, market players and other parties operating in the low-income market.

<sup>5</sup> For more information; [http://www.uncdf.org/sites/default/files/Documents/map\\_brochure\\_0\\_0.pdf](http://www.uncdf.org/sites/default/files/Documents/map_brochure_0_0.pdf) or <http://cenfri.org/map>

<sup>6</sup> Third party service providers are non-bank institutions entrusted by a bank to conduct one or more parts of its payment services.

<sup>7</sup> The FinScope Consumer Survey is a nationally representative survey of the adult population aged 18 years and older at regional and urban/rural level. This was carried out during November 2015- January 2016.

## Segmenting the target market

5. In order to determine the nature of financial services uptake and identify key priority areas for future intervention, the adult population is segmented into groups of distinct individuals with similar profiles and needs; that have the potential to form discrete target markets for financial services. These segmented groups are sufficiently different and yet have adequate shared characteristics to form a common target market for financial institutions. This makes it possible to understand the unique characteristics and varying needs of target market groups, as well as the significant constraints they face with regard to financial inclusion. FinScope (2015) survey data was used to profile each of the segments and assess their current interaction with financial services as well as potential needs.
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. It is used to determine the level and regularity of income; both of which are key predictors of whether an individual would be a viable financial service client. 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 market: payments, savings, credit and insurance.

## The FinScope access strand explained

7. 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 banks<sup>8</sup> registered with and regulated by the 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 monitored by a supervisory authority as mandated by law, e.g. microfinance institutions (both micro-finance institutions-credit and microfinance deposit taking institutions), leasing companies, insurance companies, mobile financial service providers, savings and credit unions, co-operatives 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.

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<sup>8</sup> This includes commercial bank, specialized banks and foreign branch banks.

- **Excluded:** The percentage of adults who do not use any financial products- formal or informal- to manage their financial lives.
8. 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.

#### The access strand applied to product markets

9. The access strand is also used to illustrate uptake across particular product markets (i.e. payments, savings, credit and insurance). The product market access strands also indicate those reached only by ‘un-intermediated’ financial services – financial services extended between family and friends without being intermediated through a third-party institution or collective grouping. Thus, for example, saving at home, borrowing from friends and family, or sending a remittance with another person would be regarded as un-intermediated services.
10. The following particular financial products, services, mechanisms and activities have been included for each product market access strand:
11. **Payments: transaction strand**
- **Banked:** Those who have a bank account in their own name.
  - **Formal:** Those who report having a mobile money account, but that do not have a bank account.
12. **Payments: remittance strand**
- **Banked:** Those that use banks to send or receive remittance – some of these may also be engaged in remittance activities through formal non-banked channels, informal channels or through friends and family.
  - **Other formal:** Those who have sent or received remittances in the previous 12 months via microfinance deposit taking institutions (MDI), post office, money-gram or other remit agents – some of these may also be sending or receiving money through informal channels or family and friends.
  - **Informal:** Those who have not sent or received formal remittance, but have sent or received remittance in the previous 12 months via a bus or private agent – some of them may also be sending or receiving money through family and friends.
  - **Family and friends<sup>9</sup> or self-delivery only:** Those who do not fit into either of the previous two categories, but have sent or received remittance in the previous 12 months directly via friends or family, or who delivered the funds themselves.

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<sup>9</sup> Financial services from family and friends are not intermediated while that from informal financial services are intermediated.

### 13. Savings strand

- **Banked:** Those who save with or have a savings account with a bank.
- **Other formal:** Those who save with or have a savings account with MDIs, saving and credit union, pension fund or post office – some of these may also be saving in an informal institution or at home.
- **Informal:** Those who do not have a formal savings product (as defined above), but who save with a savings group (tong tin) – some of these may also be saving at home or through other un-intermediated channels.
- **Saving at home/with household members:** Those who do not fall into either category above, but save in a secret place at home, in livestock, or in kind, within the household or family, or who ask another person in the community to keep money safe for them.

### 14. Credit access strand

- **Banked:** Those who have a loan product or credit account with a bank – some of these may also be accessing credit from an alternative formal provider, accessing informal credit or borrowing from family and friends.
- **Other formal:** Those who have a loan product or credit account with a credit institution, Micro Finance Institution (MFI) or saving and credit union – some of these may also be accessing informal credit or borrowing from family and friends.
- **Informal:** Those who do not have formal credit, but in the previous 12 months have borrowed money from an employer, savings group (tong tin), or informal moneylender – some of these may also be borrowing from family or friends.
- **Family or friends only:** Those who do not have formal or informal credit as above, but in the previous 12 months have borrowed money from family or friends.

### 15. Insurance access strand

- **Formal:** Those with any formal insurance product (e.g. funeral insurance) with an insurance company – some of these may also belong to a burial society.
- **Informal:** Those who do not have formal insurance, but belong to an informal society.

## In Brief

### **Cambodia at a glance**

**GDP: USD 18 billion**

**Total adult population: 9.9 million**

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

**Average personal 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%**

## **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

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**

### **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

### **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

### **CREDIT**

28% of adults borrow from formal financial service provider

10% of adults borrow from informal institutions

### **INSURANCE**

4% of adults have insurance coverage from formal channels

95% of adults do not have any insurance coverage



## SNAPSHOT: THE CAMBODIAN CUSTOMER

16. The MAP diagnostic study has segmented the adult population into six distinct target market groups on the basis of their main source of income. The population split and their basic indicators is shown in Table 1.

	Formally employed	Informally employed	Self-employed	Farmers	Dependants	Total adults
<b>No. and % of adults</b>	1,112,375	1,503,306	2,029,851	3,282,829	1,038,147	9,941,058
<b>% of adults</b>	11%	15%	20%	33%	10%	100%
<b>% female</b>	43%	43%	53%	53%	73%	52%
<b>% urban</b>	39%	25%	47%	3%	34%	25%
<b>Median monthly income (Riel)</b>	620,000	400,000	600,000	250,000	200,000	400,000
<b>% with &gt;1 income source</b>	34%	34%	32%	41%	22%	33%
<b>% age 30 or younger</b>	56%	49%	34%	37%	38%	42%
<b>% of adults with primary education or less</b>	25%	60%	47%	71%	61%	57%
<b>% of adults with mobile phone access</b>	94%	94%	96%	88%	95%	93%

**Table 1 Basic target market indicators**

Source: FinScope (2015)

17. *Large section of the population engaged in farming in addition to other economic activities.* While 33% Cambodian adults are involved in farming as their primary source of income, 16% adults solely rely on farming as their income source while 42% are involved in farming in addition to other economic activities (FinScope, 2015). Given that the main source of income is often insufficient, a large portion of the population are engaged in additional economic activities.
18. In order to assist with exploring the nature and dynamics of the need for financial access, the key features of each target market, their current usage of financial services and the need for financial services are summarized in Table 2.

	<b>FORMALLY EMPLOYED</b>	<b>INFORMALLY EMPLOYED</b>	<b>SELF EMPLOYED</b>	<b>FARMERS</b>	<b>DEPENDENTS</b>
<b>Lifestyle</b>	Higher education level with 26% having the highest level of tertiary education; comprises of government and private sector employees; youngest segment with 56% below the age of 30; high and regular income	Median income equivalent (USD 98) to national average income; Irregular income; Lowest educational attainment with 60% having only primary or lower education.	Highest median monthly income) USD 148); mature population with only 34% under the age of 30; High educational attainment with 7% having tertiary education.	Largest target market; low educational attainment with 71% having no formal education or only primary education; low median monthly income (USD 61); 68% farm to sell their produce.	Smallest target segment; High educational attainment with 6% having tertiary or higher education; Median monthly income of USD 49 – half the national median income
<b>Financial access</b>	42% primarily use banks; 12% are financially excluded  <u>Depth of usage:</u> 42% use two types of product; 3% use all four formal financial services	Least access to financial services- 26% financially excluded  <u>Depth of usage:</u> 36% use only one type of financial service (of which 14% use credit); 10% use three types of product	63% have access to formal financial services; 18% are financially excluded  <u>Depth of usage:</u> 49% use more than one product; driven by savings and payment	55% have access to formal financial services; 21% are financially excluded  <u>Depth of usage:</u> 46% use two or more formal products; savings and credit the most used	61% have access to formal financial channels; 17% are financially excluded  <u>Depth of usage:</u> 41% use more than one financial product; payment is the most used
<b>Product needs</b>	Bundled products combining savings and payment; potential market for insurance; affordable pricing for transaction and remittance.	Consumption smoothing and risk mitigation financial products; affordable and accessible remittance receiving channel.	Capital for investment in business; easy and convenient access to savings; cost effective and easily accessible payment mechanism.	Seasonal income need for consumption smoothing products; upfront capital and flexible repayment options to match seasonal income; vulnerable to risk-require low cost insurance product.	Low cost reliable payment channels to receive remittance; consumption smoothing products; affordable low value savings.
<b>Current financial</b>					

<p><b>products being used</b></p>	<p><b>Transactional and Savings products:</b> Transactional products are key (39% formally employed transact through formal channel), followed by savings (31% save in formal channels); highest savers among all target segment; primary senders of remittance</p> <p><b>Credit:</b> 26% access credit from formal institution; 6% only borrow</p> <p><b>Insurance:</b> highest access to insurance (9%); higher income levels and better education levels key drivers; lack of incentive to purchase insurance.</p>	<p><b>Credit:</b> High usage of credit with 45% availing credit; driven by low and irregular earnings;</p> <p><b>Savings:</b> Lowest access to savings at 33%; low capacity to save as most of the income is used for consumption</p> <p><b>Transaction:</b> Income and expense in cash resulting in low digital transaction (4%)</p> <p><b>Insurance:</b> Access to insurance notably low (4%);</p>	<p><b>Savings:</b> Highest access to savings (53%);</p> <p><b>Credit:</b> Credit mostly from formal institutions (19%); driven by investment in business</p> <p><b>Remittance:</b> 39% remittance through other formal channel; Mobile money used for remitting</p> <p><b>Insurance:</b> Highest exclusion from insurance coverage at 97% exclusion</p>	<p><b>Savings and credit:</b> Informal channels most used; 30% savings in informal channel; 10% credit from informal channel</p> <p><b>Insurance:</b> Highly vulnerable to natural calamities; only 5% have insurance coverage;</p> <p><b>Remittance:</b> Formal channel is the most used to receive remittance (26%) while only 2% use banks to receive remittance.</p> <p>Transaction: High usage of cash with 96% not using formal or informal channel for transaction.</p>	<p><b>Remittance:</b> Income driven by remittance; 42% receive remittance through formal channel;</p> <p><b>Credit and savings:</b> Uptake of credit higher from formal channel (20%); only 6% access credit from informal; savings in informal higher (14%) compared to formal (9%)</p>
<p><b>Gender</b></p>	<p>Dominated by male (57%)</p>	<p>Dominated by male (57%)</p>	<p>Higher female participation (53%)</p>	<p>Dominated by female (53%)</p>	<p>High dominance of female (73%)</p>

**Table 2 Salient features of the five target market segments in Cambodia**

## Context drivers of market development

[Summary: context drivers](#)

[Socioeconomic, demographic and cultural context](#)

[Macroeconomic context](#)

[Infrastructure context](#)

19. This section unpacks the key contextual drivers of financial market development across the macroeconomic context, socio-economic and demographic context, as well as relating to infrastructure and political context. The key context drivers of financial market development are summarized below:

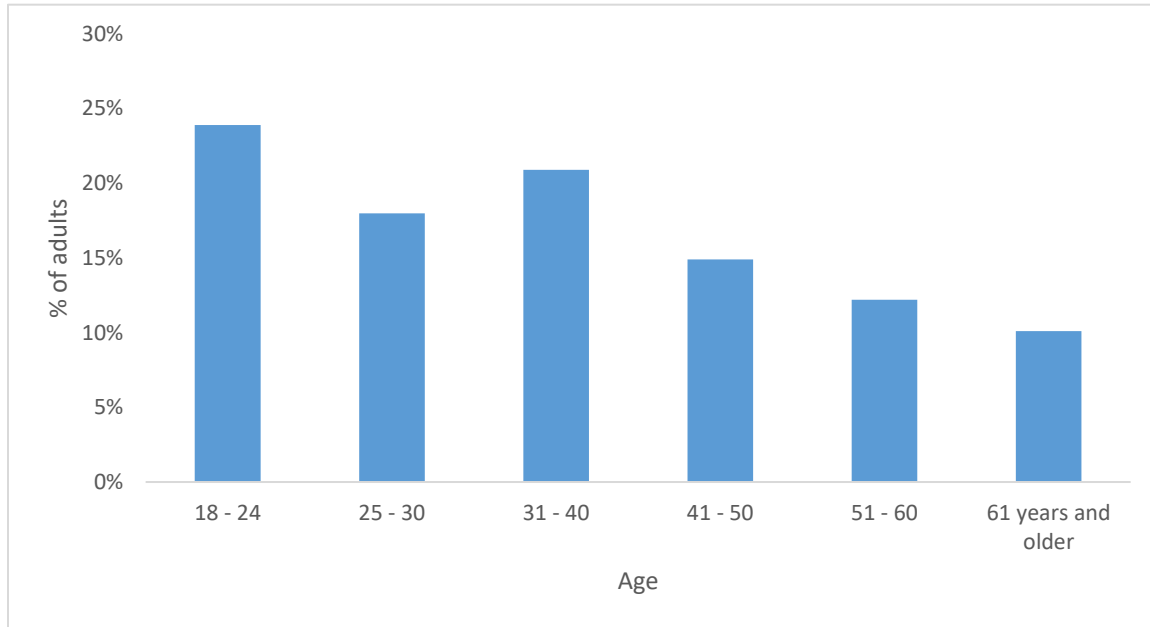
### Summary: Context Drivers

- Centrally located in mainland Southeast Asia with a coastline along the Gulf of Thailand.
- Cambodia has a relatively young population, which is slightly skewed towards female population (52%); a large part of the population (75%) resides in rural areas; 81% of households headed by men.
- Cambodia's average life expectancy at birth has been increasing accompanied by improving health status. The average life expectancy has increased from 66.4 years in 2010 to an average of 68.2 years in 2014.
- Average household size: 4.8 members in urban and 4.6 members in rural
- One of the fastest growing economies in the world with an average growth rate of 7.7% during the period of 1995-2015 as per the NIS; registered an economic growth rate of 7% in 2015.
- High level of income inequality where 20% of the highest income earning quartile earns more than 50% of the total income (National Institute of Statistics, 2015).
- Low but improving Human Development Index (HDI) score. Although Cambodia falls in human development category, the country's HDI of 0.555 which is below the average of 0.630 for other countries in medium human development group (UNDP, 2015).
- Low educational attainment with 21% new enrolment rate for upper secondary; increasing preference for private school amid urban wealthy population against the backdrop of a weak public schooling system (USAID, 2015).
- Achieved Millennium Development Goal (MDG) of halving poverty (World Bank Poverty Assessment, 2013)
- Young male population migrating legally and illegally, to be employed as wage labourers with low income (Tunon & Rim, 2013).
- Share of agriculture sector to GDP has been decreasing steadily from 50% in 1995 to 28.2% in 2015. While the industry sector is witnessing growth with a contribution of 32.7% to GDP in 2015 compared to 15% contribution in 1995 (The World Bank, 2016)..
- A bi-monetary system with high usage of USD over KHR in the local economy
- Low capital controls allowing free inflow and outflow of US dollars into the economy
- The National Bank of Cambodia has endorsed the ASEAN Banking Integration Framework (ABIF) this will to a larger extent guide the development of Cambodia's banking sector through adoption of policies in line with the ABIF (ASEAN, n.d.).
- Lack of infrastructure a key issue, with government strategies focusing on infrastructure development and up gradation of transport infrastructure. Increased budget on capital expenditure
- Limited access to electricity;
- High telecommunication penetration and increasing internet usage

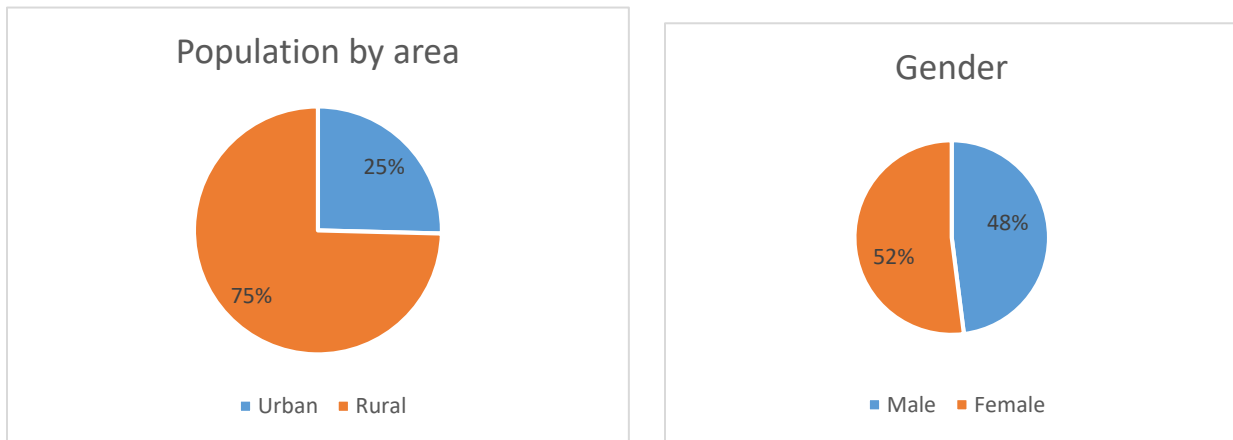
## Socio-economic, demographic and cultural context

20. ***Centrally located with access to sea:*** The Kingdom of Cambodia, located in the mainland Southeast Asia, has a total land area of 181,035 km<sup>2</sup>. It is bordered by Thailand in the west, Laos in the north and Vietnam in the east and southeast. It has a coastline along the Gulf of Thailand that encompasses estuaries, bays and several islands. The most prominent features of Cambodia's geography are the centrally located Tonle Sap and Southeast Asia's biggest freshwater lake; Bassac River and Mekong River system that crosses the country from North to South. The country is divided into four environmental regions: Plain region, Tonle Sap region, Coastal region and, Plateau and Mountain region. The country has further administrative divisions that constitute of 25 provinces and 159 districts (UNDP, 2016).
21. ***Young and rural population with majority of woman:*** According to the Cambodia Inter-Censal Population Survey 2013, the population of Cambodia stands at 14.67 million. The total adult population older than 18+ is estimated to be around 9.9 million (National Institute of Statistics, 2013). As shown in the **Figure 1**, the economically active population of the country below the age of 40 is 63% (FinScope, 2015). Cambodia has the advantage of a large working age population, the benefits of which can be reaped through investment in education and skill building of the working age population.
22. In terms of geographical distribution as shown in **Figure 2** below, 75% of the population is based in rural areas while 25% of the population is based in urban areas. Rural-urban migration has been significant as a growing number of people leave their households and communities of origin seasonally and/or permanently for the capital city - Phnom Penh - and other economically active provinces such as Battambang, Kampong Cham and Siem Riep (Roth & Tiberti, 2016). The average household size in urban areas is 4.8 members while that of rural areas is 4.6 members (ADB, 2014).

23. In terms of the population dynamics, the statistics are slightly skewed towards the female population at 52%, meanwhile the male population stands at 48%.



**Figure 1 Adult population split across age (Cambodia)**



Source: FinScope, 2015

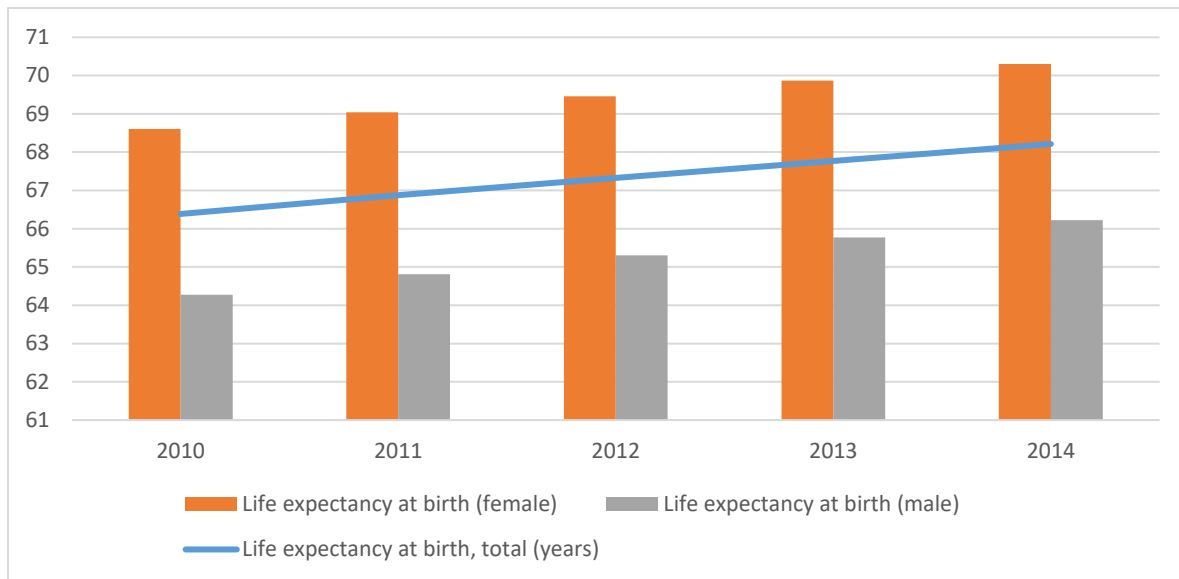
**Figure 2: Adult Population Split across gender and rural-urban**

Source: FinScope 2015

24. **Improving health status and increasing life expectancy:** The average life expectancy at birth in Cambodia has been increasing steadily over the last two decades; increasing from an average of 66.4 years in 2010 to an average of 68.2 years in 2014 (see Figure 3). In terms of global data, the average life expectancy was 71.45 years in 2014 (The World Bank, 2016). At par with the global statistics, the life expectancy of the female population in Cambodia is significantly higher than the

male population; with an average of 70.3 years for females and 66.2 years for males (The World Bank, 2016). The increasing life expectancy can be attributed to the end of conflict and an increase in per capita income of the country resulting from sustained economic growth. (UNDP 2015).

25. Meanwhile Cambodia has also been witnessing improved health status of its population. Infant mortality, child mortality and maternal mortality have shown declining trends alongside Human Immunodeficiency Virus (HIV) prevalence and death by malaria. Infant mortality rate has decreased from 85 per thousand in 1990 to 27 per thousand in 2014, whereas child mortality rate also decreased from 116 to 35 per thousand in the same period. Cambodia has been able to achieve this feat primarily due to sustained economic growth alongside government initiatives such as the National Health Sector Strategic Plan (National Institute of Statistics, 2014) .

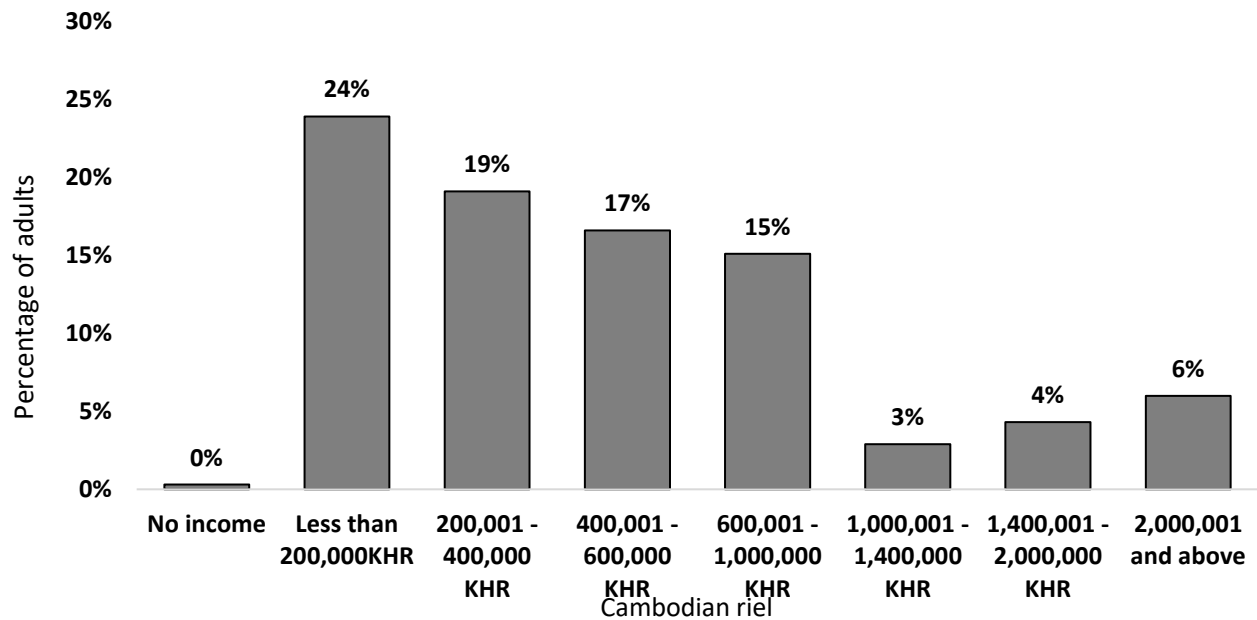


**Figure 3 Average life expectancy in Cambodia**

Source: The World Bank, 2015.

26. **High level of income inequality.** Cambodia has been witnessing success in reducing poverty levels; from 31% of the population living on less than KHR 5085 (USD 1.25) per day (international poverty line) in 2007, to 10% in 2011 (ADB, 2014). Figure 4 below shows the monthly income distribution of Cambodia, where 75% of the population earns below KHR 1,000,000 (USD 246.60) while the average monthly personal income is KHR 942,288 (USD 232) and the average monthly household income is KHR 1,960,292 (USD 483.43) (FinScope, 2015). Cambodia’s Socio-Economic Survey shows that 20% of the highest income earning quintile have more than 50% of the total income, with this group earning per capital disposal income of about 18 times higher than the 20% of the household with the lowest income (National Institute of Statistics, 2015). This shows a high level of income discrepancy in the economy.





**Figure 4: Monthly income distribution (Cambodia)**

Source: FinScope 2015

27. **Achieved Millennium Development Goals (MDG) of halving poverty:** Cambodia adopted the MDGs in 2003 with some modification and localization including the addition of a ninth goal of de-mining, removing explosive remnants of war, and victim assistance pertaining to the impact of the decade long civil war. Cambodia was able to achieve the MDG Goal 1 of halving poverty in 2009. The percentage of its population living below the poverty line was around 51% in 1999, which came down to 20% in 2009. This poverty reduction was driven mainly by rice farming. From 2004 to 2009, price of rice increased by 37.1% in the global market. This boosted farmers' income and further incentivized them to increase production. Moreover, owing to a rapidly developing economy with an expanding industrial sector, there was an increase in salaried employment in urban areas which helped in poverty reduction. For the upcoming years, the booming construction and services sector is expected to reduce poverty for urban households, while for rural households it is the increase in alternative sources of income other than agriculture. (World Bank Poverty Assessment, 2013).
28. **Low but improving human development index score:** Cambodia ranks 143 out of 188 countries in the Human Development Ranking (HDR). The human development value for 2014 was 0.555, a small improvement from the previous year's value of 0.550. Though only by a small margin, Cambodia's Human Development Index (HDI) values have been increasing over the years. The country falls in the medium human development category, however Cambodia's HDI falls below the average of 0.630 for other countries in medium human development group (UNDP, 2015). As per the HDI measure, life expectancy at birth in Cambodia increased from 67.9 in 2013 to 68.4 in 2014. However, the expected years of schooling and mean year of schooling remained unchanged at 10.9 and 4.4

years respectively for the last four years (UNDP, 2015). Female HDI at 0.519 is slightly behind male HDI at 0.584.

29. ***Low education attainment and a weak public schooling system:*** In terms of educational attainment, the primary school net enrolment rate of 96% is commendable, however, the same is not reflected at higher levels. In lower secondary level, the net enrolment rate stands at less than half of primary school enrolment rate, at 34%, and further declines for upper secondary level at 21%. Moreover, public investment in education is only 2% of the Gross Domestic Product (GDP) which is not enough if the country wants to boost human capital and reap the benefits of demographic dividend.
30. ***Increasing preference for private school in urban areas:*** The number of private school in Cambodia has been increasing steadily with over 264 private schools registered in the Kingdom. Despite having a higher fee structure than public schools, the preference for private schools is growing among the middle and high classes mainly because of the perceived better quality of education and good learning environment.
31. ***School dropout rates a key concern:*** School dropout rates at primary and secondary level remains a key concern for the country. The dropout rate increased from 12% in 2003 to 23% in 2011 with female dropout rates being higher than male. In Cambodia, men's education is prioritized over women's education, and the issue of personal safety risks for women travelling to far off school sites further restrict women in furthering their education. This is accompanied by higher dropout rates of 8.7% for primary level and 19.6% for lower secondary level. Low household income and obligation for household chores has been identified as the key reasons for school dropout. Government along with development partners are offering a number of cash and in-kind payments to ensure lower dropouts (Kosal, 2015).
32. ***Vulnerability to climate change:*** Cambodia remains highly vulnerable to climate change with 90% of the Cambodian poor living in rural areas depending on climate sensitive sectors such as, fisheries, forestry or agriculture. As the woes of climate change and global warming worsen, floods, flash floods, heavier-than-normal rainfall and typhoons become more eminent, affecting the poorest who live off these resources the most. The Royal Government promulgated Cambodia Climate Change Strategic Plan 2014-2023, as the national policy document to respond to the issue of climate change, reduces vulnerability and improves national preparedness to respond to climate risks and disaster management. The strategy envisions developing a green, low-carbon, climate-resilient, equitable, sustainable and knowledge-based society (Royal Government of Cambodia, 2013).
33. ***Increasing migration of young population:*** Young male population above the age of 25 and typically unmarried and childless, are increasingly planning to migrate to be employed as wage labourers with low income (Emerging Markets Consulting, 2016). Thailand and Malaysia are the two top migration destinations, however, less than 10% of the population were found to be migrating through formal channels (Tunon & Rim, 2013). The high rate of illegal migration is generally attributed to the high cost of migrating through legal channels. The total cost of legally sending a migrant worker to Thailand is estimated to be approximately KHR 2.84 million (USD 700), while for Malaysia it is estimated to be around KHR 3.4 – 4.88 million (USD 840-USD 1200) (Tunon & Rim,

2013). However, it is estimated that smuggling a migrant worker into Thailand costs approximately KHR 406,800 (USD 100) and that to Malaysia, costs approximately KHR 813,600 (USD 200) (ILO GMS Triangle, 2010). In terms of women migrants, the majority of them are working in Malaysia as domestic workers (Tunon & Rim, 2013). However, male migrants are found to be earning higher wages than female migrants. In Thailand, male migrants earn KHR 36,409 (USD 8.95) per day while female earn a lower income of KHR 32,341 (USD 7.95) per day (Dickson & Koenig, 2016). Literature suggests that female migrants earn less than their male counterparts mainly due to gender based and immigration status discrimination in the host country.

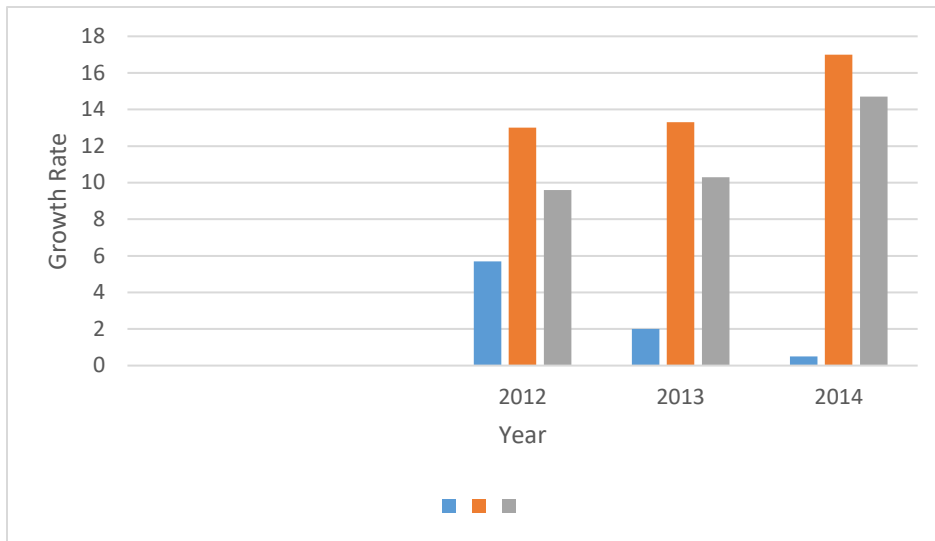
34. Cambodia, as a member of the Association of Southeast Asian Nations (ASEAN), will witness regional labour mobilization, as one of the purposes of establishing integrated economic community was to allow freer movement of skilled labour (Poolttlwong & Ramlrez, 2016). After China and India, ASEAN has the third largest labour force; the members are implementing ASEAN Agreement on Movement of Natural Person and ASEAN Qualifications Reference Framework to facilitate temporary cross-border movement (ASEAN Secretariat, 2015). The economic integration has entailed measures to manage labour migration, given that labour force expansion and productivity improvements has been the driving force for GDP growth in ASEAN countries (Poolttlwong & Ramlrez, 2016).
35. ***Patriarchal collectivist society:*** Majority of Cambodians are ethnically Khmers; with Theravada Buddhism being the dominant religion. Shaped by their cultural practices, Cambodia has a patriarchal collectivist society. People generally live together in an extended family with strong kinship. Individuals contribute financially to meet the collective need of the group. Culturally, Cambodian women are expected to manage the household finances, however, major decisions and judgements are passed by the men of the household (Booth, 2014). Moreover, social norms for women such as their role in child care can present constraints to their usage of financial services, by placing mobility constraints on their ability to travel to access services. It can also mean inheritance and land/property ownership can be mainly in men's name, potentially resulting in lower level of assets for women to use to meet traditional collateral requirements.
36. ***Constitutional monarchy with multiparty democracy.*** 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. Legislation lies with Parliament, which consists of a National Assembly (Lower House) and a Senate (Upper House). The laws can be proposed by the Parliament, but in practice all draft laws are first discussed and adopted in the National Assembly and are then reviewed by the Senate. The Senate cannot finally veto any law, but only send it back to the National Assembly with recommendations. The constitutionality of laws shall be guaranteed by the Constitutional Council. Ordinary laws are passed by a majority vote whereas constitutional amendments require a two-third majority vote.

## Macro-economic context

37. ***Rapidly growing export-based economy:*** Cambodia has experienced a phenomenal economic growth over the last two decades. With an average growth rate of 7.7% (The World Bank, 2016) over the period of 1995-2015, it is one of the fastest growing economies in the world today. In the year 2016, the economy grew at a rate of 6.9% (The World Bank, 2017). In 2015, Cambodia's Gross Domestic Product (GDP) amounted to KHR 73,224 billion (USD 18 billion) (The World Bank, 2016). In 2016, the preliminary estimated GDP stands at KHR 81,242 billion (USD 20.03 billion) (NBC, 2017). One major achievement for Cambodian economy is that it has been able to graduate from Least Developed Country (LDC) to lower-middle income status in 2016 (The World Bank, 2016). However, the United Nations still categorized Cambodia under the Least Developed Country Category.
38. Like the tiger economies<sup>10</sup>, Cambodia adopted the 'Factory Asia' model of economic growth. It focused mainly on the export-based garment (and most recently, footwear) industry utilizing the available cheap, and unskilled surplus labour. Notably the majority of the workforce in this sector is made up of women. Cambodian women represent about 90% of total employment in the garment and footwear industry in 2012. This represents about 8% of women's total employment and over one-third of all paid employment for women (ILO, 2013). Additionally, increasing investments in construction and real estate sector along with an increased agricultural productivity, especially in rice production, and blossoming tourism industry helped the country achieve this feat.
39. ***Slow growing agricultural sector, expanding industrial sector:*** Cambodia is still a predominantly agricultural country. However, like any country taking off on its growth trajectory, it is gradually shifting from a primary, agrarian-based economy to a secondary, and industrial one. In fact, the agricultural share in GDP has steadily decreased from almost 50% in 1995 to 21.2% in 2015 (OECD, 2016). Meanwhile, the industrial share to GDP has increased to 32.7% from almost 15% during the same period (The World Bank, 2016). As shown in Figure 5 compared to the previous year, the contribution of Agriculture, Fisheries and Forestry to GDP increased by 3%, while the contribution of industry increased by 17.7% and that of services increased by 10.8% in 2016 (NBC, 2017). Compared to other sectors, the growth registered in the Agriculture, Fisheries and Forestry sector is still the lowest.

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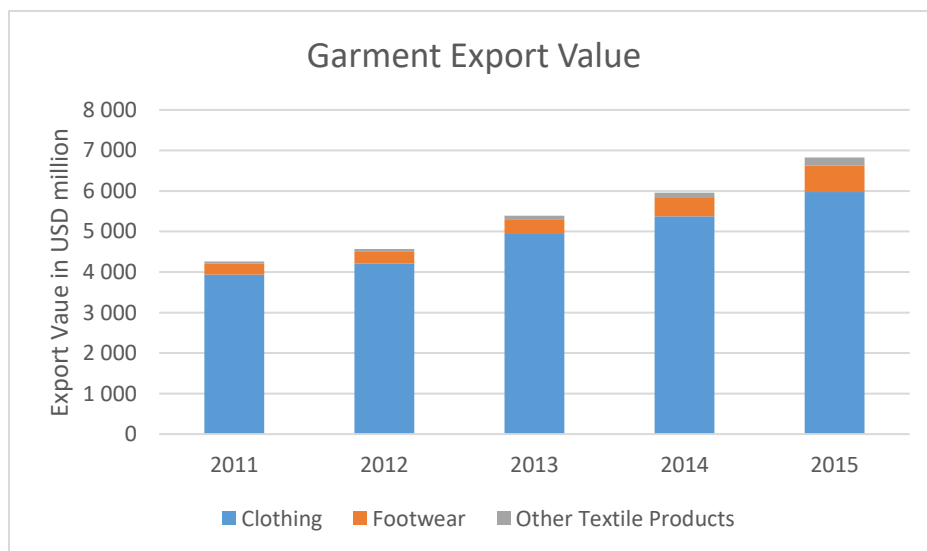
<sup>10</sup> Tiger economy refers to the Four Asian Tigers – South Korea, Taiwan, Hong Kong and Singapore which later inspired the Tiger Cub Economies which includes Indonesia, Malaysia, Thailand, Vietnam and the Philippines.



**Figure 5 GDP composition and growth by economic activity as of 2015**

Source: *Economic and Monetary Statistics 2016, NBC;*

40. In terms of the industrial sector, the garment industry in particular is performing phenomenally well within the secondary sector. Garment exports are the largest source of income in the Cambodian economy, with garment and footwear exports accounting for approximately 73.4% and 6.5% of Cambodia’s total exports (NBC, 2017). More recently, footwear has become the second most popular export item in Cambodia, as shown in Figure 6. Currently Cambodia is largely exporting garments to the European Union (EU) market under the EU’s Everything-but-Arms (EBA) preferential treatment. In 2015, garment and footwear sector contributed 1.8% to Cambodia’s GDP



growth (ILO, 2016).

**Figure 6 Year-on-year export value growth of garment**

Source: Cambodia Macroeconomic Monitor Mid-Year Assessment, 2016; Ministry of Economy and Finance

41. **Construction sector growth stabilizing on back of a cooling real estate market.** The construction sector's phenomenal growth in the last five years (2011-2015), averaging at 18.4% is now showing signs of a slow down with sector projected to grow at 18.6% in 2017. As with the construction sector, the real estate market has been growing at a very steep rate giving rise to concerns about a real estate bubble burst. Compared to the prices of 2011, land prices in urban areas doubled by the end of 2015 while the price of condominiums in Phnom Penh increased by 70% during the same period (MEF, 2016). The correction in the growth trend of the construction sector is seen as a necessary requirement for the sustainability of the sector. Despite the slowdown, however, banking sector's credit exposure to real estate stood at 21.5% to real estate including 8.7% to construction sector (NBC, 2016). The credit extended to this sector is closely being monitored by NBC to prevent any systemic risks.
42. **Dollarized economy:** Cambodian economy's peculiarity arises from its adoption of a bi-monetary system, with high usage of US dollar over Cambodian Riel in the local economy. Theoretically, dollarization of the economy restrains the country's monetary policy and also restricts NBC from acting as the lender of last resort to the banking sector. In case of Cambodia, NBC's implementation of macro-prudential policy has shielded the economy from having a large impact from the US Monetary Policy as evident from the US Fed's rate hike in 2015, after which the liquidity in the system also remained strong. Moreover the exchange rate of KHR against USD has remained fairly stable. Given that Cambodia's financial market is at the early stage of development, in which most of the capital inflows are in the form of FDI, these are mostly long term in nature and are less likely to be abruptly withdrawn.
43. It is estimated that US dollar accounts for 83% of total transaction in Cambodia (Wharton, 2015). As per the statistics of National Bank of Cambodia (NBC), foreign currency deposits constituted 83% of broad money (M2) by the end of 2016, this has remained stable since 2002, and reflects a high degree of dollarization in the economy. However, efforts are being made to promote the usage of riel in the economy which is reflected in the increase of 17.7% in the riel currency in circulation and the 33% increase in deposit in riel in 2016 (NBC, 2016). Despite the high level of dollarization, Cambodia has been witnessing political stability and strong economic growth.
44. **Limited capital controls:** The Royal Government of Cambodia is following free market principles with limited regulatory interference. One key feature attracting foreign investment in the country is the absence of any restriction on repatriation of profits or capital from the country. At one end, this provision of free capital flow is supporting the growth of the economy, while at the other poses significant risk to the country's financial stability. Capital flight remains a potential risk in a scenario given the excess flow of credit in the market. However, studies have shown that capital restriction on outflows actually increases the amount of outflows, implying that economies need to liberalize rather than capital outflows (ADB, 2010). In 2015, foreign direct investment (net inflows) was 9.42% of Cambodia's national GDP while at the same time the global average of FDI was 2.81% of GDP, reflecting a high FDI inflow in Cambodia. (The World Bank, 2016).
45. **Narrowing Current Account Deficit:** Cambodia has been witnessing a narrowing current account deficit in recent years. Currently, the deficit stands at 8.8% of GDP (NBC, 2016). In addition to the

remarkable merchandise export performance, Cambodia has been benefitting from low oil prices in the global market that aid in contracting the deficit. Moreover, the deficit is largely financed by the strong Foreign Direct Investment (FDI) inflows the country is witnessing. In 2015, FDI was 9.42% of GDP amounting to KHR 7,322 billion (USD 1.8 billion). In the first six months of the fiscal year 2016, one fourth of the FDI inflow was directed towards the banking sector. China, South Korea and Vietnam are the top three investors for Cambodia with FDI being directed towards manufacturing mostly garment, construction and real-estate, entertainment sector, agriculture and ICT.

46. Gross international reserves reached KHR 22,781 billion (USD 5.6 billion) by the end of 2015 (The World Bank, 2016). In other words, Cambodia's external sector appears stable, which is conducive to business and investment.
47. **Low but rising inflation:** Increasing domestic demands have led to inflationary pressures in Cambodia. The year-on-year percentage change of the Consumer Price Index increased to 3.87% in December 2016, which can be attributed to increase in the price of food, alcoholic beverage, clothing and footwear. Theoretically, inflation erodes the interest earned on savings, forcing banks to increase the interest rates to avoid cash flight or withdrawals. Higher inflation also makes borrowing expensive as the spread is added to the credit interest rates making it more expensive. This can impact uptake of both saving and credit. In reality, however, in Cambodia interest rate decreased due to high competitiveness in the banking sector.
48. **Improving fiscal performance:** Cambodia's fiscal performance has improved over the years. As a proportion of GDP, the fiscal deficit was as high as 8.5 percent in 2010 in the aftermath of the global financial crisis. It was reduced to 2.9 percent in 2015. The overall deficit for 2016 and 2017 are expected to increase but are foreseen to be still below the 5 percent threshold (MEF, 2016). A robust growth along with improved tax and customs administrations, sharply increased tax revenues. This was mainly due to the adoption of the Revenue Mobilization Strategy (RMS) by the government (IMF, 2015). On the other hand, public expenditure may have increased due to rapid wage bill increase but the spending remains contained. As such, fiscal deficit, primarily financed by external funds, clearly shows a declining trend.
49. **Slipping on the Doing Business Index:** The Doing Business Index (DBI), ranks countries in terms of better, simpler regulations for business and stronger protection of property rights, along with their effective enforcement. In 2016, Cambodia ranked 128<sup>th</sup> but slipped three spots to 131<sup>st</sup> in the 2017 DBI ranking. However, the Distance to Frontier (DTF) has increased to 54.79 from 54.54% points in 2016. The DTF figure implies that Cambodia was 54.79% points away from the best performance frontier and has performed better than the previous year's performance of 54.54 % points (The World Bank, 2015). While in the Getting Credit aspect Cambodia climbed seven ranks, in terms of the ease of starting a business, the country slipped one rank while the DTF also declined from 58.88 to 54.93% point. For other aspects, the DTF has increased, but since this increment has been small, the country's overall ranking has slipped.
50. As shown in Figure 7, Cambodia ranks 7<sup>th</sup> in ease of getting credit, implying that the country's collateral and bankruptcy laws are better designed to expand access to credit. Compared to all other dimensions of DBI, Cambodia ranks significantly higher in the Getting Credit dimension, calling attention to the relative ease of accessing credit in the country. In June 2015, Cambodia introduced

the provision of providing credit information, which facilitates the assessment of borrower’s repayment capacity. The credit bureau of Cambodia covers information on 44% of the adult population (The World Bank, 2016). Out of a total score of 8, Cambodia scored 6 in the credit information index.

51. In terms of issues, the key issue pertains to property rights, with prevalence of hard title and soft title deeds, shortage of skilled labour, low productivity levels, high cost of transportation and high cost of electricity among others.



**Figure 7: Ease of Doing Business indicators**

Source: World Bank, 2015

52. **Budget increased on capital expenditures:** Cambodia’s National Assembly approved a budget of KHR 17,696 billion (USD 4.36 billion) for the year 2016, which is an increment of 11.1% from 2015. Moving from a low income country to a lower middle income country, the government is focusing on social and economic structure changes. Moreover, in order to support the current economic growth trend of the economy, it is necessary that the government increases capital expenditure to support the economy. Accordingly, the 2016 budget for capital expenditure towards the economic sector has been increased by 4.7%. The government has allocated KHR 5,817 billion (USD 1.43 billion) for infrastructure projects such as roads, bridges, railroads, ports, irrigation systems among others. While 35% of the budget is allocated to transport and agriculture sector has been allotted 20% followed by energy sector with 10% allotment (The World Bank, 2016).



## Infrastructure context

53. ***Infrastructure still a key issue:*** In World Economic Forum's (WEF) Global Competitiveness Index 2016-17, Cambodia ranked 89<sup>th</sup> with a score of 3.98 out of 7, climbing one spot from last year's overall ranking of 90<sup>th</sup>. Since 2007, Cambodia, China and the Philippines have recorded the largest gains in the GCI score of East Asia and Pacific.
54. Out of the 12 pillars that are considered in the index, Cambodia's performance in the infrastructure pillar has been mediocre, with the country slipping five ranks to the 106<sup>th</sup> position (WEF, 2016). Inadequate supply of infrastructure is seen as a key impediment for doing business in the country. Currently, the government is focusing on the development of national and regional infrastructure networks and logistical capabilities, and improving connection with the region so as to benefit from the ASEAN economic integration.
55. ***Government strategy focusing on infrastructure development.*** The Royal Government of Cambodia is currently implementing Rectangular Strategy Phase III under which roads, water, electricity and people have been identified as four priority areas giving continuation to the efforts made during the implementation of Rectangular Strategy Phase II. 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.
56. Investment in irrigation infrastructure is seen as a key requirement with increased instances of drought and flood that have severely impacted the country's agriculture sector. The current irrigation infrastructure is not sufficient to meet the demand and while additional investments are required to develop irrigation systems; the maintenance and operation of the existing system itself remains a challenge (ADB, 2015).
57. ***Access to electricity limited:*** The Royal Government of Cambodia in the Rectangular Strategy Phase III has given high priority 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. Only 22.5% of households in Cambodia have access to electricity (CDC, 2016). As of 2014, there are 1.4 million consumers with electricity supply registering an 18.84% increase, compared to the previous year. There is an increase in demand for electricity throughout the country and at the same time, the cost of electricity in Cambodia is one of the highest in the region. In 2014, the average cost of electricity in Cambodia was 15.25 cents per kWh, while in Vietnam the cost was 7.2 cents per kWh and in Thailand the cost was 11 cents per kWh (Statista, 2015). In order to tackle this issue, the government has adopted a strategic plan spanning 2013-2018. Under this, the government is planning to reduce tariff for industry and business, households, poor people and pump stations used for agriculture. The tariff reduction will be implemented gradually through reduction of the difference in electricity tariffs from different areas including Phnom Penh Grid, Kandal Grid and National Grid (EAC, 2015). The government will also be investing in infrastructure to meet the demand of the country, while also reducing the gap between the tariff in urban and rural areas.
58. ***Transport Infrastructure being upgraded:*** As of 2013, Cambodia had 12,263 km primary and secondary roads, out of which only 500 km (4%) is paved (Royal Government of Cambodia, 2014). The total road network expands around 38,257 km, out of which 27,800 km are tertiary roads (The

World Bank, 2016). While the national road network is in good condition, the provincial & rural road networks need to be repaired and upgraded. The government is working to upgrade Road 21 from Phnom Penh to Vietnam border and, is also planning to build a highway from Phnom Penh to Sihanoukville port, which will further facilitate the country's industries and trade sector.

59. **Railroad:** Cambodia has 264 km of southern line rail road which connects the capital of Phnom Penh to Sihanoukville and 386km of northern line that connects Phnom Penh to Poipet (Ministry of Public Works and Transport, 2016). Although the usage of the rail road had peaked in 1970, the prolonged conflict resulted in the discontinuation of passenger service in 2008. A rehabilitation project is being undertaken to revive the Phnom Penh – Sihanoukville trail, which is expected to be used to transport fuel, coal, cement and container shipment along with passenger services in the near future (Open Development, 2015).
60. **Air Transport:** The country has 3 international airports and 8 domestic airports with the aviation market witnessing significant growth. In 2015, Cambodia's aviation market registered 15.5% growth with the passenger number growing in double digits for the last six years (Open Development, 2015).
61. **Waterways:** Cambodia has around 850km of navigable waterways during the dry season. The country has 2 international ports – Sihanoukville Autonomous Port (SAP) and Phnom Penh Autonomous Port (PAP). While SAP is the commercial and international deep seaport, PAP is the original river port. For a country on a trajectory to become an export based manufacturing country from the current status of agriculture based economy, waterways, railroad and air transport are infrastructures essential for trade and economic development.
62. **High telecommunication penetration and increasing internet usage:** Around 23.82 million people in Cambodia have mobile phones and fixed telephones subscriptions (Royal Government of Cambodia, 2014). The increased adoption of mobile phones has also supported the expansion of internet penetration. It is estimated that 6.3 million people are using their smartphones to access the Internet (MPTC, 2015). The Ministry of Post and Telecommunication estimates internet usage to reach 80% of the population by 2020. Cambodia ranked 98<sup>th</sup> in the Global Competitiveness Index's 9<sup>th</sup> pillar of technological readiness. Under this, 19% of the population are internet users with only 0.5 per 100 population having a fixed-broadband internet subscription (WEF, 2016). The mobile phone market has been growing significantly, which has been further supported by the availability of Khmer script capability in mobile phones. Moreover, Facebook is seen as a key source of information with 30% of the population accessing information via Facebook. (Asia Foundation, 2015).
63. **Large investments required to improve access to water and sanitation:** Around 4 million people in Cambodia do not have access to safe drinking water while, an estimated 1,600 villages face the risk of arsenic contamination (WaterAid, 2016). Moreover, it is estimated that around 9 million people do not have access to adequate sanitation (WaterAid, 2016); majority of these people reside in rural areas, with only 25% of rural people having access to sanitation versus 82% people of urban areas. The government has adopted the National Strategic Plan for Rural Water, Supply, Sanitation and Hygiene (RWSSH) 2014-2025, under which it aims to reach universal access by 2025. However, to achieve this target, capital expenditure of KHR 374,256 million (USD 92 million) per year for water supply and KHR 484,092 million (USD 119 million) for sanitation is required, out of which the

projected budget deficit is around KHR 231,876 million (USD 57 million) per year for water supply, and KHR 345,780 million (USD 85 million) for sanitation. This makes it a daunting task for the government to increase access to safe drinking water and sanitation, especially in the rural areas without identifying funding to cover the deficit.

## Regulatory and policy context in the financial sector

[Summary: regulatory and policy considerations](#)

[Policy context](#)

[Financial sector policies](#)

[Regulatory framework](#)

[Supervisory landscape](#)

[Regulatory issues to be considered](#)

## Summary: regulatory and policy considerations

- Rectangular Strategy III forms the baseline for the overarching policies of the country including the financial sector. The government plans to implement this through the National Strategic Development Plan (2013-2018).
- National Strategic Development Plan (2013-2018) guides the specific actions to be taken to implement the policy priorities set by Rectangular Strategy III and ensure consistency of priorities and sequencing.
- Financial Sector Development Strategy (2016-2025) is the umbrella strategy for the development of financial sector in the country. The strategy includes the adoption of a national strategy for financial inclusion
- Neary Rattanak 4 (2014-2018) lays out the government's strategy for women economic empowerment and improved access to finance
- ASEAN integration entails a consideration of financial inclusion as a strategic priority for the region
- Contradictions in leasing regulations, MFI's prudential regulations and reporting templates currently being used to supervise financial leasing companies
- Despite having a Commercial Arbitration Law and Commercial Court, judicial proceedings is still an issue
- Insurance sector lacks an autonomous supervising body with a department under MEF currently regulating the sector
- Regulatory gaps for information submission at Credit Bureau limit its usefulness
- Consumer protection law being drafted with Cambodia as part of ASEAN taking into consideration the strategy put forth by ASEAN Committee on Consumer Protection
- De facto provisions for secured transaction registry established but marred with issues of regulatory compliance issues.
- Cambodian International Financial Reporting Standards, the local adaptation of IFRS is being implemented to bring transparency and increase accountability in the economy
- The issue of multiple IDs being tackled through replacement of old IDs with new digital biometric national IDs
- Cambodia AML/CFT system is currently under mutual evaluation from APG in compliance with FATF standards; therefore, all policies and recommendations are set by the FATF for Cambodia.

## Policy Context

64. *Rectangular Strategy guides the country's development efforts.* Cambodia is currently implementing the third phase of Rectangular Strategy (RSIII) after the successful implementation of Phase I and Phase II. It is seen as the socio-economic policy agenda of the country that forms the policy framework for the formulation of National Strategic Development Plan. The pillars of the strategy are: growth, employment, equity, and efficiency. The objectives are:
- Ensuring sustainable, inclusive growth through diversification of the economic base. Attaining an average annual economic growth of 7% while managing low inflation, stable exchange rate and steady growth in international reserves

- Creating employment in the economy by encouraging domestic and foreign investments in the country
  - Attaining at least 1% point reduction in poverty incidence annually, while also prioritizing the realization of Cambodia Millennium Development Goals.
  - Strengthening institutional capacity and governance at national and sub-national levels, to ensure effective and efficient public services to the people.
65. The strategy also includes a special focus on the development of Cambodia’s financial sector, through the implementation of Financial Sector Development Strategy 2016-2025. The RSIII intends to enhance financial inclusion through increased access to low cost services from financial institutions and micro-insurance by expanding their coverage. One of the objectives of RSIII is also to develop a sound market-based banking sector, which will then act as a catalyst for financial resource mobilization to drive economic development. The strategy also focuses on promoting availability of banking products at low cost and favorable conditions through MFIs. Moreover, one of the pillars 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 access to finance for agriculture based businesses.
66. *National Strategic Development Plan (2014-2018)*. The National Strategic Development Plan (NSDP) has been formulated for the implementation of Rectangular Strategy Phase III and provides a framework for the government and development partners to combine their efforts to achieve the goals of RSIII. The NSDP intends to implement the Financial Sector Development Strategy (2011-2020) with the objective of achieving the banking and non-banking sector priorities. This includes; interventions in the banking sector, micro-finance sector, insurance, pensions and securities.
67. Moreover, the strategy also aims to expand financial inclusion through access to affordable loans by scaling up the micro-finance sector and broadening its coverage to provide access to individuals and small and medium enterprises. Accordingly, the NSDP highlights the need for private sector SME development, to facilitate economic growth and poverty reduction. The plan also attempts to address the challenges of the economy being integrated into ASEAN, and the resultant changes required in policies and regulations. The government will strategize to prepare for the free movement of skilled workers, capital, and equalization of tax rates as per the ASEAN agreement.
68. *Industrial policy emphasizes the role of financial market*. The Cambodia Industrial Development Policy 2015-2025 focuses on structural reforms targeted at strengthening economic diversification and competitiveness, so as to ensure sustainable economic growth with equitable re-distribution of wealth. Moving from an agro based economy to a manufacturing and agro-industry based economy, the policy focuses on economic structural transformation. Under this, intervention in the banking sector is also emphasized so as to avail tailored financing mechanisms for specific activities, as per the market needs. The policy prioritizes the strengthening of domestic saving mechanisms and availability of sufficient low interest credit. Unlocking of flexible financing mechanisms and saving mechanisms will have a broader beneficiary bracket including the population at large.
69. *Social insurance program for the vulnerable*. The National Social Protection Strategy for the Poor and Vulnerable prioritizes social insurance programs that will protect the households against

sudden reduction in work income as a result of sickness, maternity, employment injury, unemployment, invalidity, old age or the death of a breadwinner. These are contributory programs, where beneficiaries are required to pay a certain contribution to the insurance scheme to receive the benefits.

70. Moreover, the NSDP has also considered efforts for poverty reduction; the strategies will be contextualized to geographic and territorial specificities attempting to attain gender parity at all levels. The ID-poor program (Refer Box 4 Cambodia's ID Poor Program) will also be intensified to expand social security network, which will incorporate social assistance to people most vulnerable to climate change.

## Financial sector policies

71. ***Financial Sector Development Strategy: The guiding policy for the development of Cambodia's financial sector.*** The Rectangular Strategy III has a special focus on the development of banking and financial sector. This includes the implementation of Financial Sector Development Strategy (FSDS) 2016-2025, which focuses on improving economic efficiency and competitiveness.

- The key objective of FSDS is to develop a sound financial sector that can contribute to poverty reduction by supporting economic growth and promoting poor people's access to finance.
- The strategy will prioritize the strengthening of regulation and supervision mechanisms of the securities market and the banking sector while also ensuring effective cooperation mechanism among related financial sector authorities. Moreover, in order to establish a robust legal and cooperation framework, the strategy intends to remove inconsistencies between existing laws and international standards.
- The strategy also focuses on establishing a crisis management framework and intends to periodically test these frameworks to ensure that the framework suits Cambodian economic and financial conditions.
- In terms of payment and settlement system, the strategy aims to improve interconnection, provide more services to users and support the government's future plan of securities issuance. NBC will also be implementing the real-time gross settlement (RTGS) system.
- Priority has also been given to promoting financial inclusion through the expansion of Microfinance services targeting the lower income people such that access to affordable financial services help in increasing income and reducing poverty.
- The strategy also touches on developing the insurance sector through the development of new products and expansion of the utilization of existing products. The strategy also focuses on enhancing the regulations governing the sector and developing supervisory capacity to facilitate the growth of the sector.
- In terms of developing the securities market, the strategy aims to encourage more listing of securities. The SECC will also work towards complying with the core principles of International Organization of Securities Commissions.

72. A key priority of the strategy is to ensure a flexible monetary policy aimed at safeguarding macro-economic stability. Globally, countries have faced macroeconomic risks due to the risk of sudden

stop and reversal of capital flows. The volatility of capital flows entails with its exchange rate volatility and, macro-economic and financial instability. NBC intends to explore new tools for ensuring financial stability and economic growth, build internal capacity and achieve greater autonomy in designing and implementing monetary policy. This will include the implementation of a managed float exchange rate to maintain stability of the KHR and also to build confidence in the local currency, so as to tackle the issue of high dollarization in the long run.

73. ***Government promoting financial inclusion.*** Although Cambodia does not have an overarching financial inclusion strategy, financial inclusion remains a priority for the government. The Rectangular Strategy, the National Strategic Development Plan and the Financial Sector Development Strategy, includes a component of financial inclusion. The current focus is to promote financial inclusion initiatives that promote sustainable and inclusive growth. The FSDS also includes a strategy for microfinance sector to promote financial inclusion by providing affordable financial services, increasing income and reducing poverty. NBC has been a member of the Consultative Group to Assist the Poor (CGAP) since 2000, and the Alliance for Financial Inclusion (AFI) since 2015. As a member of AFI, Cambodia is also a signatory to the AFI Network Commitment to Gender and Women's Financial Inclusion, wherein NBC has committed to developing an action plan to promote Gender and Women Financial Inclusion. Furthermore, NBC is implementing the Enhancement of Consumer Protection and Financial Literacy Campaign, to promote financial inclusion and help vulnerable consumers. The government intends to adopt a national strategy for financial inclusion in the longer run.
74. ***Neary Rattanak 4 focuses on financial inclusion for women.*** Neary Rattanak 4 (NR4) is the Cambodian government's plan to promote gender equality in the country. One of the pillars of the strategy is women's economic empowerment through enterprise development, employment and social protection. The strategy aims to improve women's access to finance and increase financial literacy among women through strategic partnership with the Cambodia Microfinance Association. 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 improving access to finance for SMEs.
75. ***Efforts underway to include financial inclusion as a strategic priority for ASEAN.*** In 2014, the ASEAN partners held ASEAN Financial Inclusion Conference to discuss the development of banking and financial sector, with prioritization of financial inclusion and access to finance for women (NBC, 2015). ASEAN member states can have a better understanding of cross-border financial flows and devise government policies accordingly. In 2016, the ASEAN Finance Ministers and Central Bank Governors endorsed the establishment of the Working Committee on Financial inclusion (WC-FIN), which has been established with the objective of facilitating greater financial inclusion in the ASEAN region, enhancing economic growth, alleviating poverty and reducing income inequalities. Financial inclusion continues to remain a policy priority and one of the pillars of ASEAN financial cooperation under the AEC Blueprint 2025 (ASEAN, 2016). Integrating financial inclusion as a component of development policy would entail development of financial inclusion policies that will address the



development of financial sector infrastructure and distribution networks resulting in wider access to financial services (UNCDF, 2015).

## Regulatory framework

76. Cambodia's banking sector is broadly governed by the Law on the Organization and Functioning of the National Bank of Cambodia (1996), the Law on Banking and Financial Institutions (1999), the Law on Foreign Exchange (1997), the law on Anti-Money Laundering and Combating the Financing of Terrorism (2007). Besides these broad laws, the central banks issues sub-decrees, regulations and *Prakas*.
77. ***Bureaucratic process and corruption marring efficiency.*** MAP supply-side interviews indicated that navigating formal bureaucracy is a lengthy, time consuming process. Financial institutions need to get approval from the regulators before introducing any new financial products, this includes a lengthy and tedious bureaucratic process. The Ease of Doing Business Index 2017 ranked Cambodia 131<sup>st</sup> out of 190 countries (The World Bank, 2015). Moreover, corruption has been a key issue with the country, which ranks 150<sup>th</sup> out of 168 countries in the Corruption Perception Index 2015, scoring 21 out of 100 (Transparency International, 2015). Corruption, combined with bureaucratic process, not only impacts business dealings but also delays the resolving of commercial disputes. Given that the financial sector of Cambodia has significant FDIs in banks, microfinance and insurance sector, the foreign investors with stringent anti-corruption law applicable for foreign investment, face a difficult time to traverse the informal system. Moreover, studies have shown that high corruption leads to resources getting misallocated, promoting financial exclusion and marginalization (Francis K. Agyekum, 2015).
78. ***Official documents in Khmer.*** In 2015, foreign direct investment contributed 9.4% to the GDP of Cambodia, which is higher than the world average of 2.8% contribution to GDP (The World Bank, 2016). Given the high inflow of FDI and the subsequent presence of foreign owned and controlled organizations in the financial sector as well, the issue of official documents being issued only in Khmer, creates a scenario of uncertainty and confusion. Moreover, the tax administration requires all accounting records and documents to be maintained in Khmer language and Cambodian Riel Currency In this line, the FSDS also includes a plan to create a standard financial legal glossary in Khmer and English, which will further aid in creating a feasible environment for foreign investment.
79. ***Established measures against ML/FT.*** The Cambodian Financial Intelligence Unit (CAFIU) is the watchdog for suspicious transactions. Reporting entities are required to report cash transactions exceeding USD 10,000 and suspicious transactions to the CAFIU. The AML/CFT Law (2007) has laid down disciplinary and penal sanctions for failure to comply with AML/CFT requirements. The Financial Action Task Force (FATF) has also recognized Cambodia's efforts in improving the AML/CFT regime and has removed the country from the monitoring process under its global AML/CFT compliance process (FATF, 2015).
80. At the international level, Cambodia is a member of and signatory to a number of international agreements on AML/CFT. Cambodia is a member of the Asia Pacific Group on Money Laundering and is a signatory to the International Convention for the Suppression of the Financing of Terrorism (1999). Moreover, as a member of the ASEAN Convention on Counter Terrorism (2010), Cambodia needs to promulgate policies and regulations as per the convention.

81. **Established provisions for secured transaction registry.** The Royal Government formulated the Law on Secured Transactions in early 2007 with the aim of increasing access to credit encouraging economic development of the country by making credit available for the larger population by addressing the collateral gap. Despite the act being in place since 2007, its implementation has faced many challenges in areas of registration of lease interests, qualification of intangible goods as collateral, repossession of leased assets and lack of knowledge on movable assets lending among others.
82. The FSDS proposes the amendment to the current Law on Secured Transactions, so as to facilitate the repossession of leased assets without court approval. The full implementation and practice of the secured transaction registry will enable increased access to credit while reducing risks of credit. It will reduce the cost of credit through diversification and market competition.
83. **Large number of banks operating in the country.** The term “bank” covers specifically two different categories of institutions – categorized as commercial banks and specialized banks by the National Bank of Cambodia (NBC). As of 2016, there are 52 banks, out of which 37 of them are commercial banks while 15 of them are specialized banks (Refer: Provider Overview). There are 28 commercial banks and 10 specialized banks with foreign majority ownership<sup>11</sup>. Similarly, there are 14 foreign subsidiary banks and 11 foreign branch banks operating in the country (NBC, 2016). Apart from mainstream banks there are 71 microfinance institutions (64 microfinance institutions and 7 microfinance deposit taking institutions), 857 agriculture cooperatives, 12 leasing companies and 112 registered pawn shops operating in the country.
84. The increase in number of banks has played a key role in enhancing access to finance in Cambodia however the concentration of banks in urban centers could create systematic risk in the banking system in the future. Due to the high competition amongst banks in the urban centers, banks could undertake risky investments and compromise governance and compliance. To ensure efficient risk management the NBC has focused on both macro and micro prudential analysis in order to maintain the soundness of financial status and to increase the public confidence. The NBC’s supervision is based on CAMELS method and risk-based and forward looking to assess and ensure the soundness and stability of the whole banking system. However, few banks and financial institutions that are weak, has been asked to rehabilitate by the NBC.
85. In this scenario, NBC is currently reviewing regulations on asset classification with the aim of introducing stringent provisions. Moreover, NBC is also drafting regulations on capital buffer and liquidity risk framework and is also in the process of amending the regulation on credit risk valuation for solvency purpose along with the regulation on prompt correction action.
86. **Capital requirements and capital controls.** The minimum capital requirement for the establishment or incorporation of a company in Cambodia is quite low in comparison to other ASEAN countries such as Indonesia, Laos, and Malaysia. On one hand, the lower capital requirement to establish a company has helped to attract foreign companies. On the other hand, the lower requirement of

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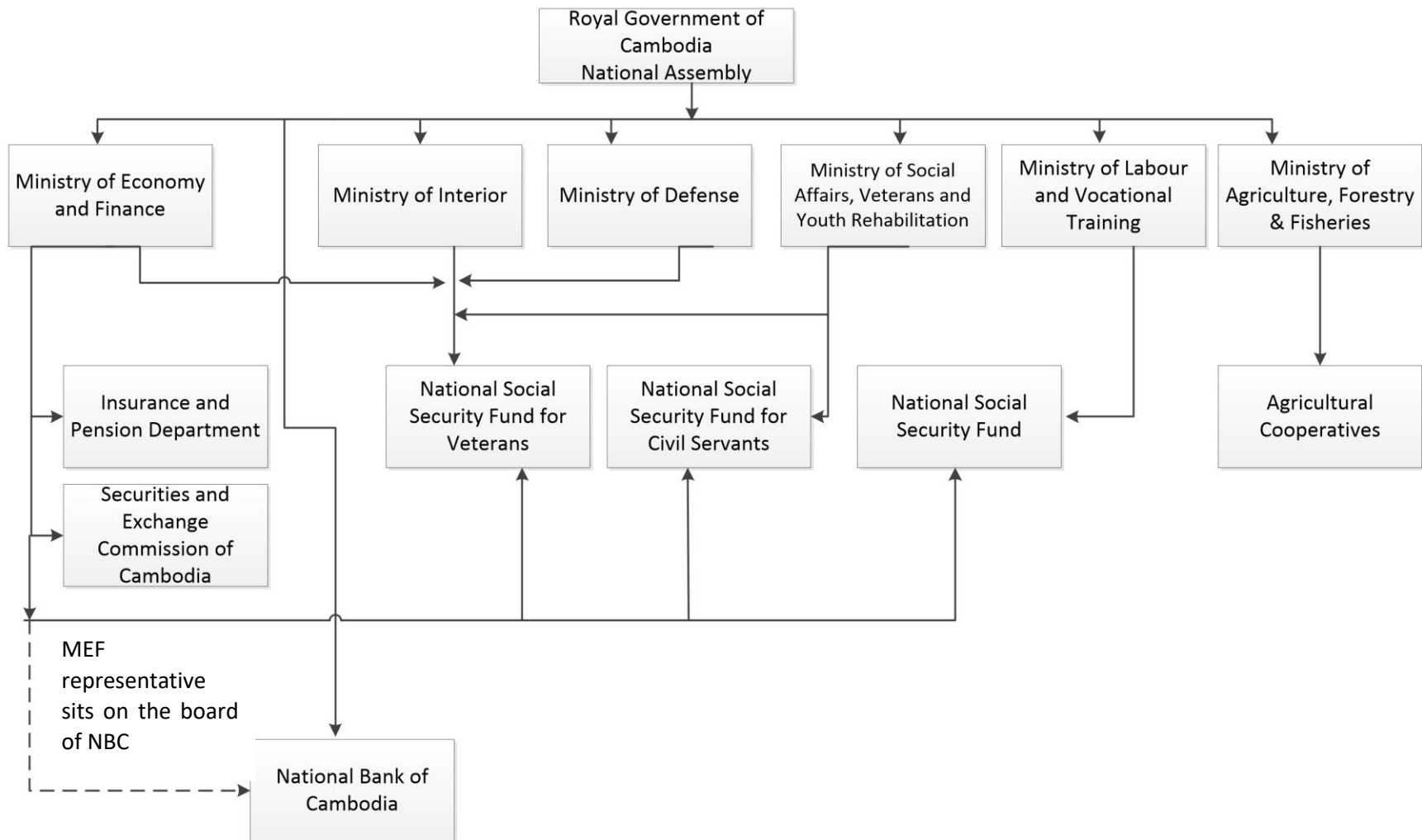
<sup>11</sup> Out of 36 commercial banks only 8 commercial banks have more than 50% ownership of local shareholders, while 26 banks have 100% foreign ownership and the remaining 2 have more than 50% foreign ownership.

capital could adversely affect the Cambodian economy, as a large portion of the investments are brought into Cambodia as debt for working capital requirement and investments rather than capital. The companies with lower capital capacity have been highly leveraging debt from abroad, while taking away a larger proportion of income generated in Cambodia in the form of dividends, interest and principle payment. Such practices bear a significant risk to the economy in terms of vulnerability to external shocks amidst lenient capital control in Cambodia. Cambodia does not levy any restriction on the inflow of capital or repatriation of capital. Foreign investments higher than USD 50 million need to be approved through the Council for Development of Cambodia. Similarly, registered banks are required to report the transfer of amounts exceeding USD 100,000. Currently, Cambodia does not have any restrictions on fund transfer or repatriation of profits or capital to and from Cambodia.

87. In the case of the banking sector, commercial banks, incorporated as foreign branches whose parent bank has rating-investment grade extended by a reputable rating agency, must have capital equal to KHR 200 billion (USD 49 million) while if it is locally incorporated as local company or foreign subsidiary must have a minimum capital of at least KHR 300 billion (USD 73.74 million). For specialized banks, locally incorporated as companies, need to have minimum capital of KHR 60 billion (USD 14.75 million). Similarly, microfinance institutions should have a minimum registered capital of KHR 6 billion (USD 1.48 million) (NBC, 2016).

## **Supervisory landscape**

The supervisory landscape and various institutions of Cambodia are shown in Figure 6.



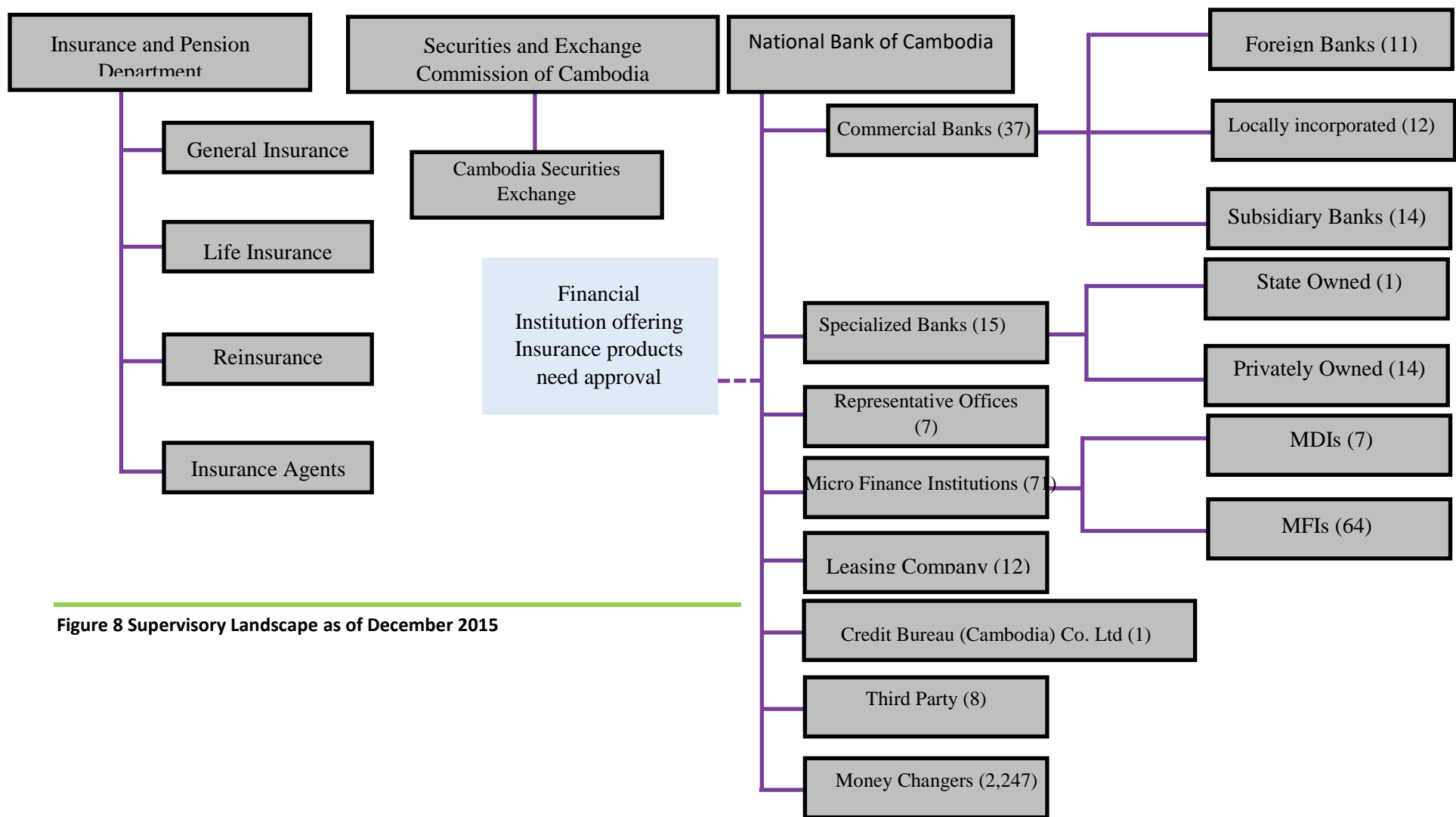


Figure 8 Supervisory Landscape as of December 2015

88. ***Ministry of Economy and Finance (MEF) is the line ministry overseeing insurance companies and companies dealing with securities:*** The Ministry of Economy and Finance functions under the provision established by Anukret No 04/ANK/BK of the Royal Government published in January 2000. MEF has the authority to guide and administer the economic and financial affairs of the country. MEF is the responsible authority for distribution and allocation of budget, creation of policy along with implementation and revision of policy. The General Department of Financial Industry under the MEF, oversees the country's securities market, insurance and pension, real estate business and pawnshops, along with overseeing gambling management and the compliance to AML/CFT requirements. The MEF along with the Governor at NBC, represents the country in regional forums such as ASEAN.
89. ***National Bank of Cambodia autonomous body overseeing banks and financial institutions:*** National Bank of Cambodia (NBC) is an autonomous public entity working as the central bank of Cambodia, involved in the management of monetary and exchange policies, the regulation of banks and financial institutions and the control of the national currency. NBC under the Law on the Organization and Conduct of the National Bank of Cambodia, promulgated in January 1996, has operating autonomy and is required to submit the implementation and results of its mission to the National Assembly and the Royal Government (Royal Government of Cambodia, 2006). The board of directors, which is the highest decision making body, consists of representatives from the Royal Government, Ministry of Economy and Finance, Academia, Private sector and NBC staff with the governor acting as the Chairperson. NBC promotes financial inclusion through the maintenance of financial system stability in the country. As part of the FSDS, NBC is the lead agency in developing, adopting and implementing a National Strategy for Financial Inclusion. The financial institutions under the supervision of NBC, needs to submit a request letter for approval before offering new financial products such as mobile banking or distribution of insurance products.
90. ***Credit Bureau of Cambodia is the independent organization providing credit reporting services:*** Credit Bureau of Cambodia (CBC) has a 49% ownership of a private company – Equifax Cambodia Holding (a Singapore incorporated company), while the remaining 51% shareholding is shared by the Association of Banks Cambodia (30%), Cambodia Micro Finance Association (10%), ACLEDA Bank (5%), Union Commercial Bank Plc (5%) and First Commercial Bank (1%). The CBC is established with the mandate to secure a person's credit history and provide a credit report that reflects the person's credit usage and most current 24 payment cycle. Financial institutions use the credit information to evaluate the creditworthiness and over-indebtedness of the person during loan evaluation process. CBC aims to provide data to help manage credit risk, prevent fraud and provide real time data to consumers (CBC, 2016). CBC, as the provider of credit reporting system provider, is subject to oversight by NBC as per the provision established in the Prakas on Credit Reporting (CBC, n.d.). It is the responsibility of CBC to ensure completeness and veracity of the information; however, the data providers are held accountable for any incorrect information sent to the CBC and is liable for any claims from the consumers regarding errors that resulted in the damage of customer's financial reputation. The financial institutions can devise their own credit decision making rules, but should consider CBC report as one of the tools for credit risk decision process. However, financial institutions cannot solely base their decision on the credit information provided by the CBC. All financial institutions under the supervision of NBC, are mandated to provide credit information to



CBC. The failure to do this would result in first warning and then monetary fine by NBC. Moreover, such financial institutions will not be able to access information from the CBC.

91. ***Securities and Exchange Commission of Cambodia (SECC) regulates the only stock exchange:*** SECC was established under the law on The Issuance and Trading of Non-Government Securities to regulate the securities industry in Cambodia and support capital mobilization in the country. The SECC follows the mandate of promoting and ensuring compliance with the provisions of the Securities Law and functions as per the provision of the Anukret on the Conduct and Organization of the Securities and Exchange Commission of Cambodia. The activities of SECC including the budget is based on the guidelines of the MEF.
92. Currently, there are seven securities underwriters, one securities dealer, three securities brokers and two investment advisors in the country (SECC, 2015). The Cambodia Securities Exchange (CSX) is the only security exchange in Cambodia with four listed companies (CSX, 2016). The SECC as a member of the ASEAN Capital Markets Forum, is also working on the harmonization of legal frameworks to facilitate cross-border offering, mutual recognition and improved settlement to facilitate cross border listings.
93. ***Insurance and Pensions Department under Ministry of Finance responsible to regulate insurance companies:*** The insurance and pension department governs and supports the development of insurance sector of the country. The supervisory authority is responsible for developing laws and regulations, preparing supervisory and institutional frameworks, so as to provide conducive environment for market development. MEF in accordance to the Law on Insurance Business Establishment, supervises and regulates the insurance sector.
94. ***Cooperatives are governed by Ministry of Agriculture, Forestry and Fisheries:*** The Department of Agriculture Cooperative Promotion under Ministry of Agriculture, Forestry and Fisheries, is the governing body of the agri-cooperatives operating in Cambodia. The department is responsible for preparing policy, making plans and developing programs for agricultural cooperative and agricultural cooperative union (DACP, 2016). The Law on Agriculture Cooperatives 2013 allows the cooperative established under its provision to offer support for promotion of agricultural production, which can include the provisions of loan services and savings deposits. The provision of mutual credit has been a key function of agri-cooperatives providing access to savings and credit for farmers in rural areas.
95. ***Social security provisions governed by different ministries:*** The National Social Security Fund (NSSF), National Social Security Fund for Civil Servants (NSSFCS), National Social Security Fund for Veterans (NSSFV) and the Persons with Disability Foundation are the three institutional arrangements established to implement the government's social protection policy. As shown in Figure 8 Ministry of Labour and Vocational Training governs the operation of NSSF while Ministry of Social Affairs, Veterans and Youth Rehabilitation is the line ministry for NSSFC and Ministry of Interior along with Ministry of Defense and Ministry of Social Affairs, Veterans and Youth Rehabilitation governs the NSSF-V. Currently efforts are underway to consolidate the various programs of NSSF into a single umbrella organization to eliminate any overlap or duplication of efforts. While the Ministry of Economy and Finance has the authority to take the budgetary decisions for NSSF, NSSFCS and NSSFV, the operational side is governed by separate ministries.

## Regulatory issues to be considered

96. ***Regulatory gaps for information submission at Credit Bureau creates opportunistic behavior.*** Credit Bureau of Cambodia (CBC) provides credit reporting services to member banks and MFIs in the country with the current membership base of 138 financial institutions with 4 million borrower account information and customer data (CBC, 2016). Member financial institutions (38 banks, 14 specialized bank, 70 MFIs, 11 leasing companies and 5 registered credit operators) are required to submit loan information every month and are required to avail the credit report while conducting their credit evaluation.
97. Despite CBCs continued effort to maintain and update information on borrowers, the MAP qualitative interviews validated the shortcomings that occur when member financial institutions do not provide data to CBC. To ensure that member financial institutions comply with such provisions, institutions who do not provide data are barred from accessing credit information from CBC (Refer Supervisory landscape). However, this creates an information gap leading to incomplete risk assessments while on the other hand providing unfair advantage for the selective few (individuals and institutions) benefiting from the information gap. Although data sharing is mandatory and provisions are in place to penalize institutions not complying with this requirement, as per the Prakas on Credit Reporting the fine is USD 1,000- USD 2,500. To discourage willful non-compliance the disciplinary sanctions should be clearly spelled out and it should be stringent enough to instill a discipline on timely reporting.
98. ***Issue of recognition of electronic document.*** MAP supply side interviews indicated that the lack of recognition of electronic document in official communications creates operational inefficiencies for the businesses. The regulators require office documents to be paper based with the signature and thumb print of the authorized personnel. The Cambodian legal procedures are heavily reliant on paper based documentation.
99. At the service providers' end, mobile based service providers, have started to accept digitally scanned documents for account opening or insurance claim processing. This not only reduces operational costs for the business, but it also eases the process for the end user, acting as a factor encouraging users to take up formal financial services. The growth of retail electronic commerce and mobile based financial services can be supported through legal recognition of electronic documents.
100. ***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 decisions. This contributes to the lack of access to formal financial services 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.

101. ***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 (FSDS 2016-2025).
102. Furthermore, many countries, hire-purchase contracts are installment sales contracts. The General Department of Taxation views these as sale-financing instruments for vendors. NBC considers a hire-purchase contract as a form of lease. The tax treatments for bank loans and equipment leases are not the same, particularly in the area of value-added tax (VAT) and withholding tax. A bank loan is exempt from VAT and withholding tax, yet a lease requires 10% VAT to be added and a 10% withholding tax to be paid by the lessee on behalf of the lessor. Technically, withholding tax is the prepayment of the lessor's tax on profits. The lessee is required to file a tax return and pay 10% withholding tax to the General Department of Taxation. This practice leads to duplication of taxation.
103. There is a need to review the regulatory framework in supervising financial lease. Currently, NBC temporarily uses MFI's prudential regulations and reporting templates to supervise financial leasing companies as an interim measure (FSDS 2016-2025).
104. ***Despite having a Commercial Arbitration Law and Commercial Court, judicial proceedings is still an issue.*** Cambodia became a member of World Bank's International Center for Settlement of Investment Disputes in January 2005. The country adopted a Commercial Arbitration Law in 2006 and in 2010, the government provided for the establishment of the National Commercial Arbitration Center (NCAC), Cambodia's first Alternative Dispute Resolution (ADR) mechanism was established to enable companies to resolve commercial disputes more quickly and inexpensively than through the court system. In 2013, the National Commercial Arbitration Centre was established, however only one case was registered in 2015 (Ananth Baliga, 2015). A weak judiciary system will impact the investment climate of the country as foreign investors seek stable legal and regulatory framework.
105. One of the key concerns has been that 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. Also the limited availability of the qualified arbitrators with adequate knowledge on commercial arbitration and international best practices has hindered its efficiency.
106. The Cambodian Government enacted the Law on Court Structure in July 2014 under which the Commercial Court was created. The Commercial Court, established as one of the four specialized Courts of First Instance, with jurisdiction over all commercial matters, including insolvency cases. The Commercial Chambers will hear all appeals arising out of the Commercial Court. International arbitration is available for Cambodian commercial disputes. Cambodia's 2007 Law on Insolvency was intended to provide collective, orderly, and fair satisfaction of creditor claims from debtor

properties and, where appropriate, the rehabilitation of the debtor's business. The Law on Insolvency applies to the assets of all business people and legal entities in Cambodia.

107. ***Mandatory audit requirements.*** The Prakas on Annual Audit of Financial Statement of Banks and Financial Institutions mandates bank and financial institutions to produce annual audit financial statements. Authorized external auditors are also required to audit and give their opinion on the financial statements. Cambodian International Financial Reporting Standards (CIFRS) is the local adaptation of the IFRS where Cambodian registered entities are required to prepare their annual financial statement in compliance with CIFRS. The adoption of CIFRS will bring transparency and increase accountability through improved quality of financial information and availability of globally comparable information. NBC is also in the process of drafting a new Prakas on External audit which intends to provide a greater role of the Board of Directors and Senior Management of financial institutions in their reporting. It will also provide more responsibility for external auditors to ensure that they present high quality standard.
108. NBC has completed a gap assessment of financial institutions under its supervision for the implementation of International Financial Reporting Standards (IFRS) audit standards however the implementation of IFRS has been delayed until 2019 (Refer Annex 1. List of Regulation in the pipeline). While for insurance companies who did not provide CIFRS financial statement in 2015, MEF has directed these companies to prepare a detailed transition plan.
109. ***Prescription of Debts.*** In markets like Cambodia, where credit dominates the financial industry, there is a significant importance of having a Prescription Act to allow for debts to be extinguished by prescription. Prescription of debts provide for protection of debtors from old claims against which they cannot effectively defend because of loss of records or witnesses caused by lapse of time. Prescription also provides finality of obligations and reduces the risk of exposure of new lenders to long past abandoned claims of other institutions. Most of the borrowings in Cambodia is backed by assets except for informal lending. There is a strong competition amongst MFIs to extend credit to the potential clients with assets. MAP qualitative survey showed that pushing loans to borrowers without ensuring proper usage of loans and refinancing of loans was widely practiced. The new loans extended under new conditions is sometimes feasible, but all too often they only serve the interests of the lenders rather than the borrowers. The normal difficulties of accessing legal services due to high cost and the remoteness of the law from most people's lives results in difficulty to challenge the financial institutions during litigation.
110. ***Issue of multiple IDs.*** Since 2011, the Royal Government of Cambodia had started the process of implementing biometric identity cards to replace old national identity cards which have a validity of 10 years. These IDs include the details of the person, full home address, ID number and finger prints along with the holder's birth certificate and relevant pages of family book, which is stored electronically.
111. Legitimacy of the old ID cards in Cambodia has been a question. Out of the total 160,000 immigrants living in Cambodia, 99.49% of them are Vietnamese out of which 76,398 Vietnamese own administrative documents including, family record books, Cambodian birth letters, Cambodian election cards, marriage cards, Cambodian national ID cards, Cambodian passports, public servant

cards and other documents that contained irregularities (Mol, 2016). Moreover, women are less likely to have suitable IDs to meet KYC requirements, 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 names are not typically co-listed on utility bills making it difficult for women to provide enough documentation to access finance from formal institutions.

112. A centralized and universal identification number will result in a centralized database which can be used not only for government schemes but for standardization of information regarding financial services being undertaken by the specific individuals. The ID can act as a proof of identity and address while also supporting KYC verification at financial institutions.

## Target Market

### Target market segments: detail

113. This section divides the population into subsets based on reported primary source of income. Each of the subsets are unique target segments, with one target market segment being distinct from the other; in terms of financial needs and constraints. From a financial inclusion perspective, it is important to segment the population into categories such that government and financial institutions can focus their efforts and resources and gain deep knowledge of financial needs of each target market segment. This approach helps drive down costs by enabling a closer match of limited resources to specific requirements of the target market segments. The identification of the target market and its segmentation is an essential step for understanding the financial needs and realities of the population categorized into five segments – formally employed, informally employed, self-employed, farmers and dependents.

## Key Findings: Target market

- *High rural based population with low education level:* The population of the country is rural centric (75%) characterized by low levels of education (57% of the population with primary education or less) with a higher female to male ratio (52:48).
- *Significant penetration of financial services:* FinScope data indicates 71% of the adult population have access to financial services; with 59% of the adult population being formally served. 12% of the adult population use only informal channels, whereas 29% indicate no use of financial services. Just over a quarter women (27%) and nearly a third of men (31%) are excluded from access to financial services.
- *Limited usage of financial products:* The depth of access in terms of different number of financial products used is relatively low with only 1.2% using all four types of financial services across the access strand.
- *Most excluded target markets:* Informally employed are the worst served with 26% being financially excluded; followed by farmers (21%).
- *Formal Remittance a driver for access to financial services for dependents:* Dependents have the lowest median monthly income, but their access to financial services is better than most of the other target market segments.
- *Least served target market segment:* Informally employed is the target market segment with the highest percentage (26%) of adult population not served by financial service providers.
- *MSME's a key feature of self-employed:* Self-employed target market consists mostly of individuals who run MSME's
- *Farming is an important source of income for a majority of Cambodians:* 33% of the country's population comprise of farmers; meanwhile a significant percentage of the population also supplement their low incomes through farming activities.
- *Access to informal savings high across target market except for formally employed:* Formally employed is the only target market segment having a higher access to formal savings than informal savings; meanwhile all other target markets have higher access to informal savings compared to formal savings.

## Target market Context

114. The target market segmentation provides an overview of the nature as well as needs and realities of each target market; in terms of demand for financial services in Cambodia, based on the FinScope 2015 quantitative demand side study and the qualitative demand and supply side study.

## Societal context

115. *Highly rural based population that supplements income through agriculture:* The population of the country is highly rural centric (75%) characterized by low levels of income (median income KHR 400,000 per month equivalent to USD 98), low levels of education (57% of the population with primary education or less) and a marginally female dominated population (52:48). Agriculture is a predominant occupation with 33% of the country's population comprising of farmers. However, farming is mostly done on a small scale with limited access to finance and limited supporting infrastructure, which restricts the benefits that can be reaped by a larger population through full-scale commercialization.
116. *Risk mitigation reliant on help from family and friends:* FinScope data suggests that Cambodians take credit or depend on support of family members or community to mitigate risk events; with families usually taking care of individuals who cannot sustain themselves. FinScope data indicates that 50% of the adult population rely on money from family and friends to pay for major expenses. Furthermore, credit from family and friends accounts for 22% of credit users.
117. *"My brother in law and I came to Battabong three years back for a better life. My brother in law had a very bad accident at the factory and passed away leaving behind his two daughters. I have taken the responsibility to look after them. They are my daughters now. I regularly transfer money via Wing to my wife for taking care of the girls and my five year old son. My wife also works as a local village tailor and earns additional income which goes into keeping the family going."*

**Male, informally employed, 39 years old**

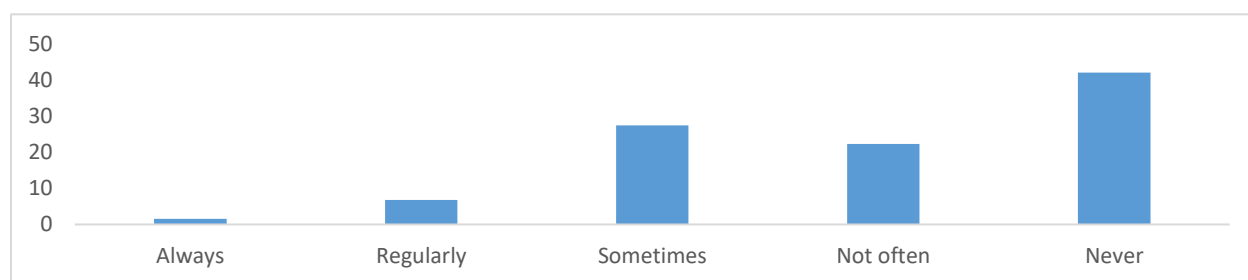
118. *Access to regular income marring usage of formal financial services.* In Cambodia, about 14.1% of the adult population have a regular source of income; meanwhile about 37% of the population earn less than USD 2 a day (FinScope 2015). Since savings is largely dependent on income, the low levels of income and irregular incomes in the country, translate into low levels of savings.
119. *Access to financial infrastructure marring usage of formal financial services.* Proximity to financial infrastructure is often an issue for individuals in rural areas, where travel time and cost to gain access to financial institutions is high; which subsequently increases the cost of accessing formal financial services. As per FinScope data, 51% of the population have to travel for more than 30 minutes to get to the nearest ATM. Similarly 52% and 51% of the adult population have to travel for more than 30 minutes to get to the nearest bank or Microfinance Institution.
120. *Low education levels:* FinScope (2015) indicates that literacy rates in Cambodia are low with 43% of the population having only basic education, 34% secondary education, and 5% tertiary education. Out of the total population, a large majority has primary education or less; whereas of the minority with tertiary education, a majority are formally employed. Education levels are lowest for farmers,



informally employed and dependents. This is generally due to the high opportunity cost of education in rural areas and a weak public education system, which restricts them from pursuing education with expensive private institutions that adds to the financial burden of the already low income households. This results in children dropping out at an early age to pursue work, especially in their own farms or in the informal sector. This is supported by evidence from the qualitative study as seen below:

## Budget realities

121. This sub-section considers the insights from the qualitative and FinScope research on the financial lives of ordinary Cambodian's: how they make a living, what their main expenditure needs are and how they deal with budget deficits.
122. *Additional economic activities undertaken to sustain livelihood:* Since the main source of income is often insufficient, a large segment of the population is also engaged in additional economic activities - generally farming - to supplement incomes. 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. Similarly 2-3% of all target markets also receive remittance as supplementary source of income (FinScope 2015).
123. *Difficulty in financial planning and budgeting:* Budgeting and planning is difficult for the adult population as a significant proportion (82%) do not keep records of spending. The major reasons for not being able to stick with the budget is that often adults do not have sufficient or reliable income or face budget disruption from unforeseen events (18.8%). As a result 57% of the adult population find it difficult to cope with financial commitments while 35.2% finds it very difficult (FinScope 2015). Hence a significant proportion of the adult population face budgeting challenges as individual budgets are often stretched at the end of each month as indicated in Figure 9.

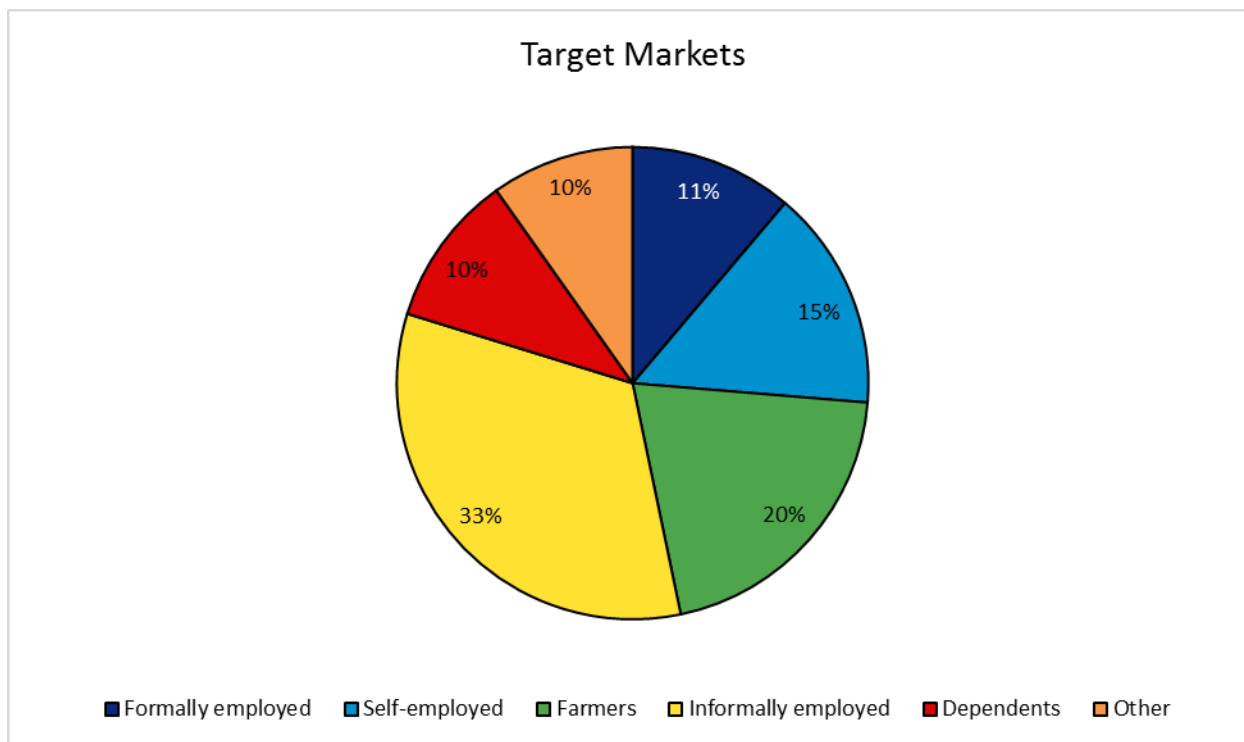


**Figure 9: Frequency of running out of money for important items**

Source: FinScope 2015

## Overview of the Cambodia target market segments

124. FinScope survey (2015) identifies five distinct target market segments for Cambodia, as illustrated in Figure 10.



**Figure 10: Size of target markets as a percentage of total population**

Source: FinScope, 2015.

- **Formally employed** (1,112,375 individuals; the second smallest target market at approximately 11% of the total adult population). This target segment refers to 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.
  - 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.
- **Informally employed** (1,503,306 individuals; the third smallest target market at approximately 15% of the total adult population). This target segment refers to 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%).
- 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%).
  
- **Self-employed** (2,029,851 individuals; the second largest target market at 20% of total adult population). This target segment refers to those whose main source of income is from their own business which 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% of the total self-employed population with tertiary and higher education. 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.
  
- **Farmers** (3,282,829 individuals; the largest target market at 33% of total adult population). This target segment refers to those 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 both bank and other formal (non-bank) financial services; whereas 21% are excluded.
  
- **Dependents** (1,038,147 individuals; the smallest target group at 10% of total adult population). This target segment refers to 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 among the target markets at 73% and lowest percentage of males at 27%.
  - Worth noting: 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% are excluded.
- **Others Excluded:** This segment includes adults who earn their income in a different manner than those specified above. These include pensioners, rent receivers and adults that receive money or food from an aid agency. The number of adults that earn their income in this manner constitutes 10% of the total population.

125. *Non-resident Cambodian population growing larger annually:* The Ministry of Labour and Vocational Training data shows that there are between 650,000 and 700,000 legal and illegal Cambodian labourers working abroad. The actual number could be higher than the reported number as a large number of people travel to Thailand and work illegally. Although this target group is not a direct target market for financial inclusion, they are key drivers who enable target markets through remittances. It is estimated that USD 1 billion is received as remittance, hence financial strategies should consider leveraging this sector to enable target markets.

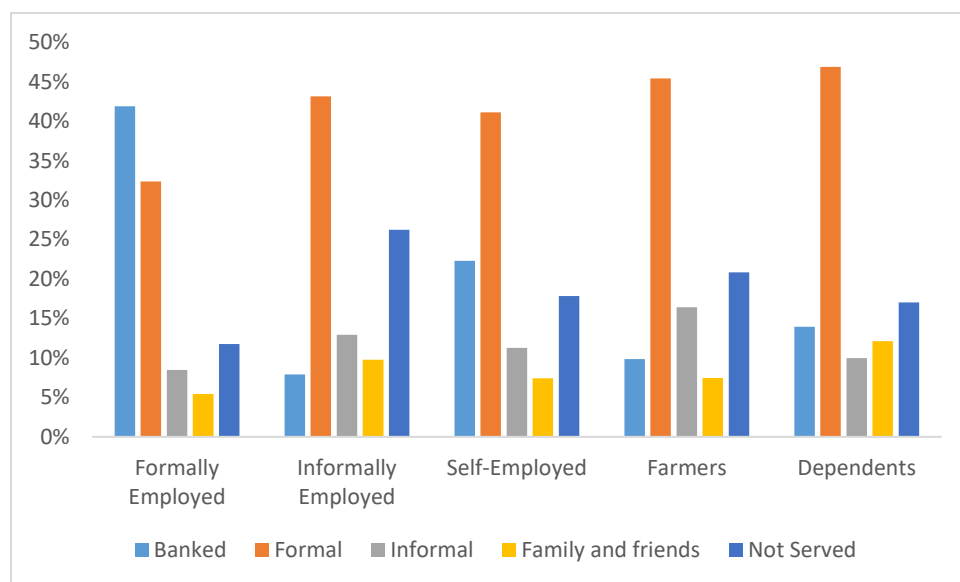
	Formally employed	Informally employed	Self-employed	Farmers	Dependents	Total adults
Number and % of adults	1,112,375 11%	1,503,306 15%	2,029,851 20%	3,282,829 33%	1,038,147 10%	9,941,058 100%
% Female	43%	43%	53%	53%	73%	52%
% Urban	39%	25%	47%	3%	34%	25%
Median monthly income	620,000	400,000	600,000	250,000	200,000	400,000
% with >1 income source	34%	34%	32%	41%	22%	33%
% age 30 or younger	56%	49%	34%	37%	38%	42%
% with primary education or less	25%	60%	47%	71%	61%	57%
% with access to mobile phone	94%	94%	96%	88%	95%	93%

**Figure 11: Basic target market indicators**

Source: FinScope, 2015

126. *Majority of the population made up of poorer and rural target markets:* Farmers, informally employed and dependents comprise of the target markets with the lowest incomes. Combined, these target market segments consist of 59% of the total adult population. On an average, their monthly median income is lower than or on par with the national income average and more rural based. In contrast, formally employed and self-employed have the highest income as well as education levels among the target markets.

## Usage by segment



**Figure 12: Usage of financial services per target market**

Source: FinScope, 2015

127. *Higher usage of financial services by wealthier, more urban target markets.* From Figure 12 it is clear that the usage of financial services is positively correlated with income level and regularity. Formally employed and Self-employed are the best served by banks and other formal financial institutions, whereas informally employed and farmers are the least served by banks and other formal channels. Meanwhile dependents are better served than farmers. Other formal financial services are used on a significant scale across all target segments. This is due to the large number of Microfinance institutions operating in the country where access to financial services is relatively less expensive. The target markets that consists of large rural populations (such as farmers), have a lower level of access to formal financial services than target markets with smaller rural populations such as the formally employed.

## Target market profiles

### Formally employed

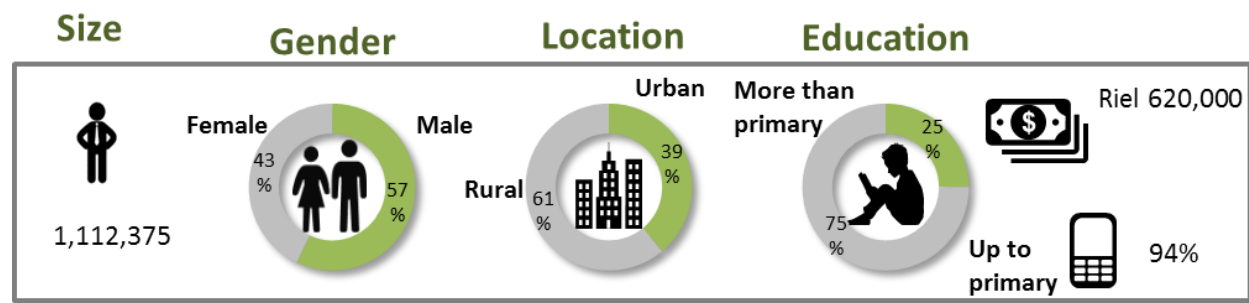
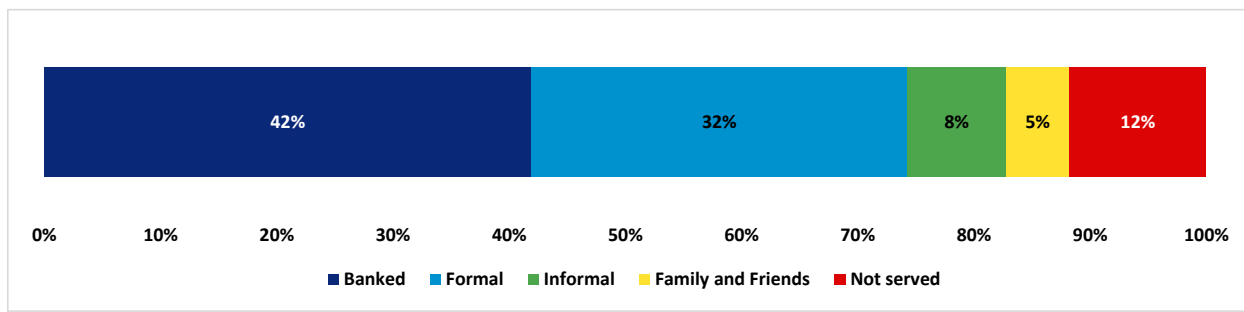


Figure 13: Formally employed – Key indicators

Source: FinScope, 2015.

128. **Best-educated target market segment.** Formally employed individuals consist of both government and private sector employees. The formally employed target market has generally higher than average education levels; with this target market having the highest level of tertiary education at 26%; as against the national average of 5%.
129. **Highest access to financial services.** As shown in Figure 13, the formally employed target segment has the highest levels of access; being particularly well served in terms of formal financial services:
- 83% have access to either formal or informal financial services (versus the population average of 71%).
  - 74% have access to formal channels (versus the population average of 59%).
130. **Better access to formal financial services:** This target market has the best access to formal financial services; on one end, income is received via cheques or directly credited into an individual's personal account and on the other, used via transactions through formal channels. Further, a relatively high and regular income as well as proof of income, attracts formal financial service providers to target this group, thereby resulting in higher access to formal financial services. It is noteworthy that when overlaps are considered, this target market's uptake of financial service from informal channels is also significant (33% through informal channels); which is largely driven by regular income and easy access to financial services through informal channels.
131. *"I am a full time teacher at a Private school in Phnom Penh, I earn about USD 175 per month which is directly credited into my ABA bank account. My colleagues and I have recently formed a tong tin group. We contribute about USD 25 each. This month is my turn so I plan to buy a scooter with the money I get from tong tin."*

**Female, Primary school teacher, 33 years**



**Figure 14: Formally employed - Financial services uptake access strand**

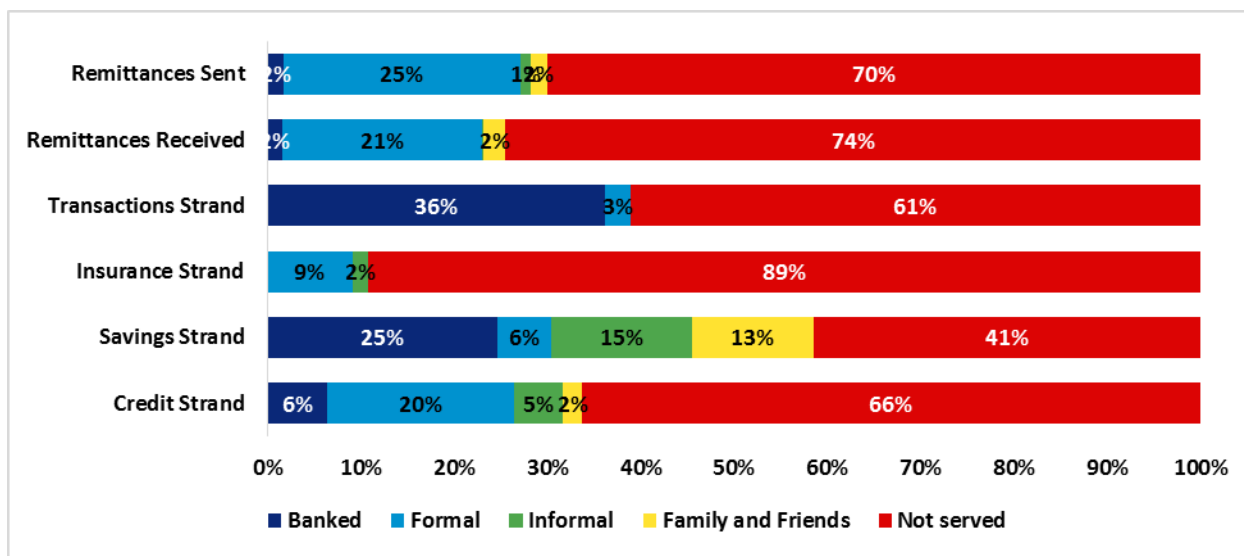
Source: FinScope, 2015

132. **Savings a key financial product.** As evident in Figure 14, a significant percentage (12% of formally employed) are excluded from all financial services. Meanwhile, saving products have emerged as a key financial product for this market; savings being the highest used financial product across formal as well as informal channels at 46%; savings take-up the greatest proportion in informal channels and through family and friends (i.e. 25% through informal channels and 25% through family and friends). Preference for saving in informal channels is largely driven by the fact that in the past, a majority of the population across target markets have lost their savings in formal institutions because of political turmoil. Further, the high interest rates offered by informal channels and ease of access are also key drivers for savings in informal channels.

133. *“I receive my salary directly into my bank account, I fear that keeping all my hard earned money in a bank is very risky. I remember my father telling me that during the Khmer Rouge, my father had lost all his life earnings. All of his money was saved in a bank and when he tried to withdraw money to flee the country he learnt the country’s banking system had collapsed and there was no way he could get his savings. He was captured and sent to work in farms. Hence whenever I have saved a certain amount I usually convert my savings into dollars or buy jewellery for my wife which has an incremental value and can easily be converted into cash.”*

**Male, Salaried worker, 43 years old.**

134. **Highest access to formal savings:** Formal savings is highest for this target market segment in comparison to other groups; closely followed by the self-employed segment, which is likely caused by formally employed (particularly salaried government workers) receiving or depositing their salary in banks or other formal channels.



**Figure 15: Formally employed - Access strand across product markets**

Source: FinScope, 2015.

135. **Highest access to insurance.** Though 89% of formally employed are excluded from access to insurance, compared to other target segments, this group has the highest access to insurance (9% of formally employed have insurance). The introduction of the Employment Injury Scheme for the private and public sector employees in 2008 under the technical assistance of ILO (International Labour Organization, 2010) can be attributed to the high uptake of Insurance compared to other target market segments. Regular and high income levels and better education are also key drivers for a relatively higher uptake of insurance for this target market segment. This is supported by evidence from the qualitative study as seen below:

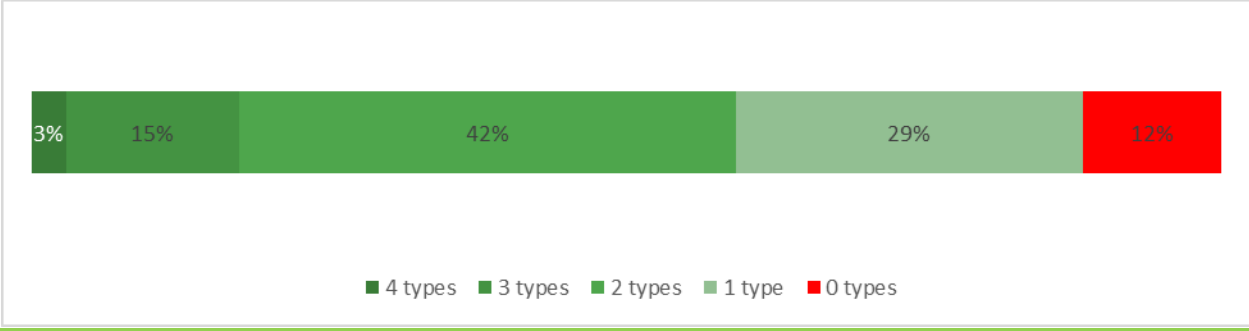
136. *“As part of my employment contract I have insurance but it is limited to only employment injury. Beside this insurance I do not have any other insurance. Previously I did have vehicle insurance as it is mandatory to insure vehicles purchased on hire purchase system. Once I paid the vehicle loan I stopped insurance because it is expensive. Unlike other countries there is no system of tax rebates on purchase of life insurance here in Cambodia”.*

#### **Male, formally Employed, 42 years old**

137. **Primary senders of Remittances.** On account of being one of the highest earners and being relatively concentrated in urban areas the formally employed target market are the largest senders of remittances (30 %). There is a strong preference among them for formal remittance channels versus informal channels (total uptake data indicate 27% of formally employed sent remittances via formal channels versus 1% formally employed sending remittances via informal channels). Meanwhile, there is also a significant proportion of the formally employed target segment that receive remittances (26 %). This indicates that being formally employed in Cambodia is not necessarily indicative of financial independence.



138. **Depth of financial service usage.** As indicated in Figure 16 the depth of financial services across all four product markets is relatively low at just 3%. Meanwhile, 15.6% of the adult population use up to three products. Among the most used combination of three products, 11% use a combination of credit, savings and payments. However, a greater proportion of formally employed (41.8%) use two types of products; either savings and payments (24%) or borrowings and payments (8%). Meanwhile 29% use only one financial service (13% of the 29% use only payment services).



**Figure 16: Formally employed - Depth of financial service usage**

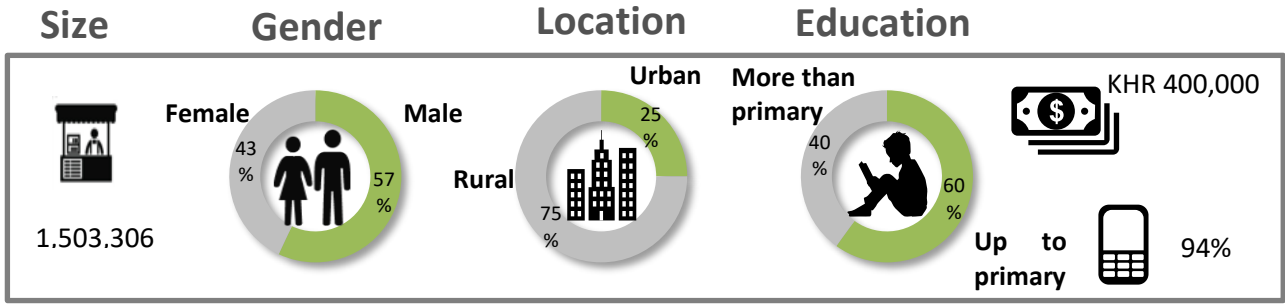
Source: FinScope, 2015.

**Main financial service needs**

- 139. While this target market is better financially served in comparison to other target market segments; the depth of financial access is still relatively low and needs to be prioritized for this target market. Despite having high and regular incomes a significant percentage of formally employed (12 %) are not served by any financial service providers.
- 140. Savings in formal and informal channels emerges as the most used financial product by this target market. Regular income of this target makes them capable of saving a certain portion of their income on a monthly basis. Hence there is an opportunity for financial service providers to introduce recurring deposits account which would enable this target market to save in a disciplined manner. Recurring deposits allow flexibility and the return is fixed and known at the time of investment, hence it could be used as an investment tool for meeting the various needs, such as saving for children expenses, funeral expenses and marriage.
- 141. Meeting old age expenses is one of the primary needs of this target market, as a significant percentage save for retirement purposes. Based on this need, financial service providers should develop long term financial products, which facilitate retirement savings such as committed savings products, provident fund and pension schemes.
- 142. As this target segment has a comparatively higher and regular income; they are subsequently more likely to own assets, and as such may be interested in insuring these assets. Further, their high and regular income also make them capable of purchasing medical and life insurance products.

143. Since a significant population of this target market segment are receivers (23 %) and senders (27 %) of remittance through formal channels, there is a possibility of tapping this market for increasing uptake of formal financial products through low cost saving products like commitment savings and facilities to avail credit based on the value of savings and trends in remittance being received or sent.

**Informally Employed**



**Figure 17: Informally employed – Key indicators**  
 Source: FinScope, 2015.

144. **Young, male dominated segment:** This target market segment accounts for one of the youngest age groups with 49% of the population at and under the age group of 30. This target market also shows high male participation (57% of informally employed are male versus the population average of 48%) and the lowest female participation at 43%. A high male participation is driven by the fact that the nature of work – largely informal and labour intensive piece work -- for this target segment is largely male driven.

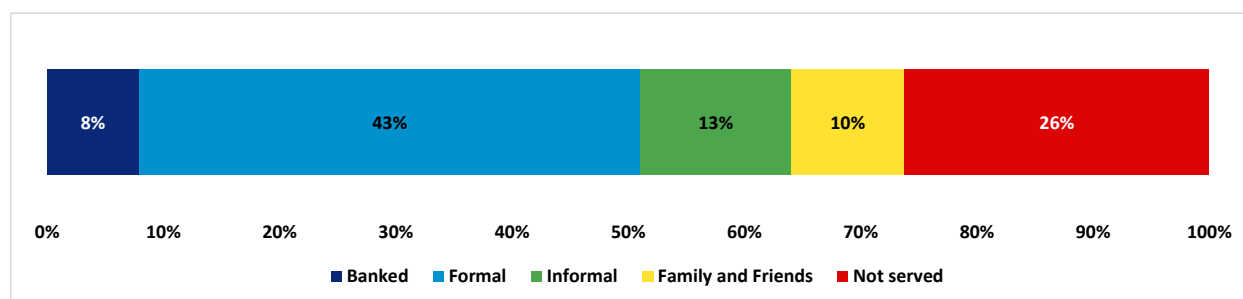
145. **Low education levels with low income.** Educational attainment of this group is the lowest in terms of tertiary and higher education (0.5% of informally employed have tertiary and higher education). 60% of the informally employed have only primary or lower education. As a result the main source of income for this group is usually through salary from informal entities and piece work; making their income streams relatively low and unpredictable. The median income of this segment stands at KHR 400,000 (USD 98) which is twice the median income of dependents and equivalent to the national average income.

146. **Least access to financial services.** Compared to other target market segments, this group has the least access to financial services with 26% of the target segment not served at all (74% of informally employed have access to financial services). As indicated in Figure 78 below, formal financial access for this target market stands at 51%, informal financial access at 13% and a significant 10% of the informally employed avail of financial services from friends and family. It is noteworthy that even though the informally employed target segment have an income higher than farmers and dependents (almost twice the income), their access to formal financial services is lower by 4% and 10% respectively. A low access to formal financial service is driven by the fact that this target segments is mostly rural centric and the nature of their work usually involve low irregular income

being received in cash and also by fact that this segment has a low level of education leading to low financial literacy. This is supported by evidence from the qualitative study as seen below

147. *“I have studied till grade 3 as a result do not have a fixed job. I try and do whatever job that comes my way. I work as a potter in a wholesale vegetable market carrying vegetables and grains. I get paid in cash but my income is very low and irregular as it totally depends on the number of loads I get to carry every day. Sometimes I work in construction sites where I’m paid on a daily basis in cash. I do not have a bank account because my income is low and irregular and I fear I won’t be able to maintain the minimum balance required by banks.”*

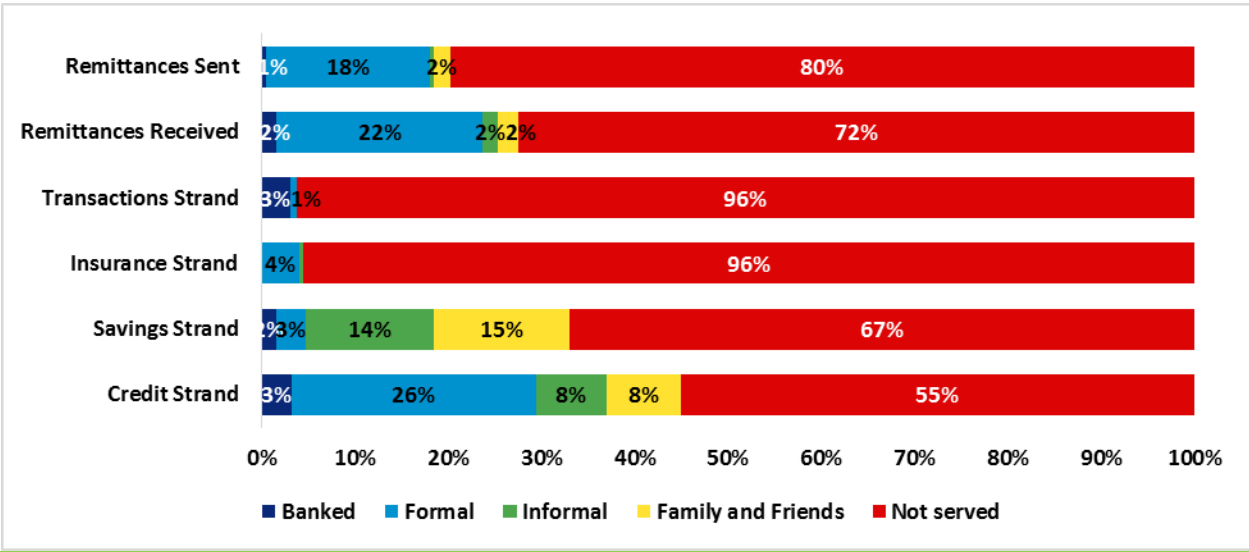
**Male, Informally employed, 32 years old.**



**Figure 18: Informally employed - Financial services uptake access strand**

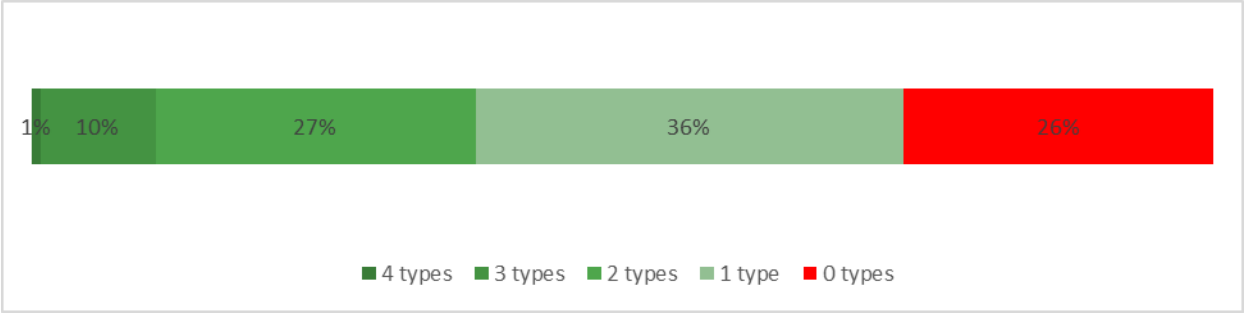
Source: FinScope, 2015

148. **High usage of credit:** This target market has a high usage of credit compared to other financial products which stand at 45%, with 29% of the informally employed undertaking credit through formal channels, 8% through informal channels and 8% through family and friends as can be seen in Figure 19. However, when overlaps are taken into account a significant 10% of this target segment borrow from family and friends, while 26% take-up credit from other formal channels which are mainly MFI’s. The high uptake of credit from family and friends is driven by the fact that such borrowings are usually of small value; based on trust and societal tendency of family and friends to provide financial help during times of need. Similarly, the uptake of credit from other formal channels such as MFI’s is high, because a majority of this target market segment is rurally based where MFI’s have a strong presence and require less documentation for obtaining credit. Additionally, this target segment usually take loans of small value which do not require the borrower to have a land title.
149. **Lowest access to savings:** The target market has the lowest access to savings compared to other target market segments with a total access to savings of 33%; with 5% saving in formal channels (2% in bank and 3% in other formal channels), 14% saving in informal channels and 15% saving with family and friends. Low incomes mean that the capacity to save is small as most of the income is used for consumption purposes (15% of the informally employed use savings for consumption smoothing). The higher percentage of informal savings is also a result of the relatively small amount of savings; which are not attractive for banks or do not meet minimum balance requirements



**Figure 19: Informally employed – Access strand across product markets**  
 Source: FinScope, 2015.

150. **Lowest depth of financial service usage.** Compared to other target market segments, the informally employed have the lowest depth of financial service usage. A significant percentage of informally employed (26%) do not use any financial services. In terms of depth of financial service usage the informally employed have the lowest depth in comparison to other target market segments. As shown in Figure 20 the depth of financial service usage is relatively low with 36% using only one type of financial service (15% use credit services) and 27% using two types financial services (12% of which use a combination of credit and payment). Meanwhile, 10% of the target market use three types of financial products (9% of which use a combination of credit, saving and payment).



**Figure 20: Depth of financial service usage**  
 Source: FinScope, 2015.

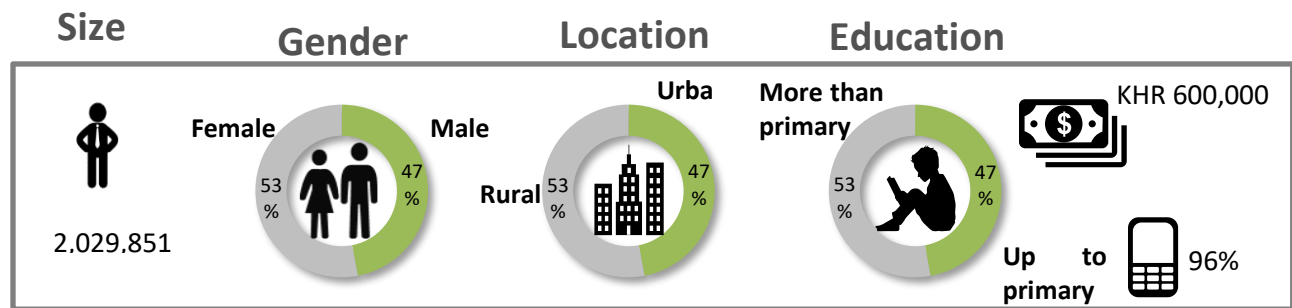
151. **Main financial service needs**

The low earnings of this target market segment makes it difficult for them to save enough or avail of credit to meet daily living expenses and cope with emergencies effectively. A majority of the informally employed earn wages on a daily basis, which points to the need for flexible low value savings that enable them to store irregular incomes in order to facilitate consumption smoothing. With a significantly high

access to mobile phone and mobile money accounts, this could facilitate savings of low value for this target market.

152. Remittance is an important source of income for a significant percentage of this target market segment, which also suggests that there is a need for a cost effective and accessible remittance service. With a significant proportion of the target market having access to mobile phones, there is scope for leveraging mobile phone technology to increase access to finance. Mobile money could be used to provide a bundle of financial services from receipt of remittance, encouraging small savings and facilitating credit against the savings of mobile money.

## Self-Employed



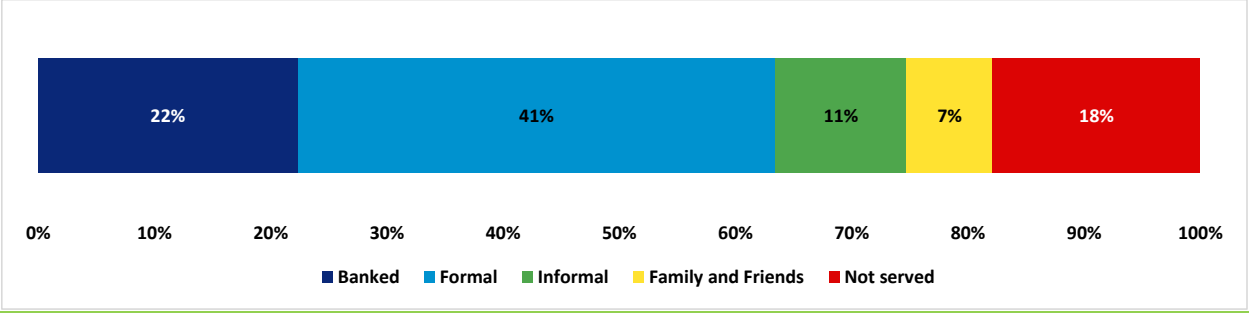
**Figure 21: Self-Employed – Key indicators**

Source: FinScope, 2015.

153. **Second largest target segment with high income level.** The self-employed target segment forms 20% of the adult population (2,029,851 adults), which is the second largest target segment. This group consists of individuals who work for their own business which may or may not be registered with government institutions (75% of the adult population have own businesses that are informal versus 25% having own business that are formal). This target segment has the second highest median monthly income of KHR 600,000 (USD 148), which is 33% more than the national median monthly income KHR 400,000 (USD 98). Since this target segment is involved in business, their frequency of main income is on a daily basis. FinScope data indicates that a majority of the self-employed target segment usually run small un-registered businesses that transact on a cash basis.
154. **Lowest proportion of young individuals with high urban presence and high education level.** This group consist of the lowest proportion of young individuals with only 34% of the self-employed population under the age group of 30. Even though self-employed are rurally dominant, this target segment has a high urban presence (47% of self-employed are in urban areas versus the population average of 25%). It is noteworthy that the formally self-employed are dominant in urban areas while the informal self-employed are dominant in rural areas. Meanwhile, this target segment is the second most educated group with 7% of the total self-employed population having tertiary and higher education; whereas 46% have primary education or less.
155. **Moderately higher usage of formal financial services.** This target market segment has moderately higher usage of formal financial services with 63% of the self-employed having access to formal financial services. The high usage of formal financial services is driven mostly by formal remittances and credit. Formal remittance received is largely driven by household members working in neighbouring countries who use formal remittance channels. Similarly, formal remittance sent is largely driven by individuals who have migrated to urban areas and use formal channels such as mobile money for remitting money. Likewise, formal credit for this target segment is mainly driven by a need for credit to conduct business, which is aided by the presence of large number of MFI and Credit Unions providing small credit to individuals. FinScope data indicates that 24% of the self-employed availed of credit for the purpose of starting or expanding their businesses. This is supported by evidence from the qualitative study as seen below:

156. *“I have been running this food stall for the last 4 years. I used to help my parents in the farm. Income from farming was never sufficient as there was regular crop failure due to irregular rains. I along with my brother came to the city about 5 years ago. We started this stall with money borrowed from a cooperative. I send money to my parents every month through remittance which covers their daily expenses and my child’s school fees”.*

**Male, self-employed, 33 years old**

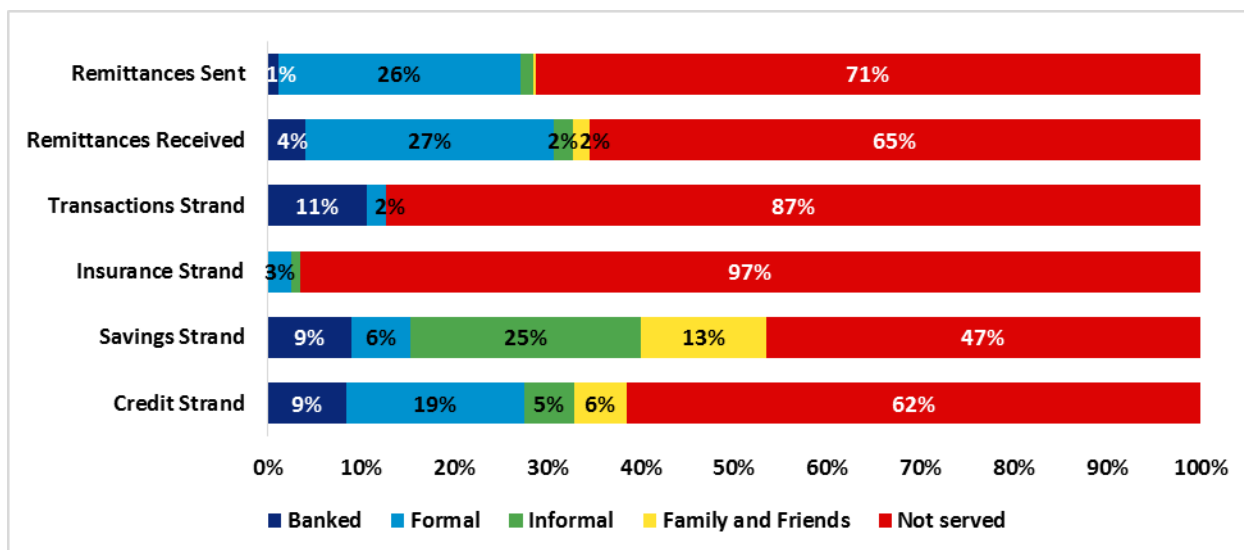


**Figure 22: Self-employed - Financial services uptake access strand**  
 Source: FinScope, 2015

157. **Moderately high savings.** The target market segment have moderately high access to savings (53%) which is higher than the national average saving of 44%. The total uptake of saving is higher in informal channels and with family and friends (31% save in informal channels and 29% save with family and friends). Higher saving in informal channels and with family and friends is driven by majority of self-employed individuals operating small micro businesses, which are informal and where income is usually on cash basis and accounts are not maintained. This is supported by evidence from the qualitative study as seen below:

158. *“I make my living by selling souvenirs to tourists. I sell on cash basis only. I usually keep my earning at home because after paying my suppliers I have very less money. I usually combine my household expenses with my business expenses. After I have saved a significant amount I usually buy jewellery for my wife who lives in the village. I don’t save in banks because my savings is very small.”*

**Male, self-employed, 32 years old.**



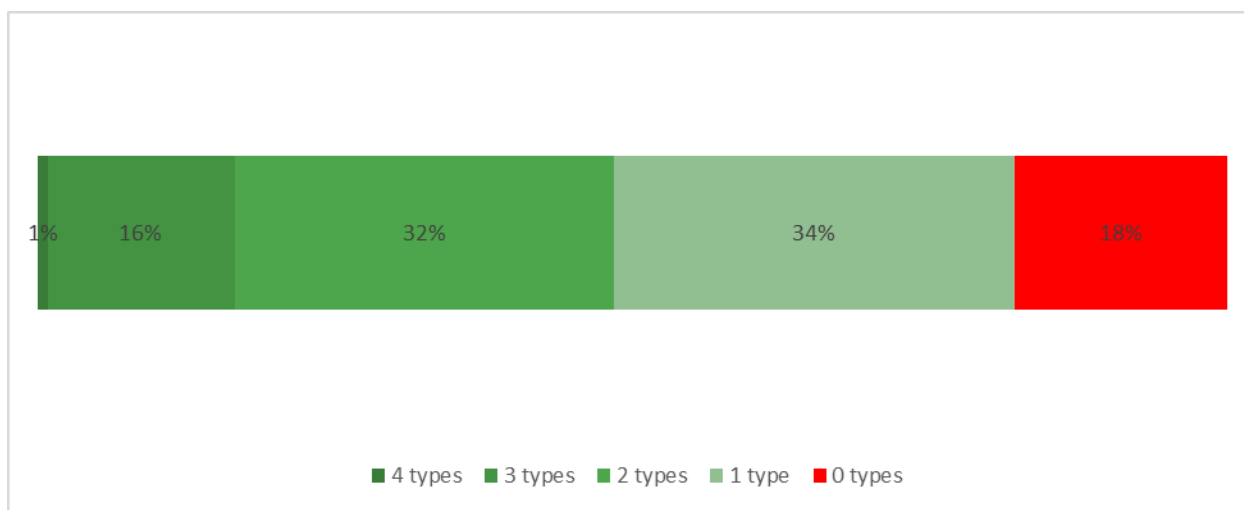
**Figure 23: Self-employed - Access strand across product markets**

Source: FinScope, 2015

159. **Preference to transact business in cash.** Low transactions (13%) imply that most transactions are carried out on cash basis. Low transactions are potentially driven by the fact that multiple foreign currencies are used for transactions besides the country's own currency<sup>12</sup> (Prasso, 2001), resulting in a higher preference for doing business on cash basis. Besides, cash transactions have very low additional finance charges attached to them. The Self-employed target market consist mostly of individuals involved in small micro businesses. Small businesses prefer the simplicity of transacting on cash basis to avoid additional burden of increased cost associated with other forms of payment systems. Transacting in cash removes the hassle to process bank cards, avoid paying for equipment to use plastic money (debit and credit cards) or pay the percentage charge for every electronic transaction.
160. **Depth of access more moderate than other target segments.** Of all self-employed, 49% use more than one financial product. This target segment has a moderate depth of financial service usage in terms of use of multiple type of financial services with 16% of the self-employed segment using three types of financial services; primarily borrowing, savings and payments (14%). Meanwhile, 32% use up to two financial services; primarily savings and payments (18%) (See Figure 24).

<sup>12</sup> Cambodia is a highly, but not fully dollarized economy, the Vietnamese dong (VND) coexists with the riel near the border with Vietnam, the Thai baht (THB) circulates in Western provinces, while the dollar of the United States (USD) commands the greatest share in domestic use.





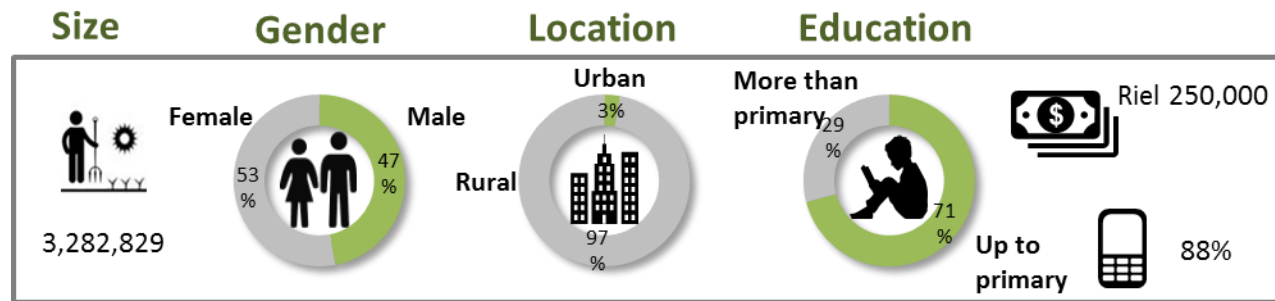
**Figure 24: Depth of financial service usage**

Source: FinScope, 2015

### Main financial service needs

161. Self-employed require timely and adequate capital, especially during the early and growth stages. Formal service providers consider them as high risk borrowers due to insufficient assets, low capitalization, lack of accounting records and inadequate financial statements. It becomes difficult to assess the credit worthiness of this target market. As a result, they are strongly restricted in accessing the capital that they require. Thus a significant population of self-employed have to rely on own savings and borrowings from informal channels to meet their fixed and working capital needs (FinScope 2015). Hence there is a need to overcome some of the credit barriers for access to finance. There is also a need for innovative savings and insurance products that provide for and protect their capital needs.
  
162. Given the target segments' high preference for cash transactions to support their business and personal needs; developing payments infrastructure can be crucial in facilitating the use of other various product markets. Payments can include both digital transaction products as well as physical infrastructure that provides access to cash. However, interoperability of payment infrastructure is crucial for enhancing the value of digital financial services. Without low cost interoperable payment solutions involving cards, phones or both, the capacity of mobile money or cards to evolve into a ubiquitous payment instrument in store will remain limited.

## Farmers



**Figure 25: Farmers– Key indicators**

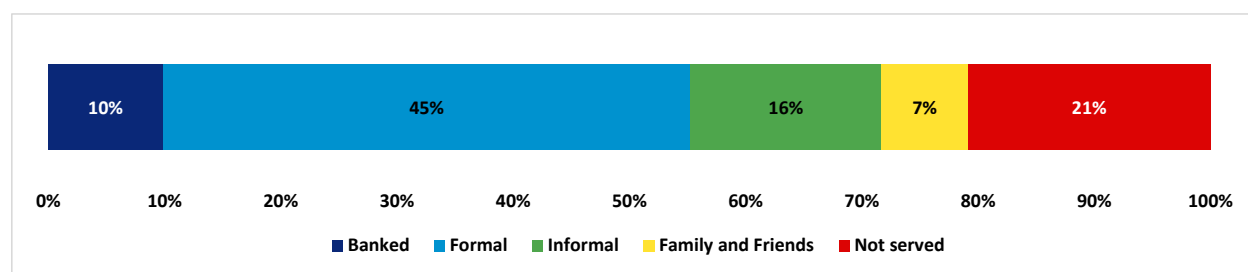
Source: FinScope, 2015.

163. **Highly rural population with low education level.** The farmers target segment comprises of 33% of the adult population (3,282,829 adults), which makes it the largest target segment. This segment represents adults that rely on income from agriculture for their livelihood. As expected 97% of this target segment reside in rural areas versus the adult national rural population average of 75%. This group is the least educated with a majority (71%) having no formal education or only primary education.

164. **Low income.** This target segment has the second lowest level of median monthly income at KHR 250,000 (USD 61), which is lower than the national median income of KHR 400,000 (USD 98) next to dependents. Low income of this group may not be the most accurate measure of their financial status as a majority of them also consume in addition to selling their produce (32% of target market farm for consumption only, while 68% of the target market sell majority of their produce). However, 33% of farmers receive remittance which indicates that many of them depend partially on remittance to meet their expenses. This is supported by evidence from the qualitative study as seen below:

165. *“My parents were farmers and I am a farmer too. We mostly grow rice and seasonal vegetables. We sell most of the rice and the extra vegetables we sell in the local market. Every month my son sends me money which helps a lot to meet my wife’s medical expenses. My son works for a mobile shop in the city”.*

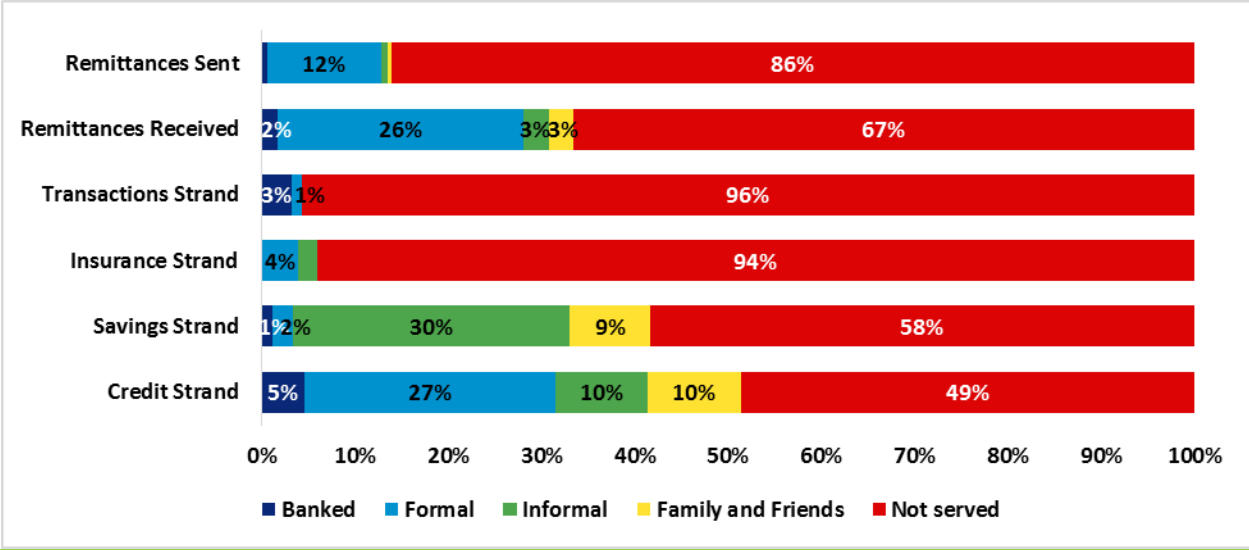
**Male, Farmer, 47 years old**



**Figure 26: Farmers - Financial services uptake access strand**

Source: FinScope, 2015

166. *Savings and credit the most used financial services.* Figure 27 provides a breakdown of access to financial services by farmers. Informal channels emerge as an important financial service provider with 30% of savings in informal channels and 10% of credit being availed from informal channels and 10% credit availed through friends and family.



**Figure 27: Farmers: access strand across product markets**

Source: FinScope, 2014.

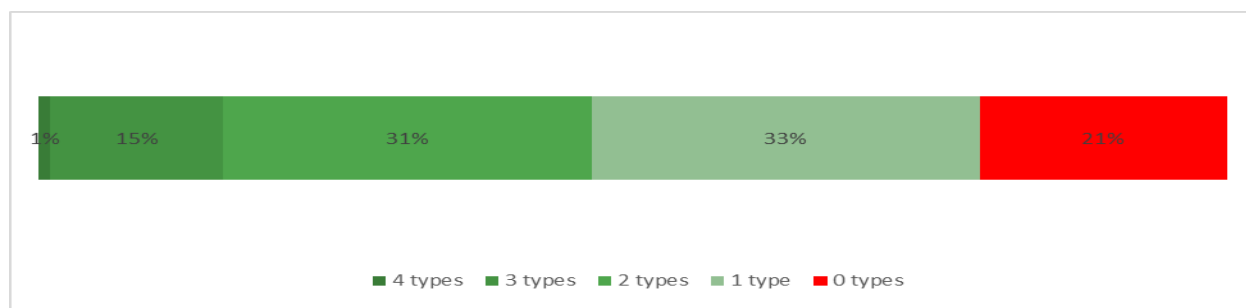
167. *High uptake of informal savings.* When overlaps are considered, only 3% of farmers have access to formal savings, but savings uptake in informal channels is significant with 32% of farmers using informal channels for savings and 21% saving with family and friends. Informal savings of this target market is driven by seasonal low value of savings

168. Similarly, more than half of the farmers make use of credit products which is driven by credit from other formal and informal channels. The uptake of formal credit is driven primarily by the large number of MFI’s in rural areas providing easy access to credit and relatively flexible repayment options.

169. *Highly vulnerable to natural calamities.* 62% of the adult population indicated that drought and natural calamities are a major farming challenge with 78.3% depending on rain water for irrigation. In an event of drought, the target segment is highly vulnerable to crop failure as 78.3% depend on rain water for irrigation. Additionally, the high financial exclusion in this target segment (21% not served) with no access to agriculture/crop insurance coupled with limited access to credit and savings, magnifies their financial risk in the event of natural calamities such as droughts. Additionally, they do not have any financial service to rely on, which may further push a large percentage of the population into poverty/ in case of such calamities.

170. *Majority of farmers use 1 or 2 financial services.* As shown in Figure 28, 21% of farmers do not use any financial services while a significant population of farmers use 1 or 2 financial (33% use one

financial service and 31% use two financial services). Meanwhile, 15% of farmers use three financial services; primarily borrowings, savings and payments (12%). Only 1% of farmers use all four formal financial services.



**Figure 28: Depth of financial service**

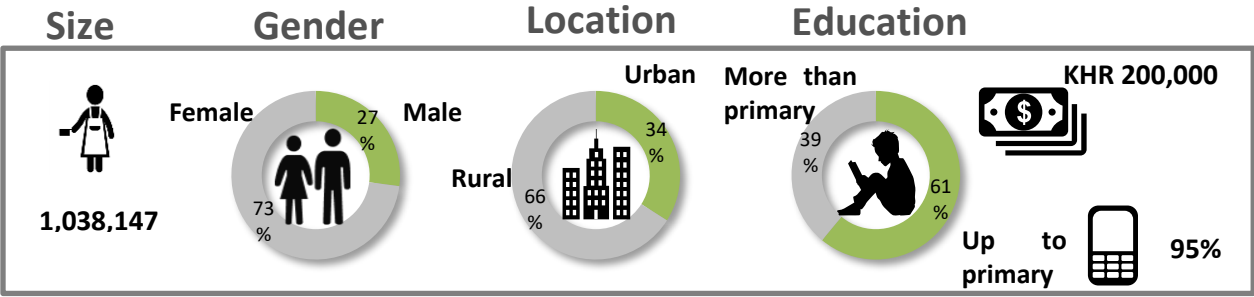
Source: FinScope, 2015.

### Main financial service needs

171. The farmer target segment is a unique segment because adults in other target segments also earn additional income from farming activities. As a result, financial interventions targeted at farmers will benefit a larger section of the adult population than those classified as farmers.
172. The seasonal nature of crops mean that all input costs are incurred before harvest which makes it difficult for them to finance inputs needed for farming. Timely access to short term finance for inputs (seeds, fertilizers, pesticides, machine services, labour etc.) is fundamental to success. Farmers seeking finance for working capital purposes are often unable to meet the demands for collateral from formal channels. Meanwhile, often the type, quality and amount of collateral that farmers provide do not meet the criteria of formal channels, hence farmers are unable to secure their loan requirements. Thus, they have to either approach informal channels for loans at exorbitant interest rates or buy inferior quality inputs with the little saving they have leading to low productivity. Hence embedding finance in the production chain along with other goods and services through value chain finance arrangement would allow integration of the various players in agriculture production, processing and marketing.
173. Lack of finance post-harvest compels farmers to sell their produce immediately within days of harvest resulting in oversupply of produce. As a result, the farmers are not able to realize the best price for their produce. Financial products which enable them to save income until they need to purchase quality farm inputs would be beneficial for increasing productivity of farmers, thereby increasing income. Introduction of warehousing receipts allows farmers to avoid selling directly after harvest when prices are depressed, thereby leading to better price realization. The warehousing receipt will also help replace traditional loans from informal channels.
174. The seasonal nature of income of this target segment also creates a need for consumption smoothing products. Flexible low cost saving products that help save during income months would help manage the irregular cash flow to respond to external shocks and make investments.

175. This target segment is also highly vulnerable to environmental risks that can affect production which could negatively impact their livelihood. Risk-mitigation products, particularly agro-insurance, could help minimize their environmental risk.

**Dependents**



**Figure 29: Dependents – Key indicators**

Source: FinScope, 2014.

176. **Smallest segment, rural centric and mostly female.** The dependent target segment is the smallest segment in terms of size (1,038,147 individuals), but it is still a substantial target segment at 10% of the total adult population. The group has a high dominance in rural areas. The dependents target segment has the highest percentage of individuals over the age of 60 at 30% in comparison to other target markets. However 37% of dependents are also in the age group of 30 or younger. The target segment has a relatively high percentage with tertiary or higher education (6%); whereas 61% having only primary or lower education.

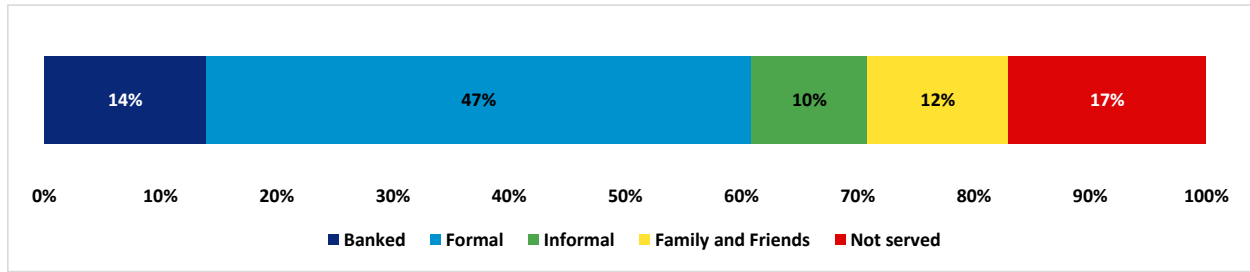
177. **Female dominated target market.** This target segment is strongly skewed towards females (73% of dependents are female versus the population average of 52%). Migration appears to be a key driver for female skewedness in rural areas where male members of households migrate to urban areas or neighbouring countries (Asian Development Bank, 2014). This is further supported by evidence from the qualitative study as seen below.

178. *“Currently our household consist of my husband, two daughter in laws and three grandchildren. My husband grows vegetable in the land we own 2 Km from here and my daughter in law helps him out. Both my sons are working elsewhere. My elder son works in a canning factory in Thailand and sends money via remittance every two months. Similarly my younger son works as an attendant at the city hospital. He sends money on a monthly basis”.*

**Female, Dependent, 63 year old**

179. **Lowest income levels driven by remittance received.** Dependents have the lowest income with a median monthly income of KHR 200,000 (USD 49), which is half the national median income. As expected, their income is largely driven by receipt of remittance. 51% of the dependents receive remittance from formal and informal channels and family and friends. The remittance received is dominated by formal channels (3% through bank and 39% through other formal) but remittance received from informal channels and family and friends is fairly significant, as 4% of dependents

receive remittance through informal channels and 6% through family and friends. Besides remittance, 19% of dependents derive additional income from farming activities.

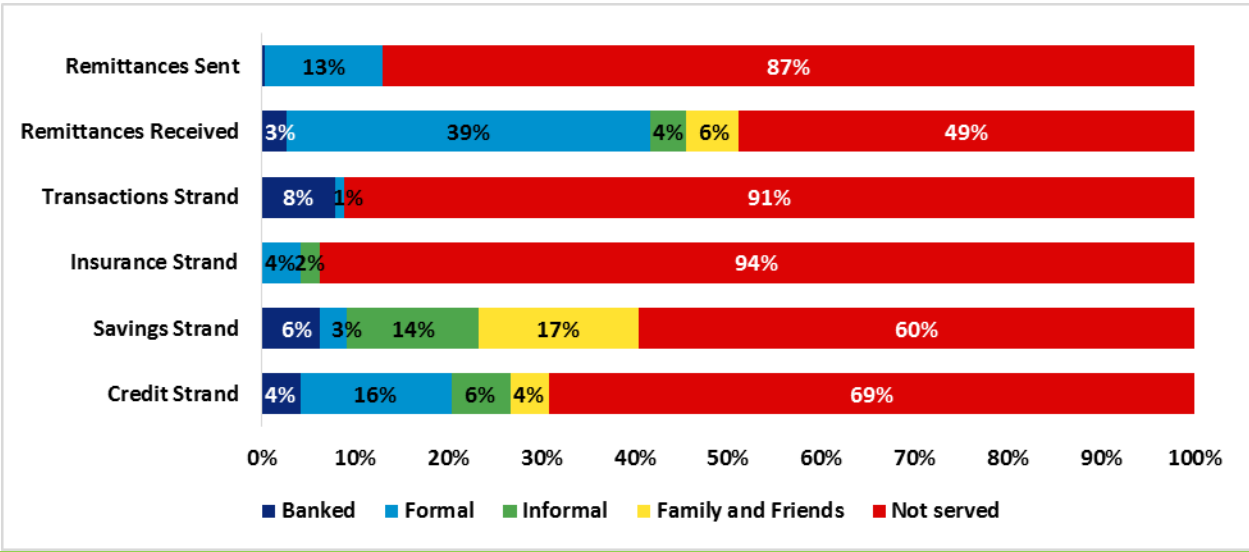


**Figure 30: Dependents - Access strand across product markets**

Source: FinScope, 2015.

180. **High uptake of financial products.** Even though this target segment has the lowest monthly income their uptake of financial services is better than farmers, self-employed and informally employed. The total uptake of financial services is dominated by formal providers (14% banked and 56% other formal), meanwhile informal providers and family and friends also play a key role (28% informal and 34% family and friends respectively). Similarly, the access strand indicates that 61% of dependents have access to banks and other formal channels, which is comparatively higher than farmers and informally employed, which is driven by remittance received from formal channels.
181. **Credit and savings key financial products.** Besides remittance, credit and savings are key financial products for this target segment which, is indicated by the significant uptake of credit and saving. The uptake of credit is higher in formal channels largely driven by the lower interest rates, while saving is higher in informal channels. The uptake of savings in informal channels is higher because of low value savings as most of the income is used for consumption smoothing; and small value savings are not attractive for banks. Due to irregularity of frequency of income from remittance (62% of adult population received remittance less often) there is a need for financial products such as credit and savings for consumption smoothing. This is supported by evidence from the qualitative study as seen below:
182. *“My son along with two of his friends moved to the city about five years ago because income from farming was just providing us hand to mouth. My son moved to the city to earn more so that he could take care of us. He sends money to us but it is not regular. Sometimes we receive money from him monthly and sometimes in three months. It becomes financially difficult when we receive money after three months because our savings gets over by then. Last year we didn’t receive money for three months so my husband had to take loan from a micro-finance by mortgaging half of our farmland.”*

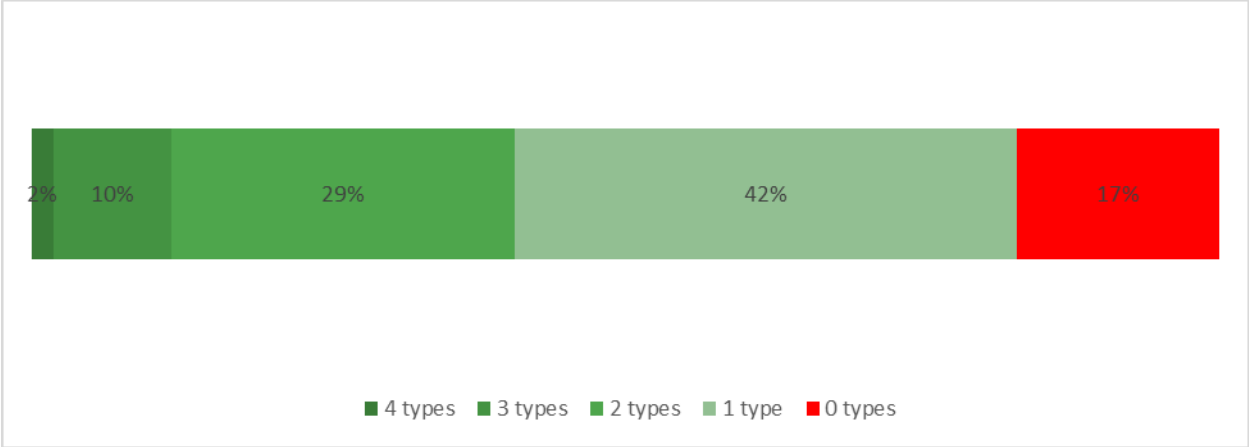
**Female, Dependent, 67 Years old**



**Figure 31: Dependants: access strand across product markets**

Source: FinScope, 2015.

183. *Moderate depth of financial services.* Although dependants have the lowest income, their depth of financial services usage is moderate; just below the formally employed with the highest income. A moderate depth of financial services usage is due to the fact that this target market is dependent on remittance which is mostly received through formal channels. In terms of depth of financial services of dependants, 41% use more than one financial product (see Figure 32). The most used financial service is payments (23% of dependants use payments). The most common combination of financial services is savings and payment, used by 15% of dependants.



**Figure 32: Depth of financial service**

Source: FinScope, 2015.

## Main financial service needs

184. This target market emerges as the lowest income segment with remittance as their main source of income. Dependents being the primary recipient of remittance, require low cost reliable payment channels for receiving income. A low cost reliable payment product will be beneficial to all target market groups as a significant percentage of each segment receives remittance to supplement their income.
185. FinScope data indicates that 78% of remittance receivers receive remittance through mobile money. Currently, mobile money accounts are used as payment channels for sending and receiving money. There is scope to leverage the existing mobile money platform and promote it as a saving product. However, in order to promote mobile money as a saving product, it is necessary that the mobile money saving product be interest bearing. Mobile money could be an alternative low cost savings product that allows zero balance and deposit fees, making it a cost effective store of value of savings for low income consumers such as dependents.
186. Consumption smoothing is also a key need of this target market as the frequency of remittance is irregular. Hence affordable low value savings products and credit products tied to remittance could help in consumption smoothing.

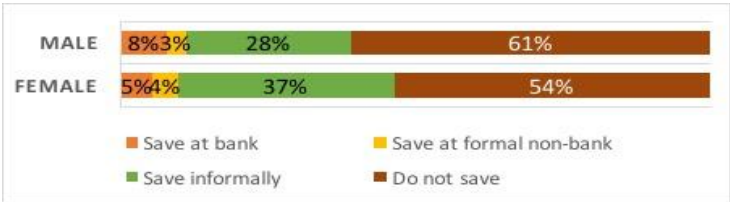
## Gender and Women Financial Inclusion

187. Despite the lower levels of women's labour market participation, more SMEs overall (informal and formal) are owned by women (65.1%) than men (34.9%) in the country (National Institute of Statistics, 2013). However, fewer formal sector enterprises are owned by women than men in the country with, only 1.7% women-owned enterprises registered with the Ministry of Commerce, compared to 6.6% of male owned enterprise (National Institute of Statistis, 2013). The top sectors that women's enterprises are active are: Accommodation and food services, with 79.0% of all enterprises in this sector belonging to women, secondly wholesale and retail trade, repair of motor vehicles and motorcycles, with women's enterprises representing 74.7%, and thirdly financial and insurance activities, with 54.9% of enterprises in this sector belonging to women (National Institute of Statistis, 2013).
188. A Focus on adolescent girls as well as women - According to the Cambodia Inter-Censal Population Survey 2013, the population of Cambodia stands at 14.67 million. Approximately 4.77 million people are under the age of 18 years old, representing approximately a third of the population. Moreover, just under a quarter of the population at 24% is aged between 18-24. As such, the population is skewed towards youth. Furthermore, given that 75% of the population is based in rural areas while 25% of the population is based in urban areas, the majority of these youth are rurally based.
189. International evidence suggests that financial inclusion can enhance women's economic participation in the Cambodian economy. In turn, increasing women's economic opportunities and entrepreneurship can positively contribute to per capital income growth and reduce poverty in the country (IFC, 2011). As a result, advancing women's financial inclusion will benefit the Cambodian economy contributing to sustainable economic development and poverty reduction.



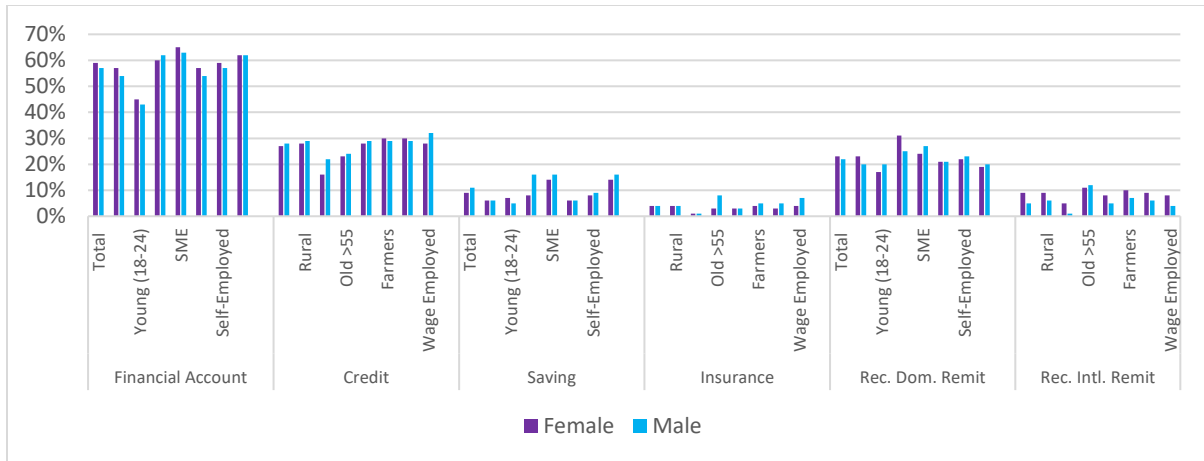
190. Access to formal financial services stands at 59% for females and 57% for males and almost an equal proportion use informal sources of finance at 12% for males and 13% for females. Furthermore, just over a quarter of women (27%) and nearly a third of men (31%) are excluded from the financial system, with a 4% gender gap and more males excluded (FinScope, 2015). 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) Indeed, some of the stakeholders consulted indicated that this may be due to cultural barriers, disparities in education, and the unfavorable treatment of women by banks.

191. Finscope data suggests there are low levels of savings in Cambodia overall with the majority of males (61%) and females (54%) not saving. 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.

192. More females (44%) borrow than males (41%) in Cambodia from all sources (FinScope, 2015). However, there is some indication in the literature that men have larger loan sizes than women, a point that was supported by participants of the strategy validation workshop (ADB, 2016). Nevertheless, over half of the population does not borrow/ access credit. While females (22%) and males (22%) access credit from formal sources equally, more females (17%) borrow more from informal sources than males (12%) at a difference of 5%.



**Figure 33 : Percentage of Cambodian’s with Access to Formal Financial Services by Gender and Demographics**

193. In terms of access of different sources, women have highest uptake of other formal services followed by a combination of other formal and Informal combined, which is higher than men.

Alternative Classification	Female	Male	Grand Total
All three	4.1%	4.6%	4.3%
Bank and Informal	1.6%	2.2%	1.9%
Banked and other formal	4.5%	6.6%	5.5%
Banked only	5.0%	4.8%	4.9%
Excluded	27.4%	31.1%	29.2%
Informal Only	12.9%	11.6%	12.3%
Other Formal and Informal	18.4%	12.3%	15.5%
Other Formal only	26.1%	26.8%	26.4%
Grand Total	100.0%	100.0%	100.0%

**Table 3 : Gender wise access of different sources**

194. Focus Areas should be on to strengthen and integrate a gender sensitive and women targeted approach in the development and implementation of the Cambodian Financial Inclusion Strategy and Roadmap and the emerging approach to insurance sector regulation and supervision. The overall strategic approach should be to have collaboration primarily between the National Bank of Cambodia, the Ministry of Economy and Finance , the Ministry of Agriculture and in coordination with other relevant government ministries as appropriate such as the Ministry of Women’s Affairs and Ministry of Industry and Handicrafts, Ministry of Labor and Vocational Trainings, Ministry of Tourism and development partners, to facilitate institutional capacity building on gender sensitive and women-targeted policy making and measures to achieve a gender diverse workforce, through international and regional peer learning with the Alliance for Financial Inclusion and the ASEAN Working Committee on Financial Inclusion (WC-FINC).

195. The overall strategic approach towards strengthening the institutional capacity of savings, credit, digital payments and insurance providers to serve the women’s market, should be to collaborate primarily with Non-Bank Financial Institutions, Retail and SME Banks and Mobile Network Operators (MNO), mobile money providers and emerging new market entrants in digital financial payments,

credit rating agencies, credit infrastructure providers, and insurance companies to - develop the capacity to collect and use sex-disaggregated big data on clients to build the business case for targeting women, and in turn inform their women's market proposition and client segmentation strategy. Also build the institutional capacity of FSPs to serve the women's market through highlighting the business case, facilitating the application of international tools to identify their gender impacts and improve their value proposition, and implement measures to enhance the gender diversity of their workforce and value chain.

196. To strengthen the consumer protection of and advance the financial competences of women and men to address their respective differential financial risks and needs, the overall strategic approach should be to collaborate with multi-stakeholders from the public and private sector in partnerships and leverage on digital technologies 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.
197. To enhance the range and incentivize market uptake of formal responsible credit, savings, digital payments and insurance products and services tailored to the differential needs of women and men, the strategic approach should be to - provide risk capital to private sector actors to test and develop innovations that address financial needs of women and their businesses. Collaborate with partners to develop women-targeted goal-oriented savings product (commitment savings, long term savings) and pilot incentive mechanisms to encourage saving through formal channels. Collaborate with partners to develop women-targeted interest bearing mobile money accounts.

## Providers

### Summary: provision of financial services

- The Cambodian financial system has seen rapid growth in terms of profitability, network, asset base and clients in recent years and continues to grow.
- Formal financial services are clustered around urban and peri-urban areas, with the result that those in rural areas lack easy access to such services.
- Informal channels of financial service provision are locally based<sup>13</sup>.
- Commercial banks are the largest mobilizers of both deposit and credit.
- Life insurance and micro insurance products have been recently introduced in the market.
- Non-life insurance business is dominated by a single player.
- There is a single stock exchange with only four listed companies.
- Mobile technology has been adopted and agency model is popular for mobile money.

### Financial service providers and cross cutting issues

198. Financial inclusion can only be achieved in a sustainable manner if the needs of the target market are aligned with the incentives of providers to offer appropriate products that match these needs. This section provides an introduction to the main providers of financial services and the available financial service infrastructure in Cambodia.
199. Figure 34: below is an overview of formal<sup>14</sup> and informal<sup>15</sup> providers in Cambodia. It shows whether a provider falls into the formal or informal category, as well as which product markets the provider serves. Some providers only service one product market category, but other providers – e.g. banks and MFIs – service a range of categories. The providers that fall into informal provision are all also local.<sup>16</sup> In addition, two of the formal providers –MFIs and MDIs – are active in the local provision of financial services.

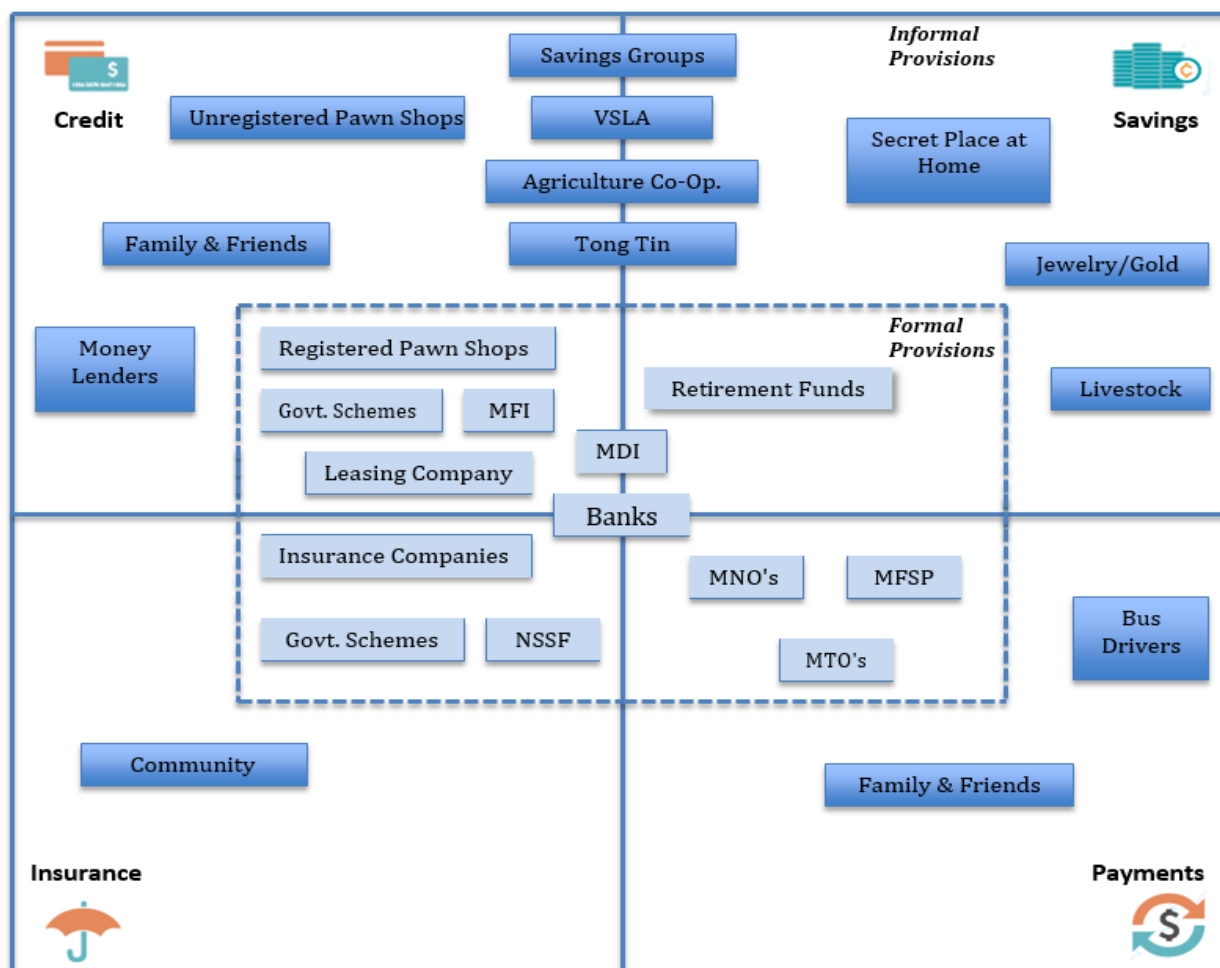
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<sup>13</sup> Locally based financial service providers serve the local people in the area they are based.

<sup>14</sup> Institutions that are formally registered and are under a supervisory framework

<sup>15</sup> Financial Service Providers (FSPs) that are neither unregistered nor supervised

<sup>16</sup> Local financial services are those in which both the client touchpoint (the interface by means of which the client is able to interact with the financial services provided) and the provider decision-making are close to the client.



**Figure 34: Overview of providers operating in Cambodia**

Source: Author's Own

200. **Large number of financial institutions.** The FSP landscape in Cambodia has large number of formal registered players. Because of the sheer number of institutions and enhanced competitiveness, no single player has been able to gain the dominant market share. Table 4 summarizes the major providers of financial services in Cambodia. Besides these formal financial service providers there are number of other informal service providers such as private money lenders, unregistered pawn shops, tong tin, village saving groups amongst others which will be discussed in detail in the sections below.
201. **Consolidation amongst formal financial service providers gaining popularity:** There is an increasing trend amongst financial service providers to merge, acquire or graduate into a higher category of BFI due to increasing competition in the Cambodian financial sector. As foreign commercial banks seek to tap into Cambodia's robust lending growth, mergers and acquisitions (M&A's) amongst MFIs are becoming more and more common. Moreover, further consolidation can be anticipated as the NBC has recently increased the minimum paid-up capital requirements for banks and MFIs. For instance, ACLEDA Bank which is one of the leading banks of Cambodia initially

started as a national NGO for micro and small enterprises subsequently converting into a specialized bank and finally into a commercial bank. Likewise, in 2016 AEON, Angkor Ace and Sathapana transformed into banks.

Institution Type	Number of Institutions	Regulation and Supervision	Range of Services	Targeted Market
Commercial Banks	37	National Bank of Cambodia (NBC)	Savings, Credit and Remittances	Formal sector (corporates and institutions) and retail banking
Specialized Banks	15		Savings, Credit and Remittances	Formal sector (corporates and institutions) and retail banking
Microfinance Institutions	64		Credit )	Formal/informal sector, SME's and rural households
Microfinance deposit taking institutions	7		Savings (only MDIs take deposits ) and Credit (both MFI's and MDI's	Formal/informal sector, SME's and rural households
Payment Service Providers	13		Cash in/out Transfer Bill Payment Phone top-up Merchant Payments Online Payment Money Transfer	Formal/informal sector, SME's and rural households
Agriculture Cooperatives	857	Department of Agricultural Cooperative Promotion	Savings and Credit to the members	Formal/informal sector, SME's and rural households
Financial Leasing Companies	12	National Bank of Cambodia (NBC)	Credit	Individuals and MSME's
Registered Pawn Shops	112	Ministry of Economy and Finance	Credit	Individuals with immediate liquidity requirements

**Table 4: Major providers of formal financial services in Cambodia (as of December, 2016)**

Source: Author's own

202. *Hassle-free transfer and repatriation of capital.* Currently, Cambodia does not have any restrictions on fund transfer or repatriation of profits or capital to and from Cambodia. Meanwhile, the Foreign Exchange Law of 1997 provides for foreign currencies to be freely purchased via the banking system. Article 5 of the Foreign Exchange Law also states that there should be no restrictions on foreign exchange operations; however these operations can only be performed through an authorized financial institution. However, NBC's Prakas on Money Transfer of Commercial Banks through the National Bank of Cambodia states that commercial banks who have the intention to transfer cash in USD outside the country will have to take prior authorization from NBC's Exchange Management

Department. As a result, the Cambodia banking sector continues to receive large capital inflows of foreign currency from abroad.

203. **Banks are the most trusted providers.** Banks in Cambodia are generally trusted in comparison to other providers. As per the FinScope study, only 2% of adults in Cambodia indicated that they did not trust banks. The study also showcases a high level of trust for MFIs with only 9% of adults indicating that they did not trust MFIs (Credit) and 15% not trusting MDIs. Meanwhile, the study indicates moderate levels of trust for Insurance companies and agriculture cooperatives, while mobile money operators were the least trusted with 38% of the adult population indicating that they did not trust mobile money operators. Despite increasing access to mobile money its adoption and usage takes time especially for maintaining loyal active users. The mobile money operators will need to provide customer centric value added services and not just the technology.
204. **Majority of Banks and MFIs funded through foreign investment.** Of the total paid-up capital of banks; USD 2.56 billion as of 2016, foreign shareholding stood at 67.4%; with only 32.6% of Cambodian shareholding. With the exception of the Rural Development Bank, the banking system is entirely owned by the private sector. A major source of equity funding is therefore dominated by foreign partners attributable to the open FDI policy in the banking sector of Cambodia, as there are no legal barriers to the entry of foreign banks. However, NBC has set specific criteria for market entry to ensure that only qualified institutions with good reputations enter the market. A similar pattern is observed in case of the MFIs where 61.4% of the total share capital of USD 0.35 billion was done through the foreign funding. There is, however, growing domestic investment in the MFI sector evident through the change in the paid up capital structure between the foreign and Cambodian share; from 68: 32 in 2015 to 61:39 in 2016 respectively (NBC, 2016)

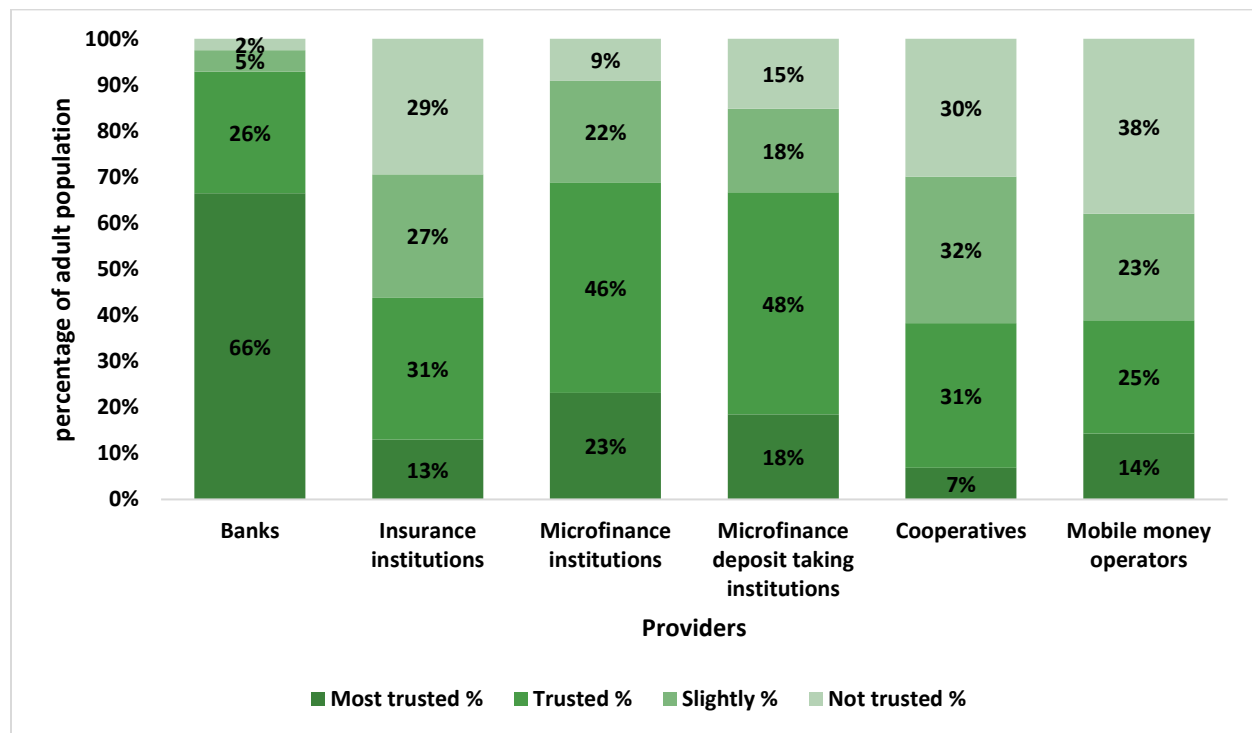


Figure 35: Trust level of providers

205. ***Cambodia's banking sector will be guided by ASEAN integration:*** Cambodia joined the Association of Southeast Asian Nations (ASEAN) on 30 April 1999, as the tenth member of ASEAN. To enhance the integration, the Task Force on Implementation of the ASEAN Banking Integration Framework (TF-ABIF) was established in 2011 to formulate the initial milestones and timelines for financial services liberalisation within the ASEAN banking sector. The ABIF guideline was endorsed by ASEAN central bank governors on 31 December 2014 to serve as a basis for ASEAN countries to enter into reciprocal bilateral arrangements to provide Qualified ASEAN Banks (QABs) with greater market access and operational flexibilities similar to that accorded to Indigenous banks in the host countries, as may be mutually agreed between a Host Country and a Home Country. The presence of QABs is a critical milestone for ASEAN towards achieving greater financial and economic integration. On 21 March 2015, ASEAN Finance Ministers and Central Bank Governors endorsed the key elements of the AEC 2025 Vision for the ASEAN Financial Integration, which consists of three pillars, namely: (i) financial integration; (ii) financial inclusion; and (iii) financial stability. With this achievement, the TF-ABIF has been approved to be reformed as the working committee by the ASEAN central bank governors on April 2016, which focuses on facilitating (i) effective operationalization of the banking integration process; (ii) initiatives to promote improvement in regulatory frameworks; (iii) cooperation and financial stability arrangement for regional financial integration.
206. ***Implementation of ASEAN payment system will facilitate regional transactions:*** The ASEAN community aims to implement ASEAN payment system with the aim of fostering integrated, safe and efficient payment and settlement systems in the region. Under this the Asian Payment Network (APN) was initiated in 2006, to establish common standards and guidelines for domestic and regional switching, clearing and settlement of all electronic payment transactions. However, the differing stages of development between ASEAN-5 and the remaining countries have posed a great degree of complication. NBC has considered participating in the Asian Payment Network (APN) and connect the Large Value Payment System (LVPS) can be connected to the RTGS of other ASEAN members. The APN system focuses on the retail payment especially catering to card payment via ATM and POS.. Connecting to the APN no doubt holds the possibility of significantly reducing the cost of international remittances for select regional corridors
207. While ASEAN countries have traditionally traded in US dollar, the emergence of China has entailed consideration of renminbi (RMB) as an alternative for the ASEAN common settlement currency. The implementation of ASEAN wide cross border payment and settlement with multicurrency capabilities, is expected to facilitate local currency trade settlement while also reducing the cost of cross-border payments. The National Bank of Cambodia is working on a Shared Switch System, which is an integrated system to facilitate e-payments including ATM, POS, mobile and internet payments, as a response to the needs of the ASEAN financial integration (NBC, 2015).



## Provider Overview

208. This section will explore each of the major FSPs to scope their willingness and ability to provide financial services. The list of formal FSPs and informal providers that will be discussed in the following sections are as follows:

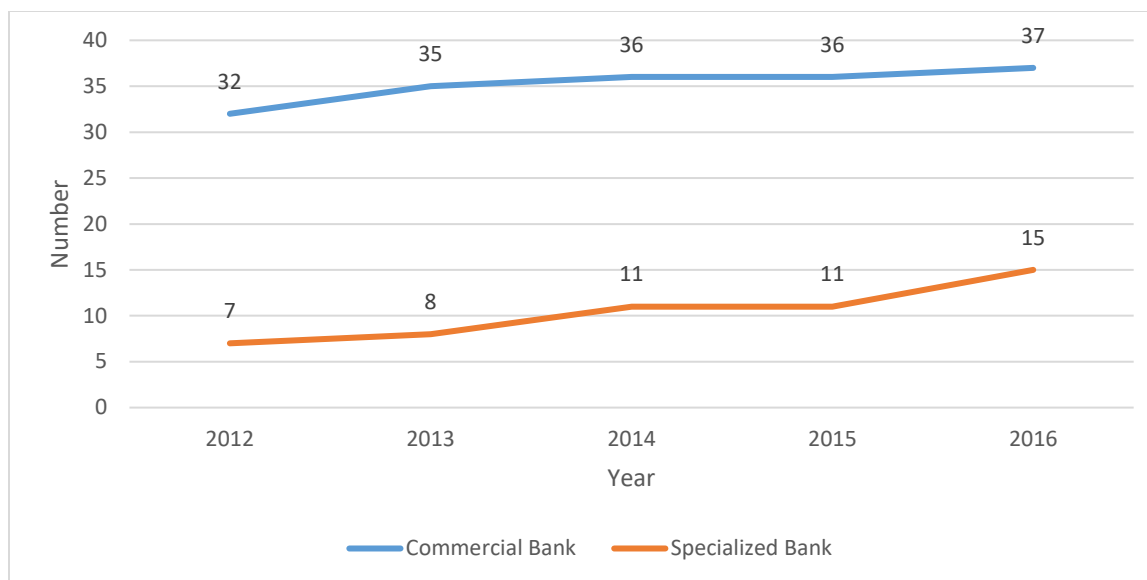
- Banks
  - Commercial banks: Locally incorporated banks, Foreign branch banks, Subsidiary banks
  - Specialized banks: State-owned banks and Privately owned banks
- Representative Offices
- Microfinance Institutions (MFIs)
  - Microfinance Deposit-taking Institutions (MDIs) and MFIs
- Financial Leasing Companies
- Payment Service Providers
- Insurance Companies
- Retirement Funds
- Agriculture Cooperatives
- Informal Providers

## Banks

209. Banks are legal entities licensed to carry out banking operations as their regular business. Banking operations include credit operations, collection of non-earmarked deposits from the public, and the provision of means of payment to customers and their processing.

- The term “bank” covers specifically two different categories of institutions – categorized as commercial banks and specialized banks by the NBC.
- Commercial banks are further divided into local banks with local majority ownership, local banks with foreign majority ownership, foreign subsidiary banks and foreign branches banks.
- Specialized banks are categorized into state owned specialized banks, local banks with local majority ownership and local banks with foreign majority ownership.

Figure 36 provides an overview of the prevalence of these institutions over the period of 2012-2016.



**Figure 36: Growth of Financial Institutions in Cambodia**

Source: Annual Report, General Directorate of Banking Supervision, National Bank of Cambodia, 2016

210. **Financial system dominated by the banking sector:** Cambodia's financial system is dominated by the banking system which holds 75.50% of total assets in the financial system. In 2016, total assets increased to KHR 96,216.3 billion (USD 23.65 billion), which is equivalent to 118.2% of the GDP. The banking sector has considerably expanded with the establishment of 201 new branches, 2,122 new POS, and 142 new ATM terminals during 2016. In terms of market share, commercial banks are the largest mobilizer of deposits and loans in the market. As shown in Table 5, at the end of FY 2015/16, commercial banks mobilized 90% of total deposits and 80% of total loans. On the other hand, the market share of specialized banks continues to decrease as it mobilizes 0.01% of total deposits and 2% of total loans.

Institutions	Total Assets	%	Total Loans	%	Total Deposits	%
<b>Commercial Banks</b>	23,290	75.50%	13,509	80%	13,735	90%
<b>Specialized Banks</b>	438	1.42%	305	2%	1.43	0.01%
<b>MDI</b>	3,283	10.64%	2,680	16%	1,469	10%
<b>MFI</b>	3,836	12.43%	442	3%	0.46	0.003%
<b>Total</b>	<b>30,847</b>	<b>100%</b>	<b>16,937</b>	<b>100%</b>	<b>15,205</b>	<b>100%</b>

**Table 5: Total assets, Loans and Deposits mobilization of banks and specialized banks as of 2016. (In million dollar)**

Source: National Bank of Cambodia

211. **Credit expansion outpaces deposit growth:** The five year figures shown in Table 6 indicates that the expansion of credit is higher than the growth of deposits in Cambodia. In 2016, credit grew by 20.52% while deposits grew by 21.82%. Similarly in 2015, credit grew by 25.65% while deposits grew by 17.38%. As per NBC, the major reasons for credit expansion are rapid development of economic activities, increase in deposit and inflow of foreign investments and borrowings, increase in credit originating from a low base, increase in adult population and lack of other financial instruments in Cambodian financial markets. However, the credit growth in the banking sector has declined in

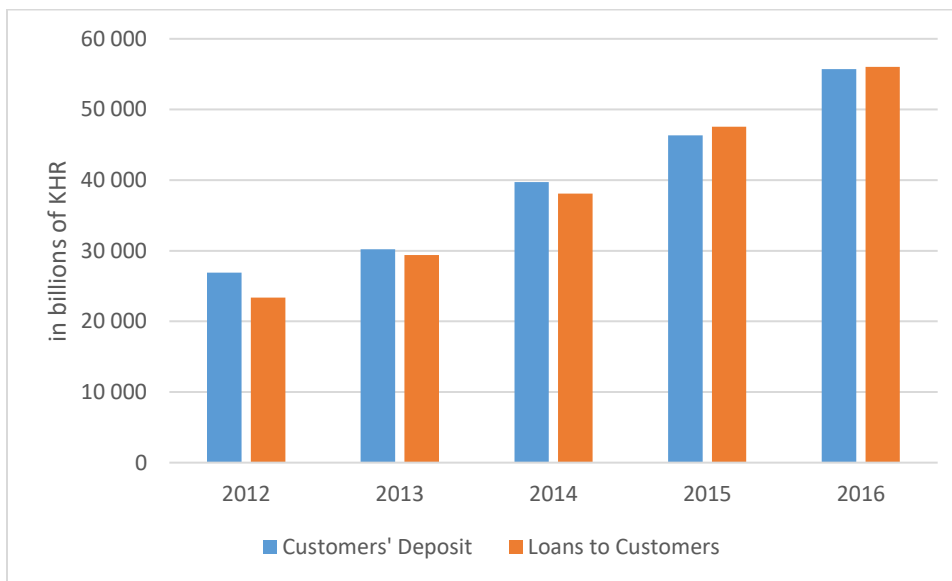
recent years possibly due to the increase of liquidity among banks in compliance with the new Prakas on Liquidity Coverage Ratio (LCR) (NBC, 2016). As per the new Prakas, the minimum capital requirements for banks and MFIs has been increased. NBC expects credit growth to slow down to 21% in 2017 (NBC, 2016). Table 6 showcases the evolution of the banking sector in Cambodia, from 2012 to 2016.

Bank Evolution	2012	2013	2014	2015	2016
Asset Growth	37.30%	16.90%	27.10%	23.21%	20.90%
Credit Growth	35.10%	25.76%	27.11%	25.65%	20.52%
Deposit Growth	29.70%	12.24%	28.95%	17.38%	21.82%
Asset to GDP	76.60%	82.78%	98.33%	107.89%	118.23%
Credit to GDP	41.00%	47.74%	56.71%	63.46%	68.83%
Deposit to GDP	47.30%	49.09%	59.16%	61.85%	68.44%

**Table 6: Bank Evolution (Y-O-Y Growth) (Includes all commercial and specialized banks)**

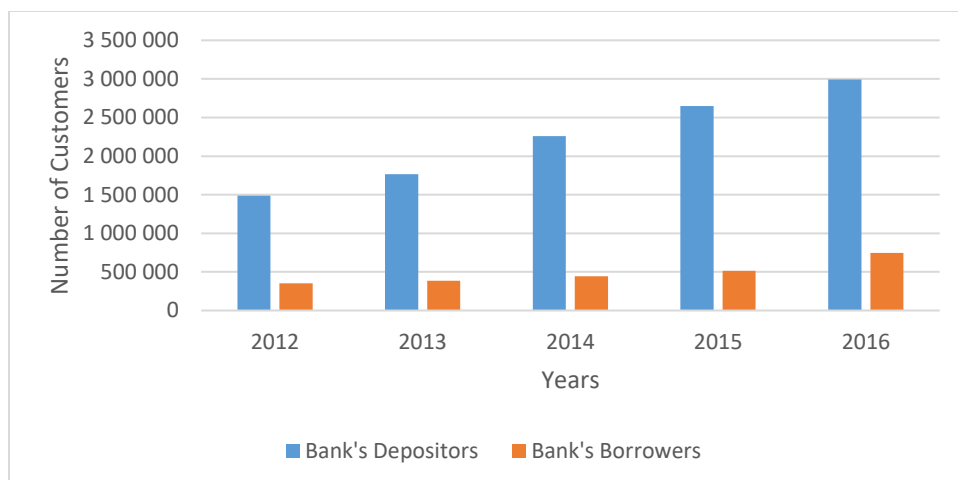
Source: Annual Report, General Directorate of Banking Supervision, National Bank of Cambodia, 2016

212. **Deposits in banking sector witnessing steady growth:** Figure 37 indicates that in 2016, the number of bank depositors rose by 12.9% from 2,650,188 to 2,993,386, while the total number of borrowers (both corporate and retail) went up by 45.7% from 512,582 to 746,930. Similarly, deposits increased by 21.8% amounting to KHR 55,699 billion (USD 13.69 billion) and credits increased by 20.5% amounting to KHR 56,019 billion (USD 13.77 billion) in 2016. .



**Figure 37: Banks - Total Customer Deposits and Loan to Customers**

Source: Annual Report, General Directorate of Banking Supervision, National Bank of Cambodia, 2016



**Figure 38: Banks – Total number of Bank Borrowers and Depositors**

Source: Annual Report, General Directorate of Banking Supervision, National Bank of Cambodia, 2016

213. **Banks profitable led by commercial banks:** Bangkok Bank Plc. Cambodia Branch (KHR 750 million), Bank for Investment and Development of Cambodia Plc (KHR 4,071 million), Bank of India Phnom Penh Branch (KHR 2,825 million), Cambodia Mekong Bank Public Ltd (KHR 14,858 million) and Union Commercial Bank Plc (KHR 82,756 million) incurred losses in the year 2016. However despite the loss made by five commercial banks, the net profit of commercial banks increased to KHR 1,686 billion (USD 414.45 million) in FY 2015/16 as compared to KHR 1,538 billion (USD 379.75 million) in FY 2014/15. The Return on Equity (RoE) of commercial banks averaged approximately 10% which is slightly lower than 10.92% in 2015.

	2012	2013	2014	2015	2016
Commercial Banks	820,032	971,186	1,245,177	1,547,220	1,686,556
Specialized Banks	15,437	5,236	24,633	41,266	38,175

**Table 7: Net profit of commercial and specialized bank over the years (In KHR millions)**

Source: National Bank of Cambodia

214. As shows in the table above, the net profit of specialized banks decreased to KHR 38,175 million (USD 9.38 million) in FY 2015/16 from KHR 41.26 billion (USD 10.18 million) in FY 2014/15. Out of the 15 specialized banks, 5 banks – Anco Specialized Bank (KHR 1,740 million), Asia Pacific Development Specialized Bank (KHR 2,954 million), Khmer Specialized Bank (KHR 8,402 million), Oxley Worldbridge Specialized Bank (KHR 165 million) and Southern Capital Specialized Bank Plc (KHR 165 million) – recorded loss in the FY 2015/16.

215. **Banks NPL on a lower side.** The Non-Performing Loans (NPL) ratio of banks are in a comfortable position, decreasing to 1.90% in 2016 from 2.30% in 2013. Likewise, specialized banks have also been able to decrease their NPL ratio to 2% in 2016 from 2.70% in 2013.

Banks	2013	2014	2015	2016
Commercial Banks	2.30%	1.90%	1.90%	1.90%

Specialized Banks	2.70%	2.20%	2.00%	2.0%
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**Table 8: NPL Ratio of banks**

Source: Annual Reports (2013, 2014, 2015, 20156) National Bank of Cambodia

## Commercial Banks

216. Commercial banks are further classified into foreign branch banks, locally incorporated banks and subsidiary banks. Out of the 37 commercial banks, 11 are foreign branch banks, 12 are locally incorporated and 14 are subsidiary banks.
217. *Two locally incorporated commercial banks dominate the market.* Out of the total asset base of commercial banks KHR 94.43 billion (USD 23.21 million), the locally incorporated Acleda Bank Plc and Canadia Bank Plc. clearly dominate the market. Acleda Bank has 19.7% share while Canadia Bank has 14.08% share as of December 2016. The third largest player is Cambodian Public Bank Plc with an asset share of 6.8%.
218. *Increasing number of branches.* The number of branches of all commercial banks has increased from 448 in 2012 to 783 in 2016. There has been a significant increase in the number of Local Banks – Foreign Majority Ownership bank from 40 branches in 2012 to 225 branches in 2016. The number of foreign subsidiary bank branches has increased from 97 branches in 2012 to 150 branches in 2016. The numbers of branches of foreign branch banks are increasing each year as shown in Table 9. As of 2016, there were a total of 25 foreign branch bank branches. A majority of them are concentrated in Cambodia’s capital city Phnom Penh despite NBC’s efforts for increasing financial access and inclusion.

Commercial Bank	2012	2013	2014	2015	2016
Local Banks- Local Majority Ownership	298	310	354	375	383
Local Banks- Foreign Majority Ownership	40	33	47	54	225
Foreign Subsidiary Banks	97	128	119	142	150
Foreign Branch Banks	13	16	21	22	25
<b>Total</b>	<b>448</b>	<b>487</b>	<b>541</b>	<b>593</b>	<b>783</b>

**Table 9 Number of commercial bank branches**

Source: Annual Report, General Directorate of Banking Supervision, National Bank of Cambodia, 2016

219. *Majority of commercial banks have foreign ownership:* Out of the total capital mobilization in the commercial banks, 68.5% is owned by foreign investors while 31.5% is owned by local Cambodian shareholders. Only 5 commercial banks have 100% local ownership while 26 commercial banks have 100% foreign ownership.

220. ***Income from on-lending a key revenue driver.*** The total interest income of commercial banks increased by 27.6% during FY 2015/16 which stood at KHR 5, 620 billion (USD 1.3 billion). 82.21% of the total gross income was derived from net interest income due to the high spread between interests charged on loan products and deposits.
221. ***Commercial banks are the largest market players.*** The total assets mobilized by the commercial banks increased by 18.6% to KHR 94.4 trillion (USD 23.2 billion) at the end of 2016 i.e. 75.50% of total assets of the banking industry. The commercial banks mobilized total deposits of KHR 55.69 trillion (USD 13.69 billion) and total credit of KHR 54.78 trillion (USD 13.46 billion) during the period.

## Specialized Banks

222. Specialized banks are those entities carrying out any of the three basic activities, or only one component of these three basic activities included as banking operations – credit operations, deposit collection and/or provision of means of payment. There are altogether 15 specialized banks in Cambodia, and they are further classified as state-owned banks and privately-owned banks. There is only 1 state-owned specialized bank with the rest being privately-owned.
223. Specialized banks operate in the same way as finance companies, since they are not allowed to collect deposits but are permitted to provide credit facilities. These banks are regulated by NBC under law on Banking and Financial Institutions, 1999.
224. ***State-owned specialized banks the largest deposit mobilizers amongst specialized banks.*** The only state-owned specialized bank in Cambodia, Rural Development Bank, generated a total of KHR 16.41 billion (USD 4 million) in interest income, with interest income being the major source of revenue. It mobilized a deposit of KHR 5.2 billion (USD 1.28 million) i.e. 90% of total deposit mobilized by specialized banks. However, the total deposit of the bank increased by 16.28 % from the previous fiscal year (NBC, 2016).
225. ***Highest concentration in agri-loans.*** The sole state-owned specialized bank extended credit worth KHR 274.23 billion (USD 67.41 million), a 20.49% increase from the previous fiscal year. Out of the total credit, 93.21% is concentrated in the agriculture, forestry and fishing sector (NBC, 2016).
226. ***Private sector lending has the highest exposure:*** A major portion of the assets is covered by loans & advances to the private sector which comprises 65.2% of total assets, i.e. KHR 1,158 billion (USD 284.66 million), followed by deposits with banks, loans and advances to banks (9.8%) and deposits with NBC (7.2%) of total assets composition. Fixed assets have a contribution of 4.7%. Deposits accounted for only 0.10% of the total liabilities, with the total deposits increased by 9.18% as compared to the previous fiscal year (NBC, 2016).
227. ***Interest income is the major source of revenue.*** Interest income is the major source of revenue for a majority of privately-owned specialized banks, it generated almost KHR 139.94 billion (USD 34.4 million) in interest bearing income in 2016. It was followed by revenue from non-interest income amounting to KHR 77.37 billion (USD 19.02 million). Amongst the privately-owned specialized banks, Wing (Cambodia) Limited has the highest non-interest income amounting to KHR 64.65 billion (USD

15.89 million) which is 83.55% of the total non-interest income earned by specialized banks (NBC, 2016). Since Wing (Cambodia) is a limited specialized bank it does not provide credit facility.

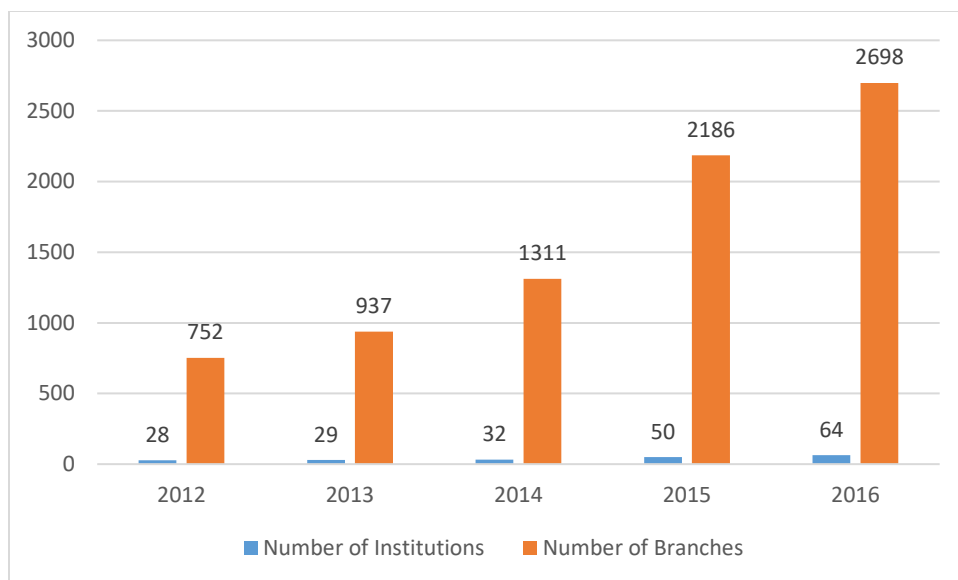
228. **Specialized banks expanding credit gradually.** Specialized banks also facilitated credit worth KHR 1,238 billion (USD 304.32 million), a 56.94% increase from the previous fiscal year. The loan portfolio is diversified in different economic sectors, and there is a higher concentration in agriculture, forestry and fishing at KHR 358.94 billion (USD 88.24 million) and personal essentials sector at KHR 334.41 billion (USD 82.21 million) (NBC, 2016).

## Microfinance Institutions

229. NBC has defined Microfinance Institutions as those institutions specializing in delivery of financial services such as loan and deposits - to the poor and low income households, and to micro-enterprises. MFIs are generally not permitted to accept deposits unless they have obtained a separate license from NBC, after fulfilling certain conditions including, being in operation for at least three years. These MFIs are known as Microfinance Deposit -Taking Institutions. A licensed microfinance institution shall only conduct banking operations as defined in Article 2 of the Law on Banking and Financial Institutions, 1999. Moreover,
230. NBC has classified micro finance institutions into;
- Microfinance Institutions (MFIs) – which are non deposit-taking institutions
  - Microfinance Deposit-Taking Institutions (MDIs)

### MFIs.

231. Those institutions licensed by NBC to carry out microfinance activities do not accept deposits from the public. These institutions mostly obtain financing from domestic and overseas investors. There are currently 64 MFIs licensed by NBC.
232. **Rapid growth in number of MFIs.** MFIs have seen a consistent growth over the years. As of 2016 there are 64 MFIs under the purview of NBC compared to 28 MFIs in 2012. Similarly, the number of MFI branches has also increased in the recent years as shown in Figure 39. At present there are 2,698 MFI branches which is an increase of 23% from the last fiscal year.



**Figure 39: Growth of MFIs - non-deposit taking over the years**

Source: National Bank of Cambodia

233. **MFIs extending services 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 in 2016 mainly due to consolidations amidst increasing competition and narrowing margins. MFIs are more extended communes and district of the country with proximity to markets and denser population.
234. **MFIs profitable with a growing loan base.** The overall net profit of the MFIs in 2016 stood at KHR 59.80 billion (USD 14.72 million) which is an increase of 42% compared to the profit of KHR 34.40 billion (USD 8.49 million) in 2015. As the interest spread between deposits and credit remains high, these institutions were able to increase their profit margin. Moreover, MFI's were able to decrease interest rates on their lending portfolios largely due to increased competition, operation efficiency thus increasing their market share.
235. MFIs held 12.43% of the total assets of Cambodian banking industry. During the year 2016, the total loan disbursed by these institutes was KHR 1,793 billion (USD 440 million) Table 10 highlights some of the key indicators of MFIs. Total assets of MFIs stood at KHR 2,239 billion (USD 550 million) during the fiscal year 2016.
236. **Total assets dominated by Loans and Advances:** The major portion of the assets is covered by the loans and advances to customers which comprises 81.50 % of total assets followed by cash and cash balance with NBC and other banks with 15.9% of total assets composition. Long term investment have a negligible contribution only equal to 0.4% of the total assets value. Loans payable are a major part of total liabilities, accounting for 49.6% of total liabilities and equity in FY 2015/16.
237. The asset base of MFIs has gone up (31%) during 2016, as 14 new MFIs started operation during the period. Moreover, these companies have seen a rise in further investment from foreign partners.



As of 2016, 61.5% of share ownership is held by foreign partners while 38.5% shares are held by domestic investors.

	2015	2016	% change
Total Assets in KHR millions	1,714,170	2,239,887	31%
Deposits in KHR millions	1,783	1,884	6%
Loans and Advances in KHR millions	1,415,966	1,793,006	27%

**Table 10: Key Indicators of MFIs**

Source: Annual Report, General Directorate of Banking Supervision, National Bank of Cambodia, 2016

238. **Business drivers.** Similar to MDIs, the major driver of MFIs' revenue is interest based income, accounting for 96.59% of the total operating income. The loan portfolio increased by 27% as compared to the last fiscal year, amounting to KHR 1,793 billion (USD 440.76 million). A high concentration of credit is in agriculture amounting to 33.3% of total credit. It was followed by household, trade and commerce and service sectors with 28.4%, 18.5% and 9.9% of the total credit respectively.

239. **NPL on the high-side.** Non-performing loan (NPL) ratio of MFIs has reached 4.9% during the year 2016. Although it is a slight increase from 4.8% last year, the NPL figure is the highest among all banking and financial institutions in Cambodia as shown in Table 11 below.

Microfinance	2013	2014	2015	2016
MDIs	0.20%	0.10%	0.30%	0.3%
MFIs	3.10%	5.10%	4.80%	4.9%
Overall	0.59%	0.59%	0.75%	0.9%

**Table 11: NPL ratios of MFIs**

Source: Annual Bank Supervision Report (2013, 2014, 2015, 2016) National Bank of Cambodia

240. **Key formal player providing access to funds.** Despite interest rates charged by MFIs being higher than those offered by commercial or specialized banks, MFIs are emerging as a key provider of funds at affordable rates alternative to informal providers as MFIs are being able to attract people into the formal sector the segment of the population who generally access funds via informal sources at much higher rates and harsher terms and conditions. Currently, average interest rate on loans from commercial and specialized banks stood at 17.35% per annum for loans in KHR and 11.90% per annum for loans in USD (NBC, 2016); while annual interest rate on loans from MFIs stood at 23.6% in 2016 (NBC, 2016).

## Microfinance Deposit taking Institutions

241. **Microfinance Deposit-taking Institutions (MDIs).** These institutions are licensed by NBC to collect deposits from the public. As per Prakas on licensing of MDIs, MFIs shall apply to NBC for a separate license to complement their existing license for collecting deposits from the public. There are currently 7 MDIs operating in Cambodia.

242. **MDIs playing an important role in promoting formal financial inclusion.** 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. Microfinance deposit-taking institutions are competing to gather more local sources of funds in order to expand the scope and scale of their operations by offering high interest rate which also helps stabilizing high deposit rate and help in deposit mobilization through formal channels. 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 MDIs 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 (FinScope, 2015). Currently, microfinance deposit-taking institutions are more diversifying in their services including money transfer, moveable banking services as well as ATM services.

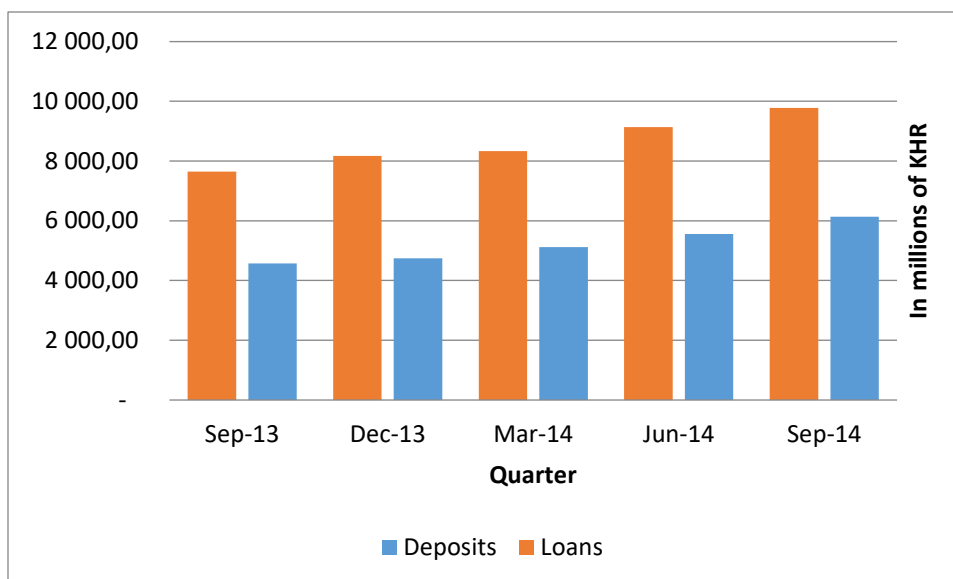
243. ***MDIs earning good profits.*** The net profit of MDIs stood at KHR 479.70 billion (USD 117.92 million) in 2016 which is a decrease of 5% from KHR 503.41 billion (USD 124.29 million) in the year 2015. As shown in Table 5 MDIs held 10.64% of the total assets of Cambodian banking industry. Total assets of MDIs stood at KHR 13,314 billion (USD 3.27 billion) in 2016 (NBC, 2016).
244. ***Assets dominated by loans and advances.*** The major portion of assets is covered by loans and advances to customers which comprises 81.8% of total assets, i.e. KHR 10,886.50 billion (USD 2.67 billion), followed by cash and cash balance with NBC and other banks with 16.4% of total assets composition. The major portion of total liabilities is covered by deposits accounting to 44.7%, i.e. KHR 5,955.14 billion (USD 1.46 billion), followed by loans payable accounting for 34.2% of total liabilities, i.e. KHR 4,553.51 billion (USD 1.12 billion) (NBC, 2016).
245. ***Credit expansion outpacing deposit growth.*** Interest income is the key income driver for MDIs with interest income contributing 98.42% to the total operating income. There has been a positive growth of deposits and credits in MDIs. However, with large and increasing loan-to-deposit ratio (LTD) of 210% in 2016 from 204% in 2015, the stability of MDIs is questionable as higher LTD increases the odds of liquidity risks in funding profitable loan opportunities in the near future. Out of the total deposits held by MDIs, 83% is term deposits, 14% is savings while the remaining falls under other deposits. At the end of 2016, MDIs held aggregate deposits of KHR 6,106.98 billion (USD 1.50 billion) and total loan portfolio of KHR 10,868.48 billion (USD 2.67 billion). When compared to the last fiscal year, deposits increased by 15% and loans increased by 21.8% in 2016.
246. ***MDIs have the lowest NPL ratio.*** As shown in Table 11, MDIs have the lowest non-performing loan (NPL) ratio. Even though the NPL ratio has increased from 0.3% in 2015 to 1.0% in 2016, the NPL indicators lie within healthy levels as shown in Table 11 above. However, the NPL of MFIs is still on the higher side.

## Agriculture-cooperatives

247. The Ministry of Agriculture, Forestry and Fisheries (MAFF) defines agricultural cooperative as a private legal entity and agriculture-based economic enterprise, which is voluntarily established by natural persons through joint investment, joint ownership and joint management in a democratic manner in order to enhance agricultural production capacity, agro-industry, agri-business, or

services related to agricultural production aimed at raising economic, social and cultural status of members.

248. ***Agri-cooperatives operating under Department of Agricultural Cooperative Promotion.*** The Department of Agricultural Cooperative Promotion under General Directorate of Agriculture of the Ministry of Agriculture, Forestry, and Fisheries (MAFF) governs the operations of agri-cooperatives in Cambodia. There are around 857 agricultural cooperatives spread across 25 provinces that have been established and developed with due efforts from NGOs and the government. The community agricultural cooperatives are established with the objective of providing capacity building and financial assistance during business start-ups and to prevent exploitation of poor farmers by middlemen. Agricultural Cooperative Development Fund (ACDF) has been established under MAFF with the objective of supporting and promoting agricultural cooperatives.
249. ***Business activities and plans.*** The main business activities of the agricultural cooperatives in Cambodia are support for agri-input services, collection and trading along with financial services in the form of basic savings and credit services. Most cooperatives have multiple business activities, and a few have specializations, such as the pepper cooperative in Memot (Kampong Cham), the producing and processing cassava cooperative in Suong (Kampong Cham), and the pig raising cooperative in Svay Rieng.
250. As of 2015, Agriculture co-operatives have 857 accounts across 25 provinces with a total of 87,986 members out of which 53,136 members are women. Likewise, co-operatives have a total share capital of KHR 24.42 billion (USD 6 million) and investment portfolio of KHR 39.37 billion (USD 9.67 million).
251. ***Agriculture cooperatives making an impact on local markets.*** Agriculture cooperatives across Cambodia allow credit to villagers and borrowers at lower rates than traditional informal money lenders (lending at 10% per month). Non-members of agriculture cooperatives have also benefitted from the existence of such entities as competition from agriculture cooperatives has forced moneylenders to lower their interest rates to almost 4%.
252. ***Agriculture cooperatives being supported by donor agencies.*** Credit Union Foundation Australia (CUFA) in collaboration with Cambodia Association of Cooperatives (CAC) is providing technical assistance to 39 agriculture cooperatives in Cambodia. The beneficiaries are exclusively in rural areas that have previously had no exposure or access to financial services at even the most basic level. There has been an increase in agriculture cooperative membership, growth in the total savings of agriculture cooperatives and rise in women participation as a result of training and assistance (CUFA, 2015).
253. ***Increase in loans and deposits of agricultural cooperatives under CAC.*** Agricultural cooperatives under CAC saw an increment in loans and deposits for consecutive quarters in 2014. As shown in Figure 40, there was a 7.05% increase in loans and a 10.31% increase in deposits in the third quarter of 2014 as compared to the previous quarter of the same year.



**Figure 40: Quarterly loans and deposits of 40 agricultural cooperatives under CAC**

Source: Quarterly Progress Reports, October 2013 to September 2014, Co-operative Association of Cambodia (CAC)

## Financial Leasing Companies

254. There are currently 12 financial leasing companies licensed by the NBC.

Category	%
Agriculture	23%
Trade & Commerce	14%
Services	5%
Transportation	6%
Construction	13%
Household/Family	28%
Other Categories	11%
<b>Total</b>	

**Table 12: Loan Portfolio of Leasing Companies (in KHR millions)**

Source: National Bank of Cambodia, December 2016

255. **Leasing companies gaining popularity.** Even though financial leasing operations was established only in 2012, the sector has played a key role in financing Micro, Small and Medium-Sized Enterprises (MSMEs). As shown in Table 13, Leasing companies so far has mobilized a total amount of KHR 485.04 billion (USD 119.2 million) with total assets of KHR 622.81 billion (USD 153 million). The highest concentration is in Household/Family (28%) and Trade & Commerce (14%). The average NPL ratio stands at 5.93% while the average rate of interest ranges between 6 to 25% moreover, currently these companies are serving 61,373 customers. The credit mobilized by these leasing companies are sourced from their owner's equity.

	2012	2013	2014	2015	2016
Total Assets	13.92	37.44	186.33	410.35	622.81

Total Loans	0.59	16.4	147.06	344.97	485.04
NPL (in %)	0	0	3.16%	5.31%	5.93%
Owner's Equity	-1.22	7.89	34.36	44.04	113.27
No. of Customers	122	2,638	18,683	43,413	61,373

**Table 13: Key indicators of financial leasing sector**

Source: National Bank of Cambodia, December 2016

## Insurance Companies

256. Insurance and Pension Department (IPD) under the Ministry of Economy and Finance (MEF) is the sole regulator of insurance sector in Cambodia. In 2013, IPD was upgraded to a department from a division within MEF. However, it still lacks the resources necessary to operate effectively. As shown in Table 14 below, there are seven general insurance companies, four life insurance companies, and one reinsurance company operating in Cambodia. Furthermore, all licensed life and non-life insurance companies including the national reinsurer are members of the Insurance Association of Cambodia (IAC) and is also a member country of Association of South East Nations Insurance Council (AIC).

<b>Non-Life Insurance</b> <i>Minimum capital of SDR 5 million (USD 7 million)</i>	<b>Life Insurance</b> <i>Minimum capital of SDR 5 million (USD 7 million)</i>	<b>Re-Insurance</b> <i>Minimum capital of USD 7 million</i>
<i>Non-Life Insurance protects an individual against losses and damages other than those covered by Life insurance. The risks that are covered by non-life insurance is property loss, liability arising from damage caused by an individual to a third party, accidental death or injury.</i>	<i>Life insurance cover gives out a certain amount to the insured or their nominated beneficiaries upon a certain event such as death of the individual who is insured.</i>	<i>Reinsurance lets insurers cover their risks by recovering some or all of the amounts they pay to claimants. Reinsurance reduces net liability on individual risks and catastrophe protection from large or multiple losses.</i>
<ul style="list-style-type: none"> <li>• Asia Insurance</li> <li>• Cambodia-Vietnam Insurance</li> <li>• Caminco Insurance</li> <li>• Campu Lonpac Insurance</li> <li>• Forte Insurance</li> <li>• Infinity Insurance</li> <li>• People and Partner Insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Cambodian Life Insurance</li> <li>• Manulife (Cambodia)</li> <li>• Prudential (Cambodia)</li> <li>• Sovannaphum Life (Cambodia)</li> </ul>	<ul style="list-style-type: none"> <li>• Cambodia Re (<i>Established by the Royal Government of Cambodia and now in a Joint Venture agreement with Asian Insurance International (AII)</i>)</li> </ul>

**Table 14: Insurance Companies in Cambodia**

Source: Author's Own

257. **Insurance sector is at early stage of development with low penetration.** The insurance industry in Cambodia formally began to pick up with the introduction of Insurance Law in August 2000 and other regulations in subsequent years. Moreover, the old law was replaced by a new law on insurance on August 2014 with additional protection for policyholders, clearer regulatory roles amongst others. Unlike the banking sector, the insurance sector in Cambodia is still in its infancy, with a formal sector market penetration rate of only 8% of adults. (FinScope, 2015) as the knowledge about insurance is very low. Moreover, the intermediaries required for expansion of the sector is limited due to the existence of few agents and insurance brokers registered; largely due to high deposit requirements for license.

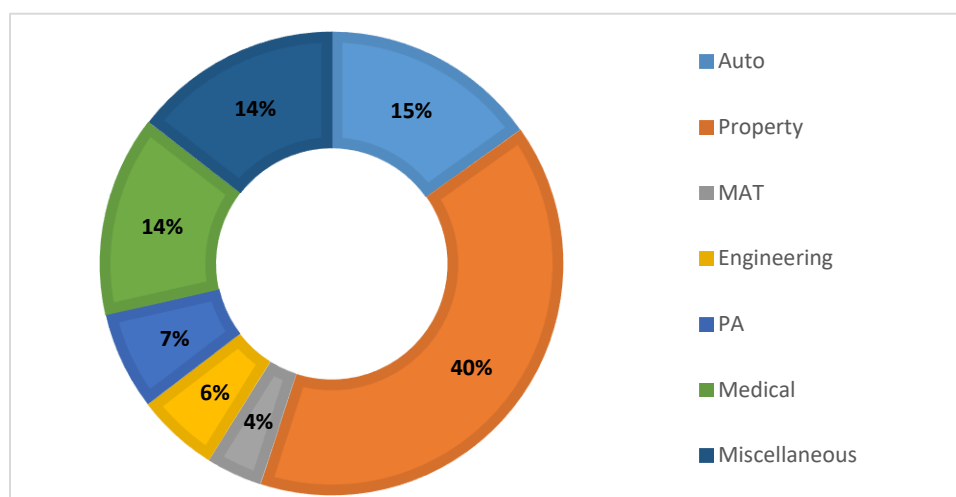
258. **Non-Life (General) Insurance business gaining momentum.** The non-life insurance business has gained momentum with entry of private sector players and increasing demand of policies from the business community. Most policy purchasers are foreign investors and international organizations. The key line of business is motor, property, fire, health, marine and engineering Insurance.

	2011	2012	2013	2014	2015
Gross Premium	30,211	35,962	41,513	52,975	61,645
Net Premium	NA	13,781	16,392	19,009	27,879
Retention Ratio	NA	38.3%	39.2%	35.9%	45.2%

**Table 15: Gross Premium, Net Premium and Retention Ratio of Non-Life Insurance companies (2011-2015) in USD thousands**

Source: Insurance Association of Cambodia

259. As shown in Table 15 above, the non-life insurance premium annual growth between 2011 and 2015 was averaged at 19.5%. In 2015, the year on year growth was 16.4%. In terms of gross premium, the total contribution to GDP is 0.32%.<sup>17</sup> Likewise, the average retention ratio has been above 39% in the past four years. The retention ratios suggest that insurance companies are booking better profits as payout ratio is on a lower side.



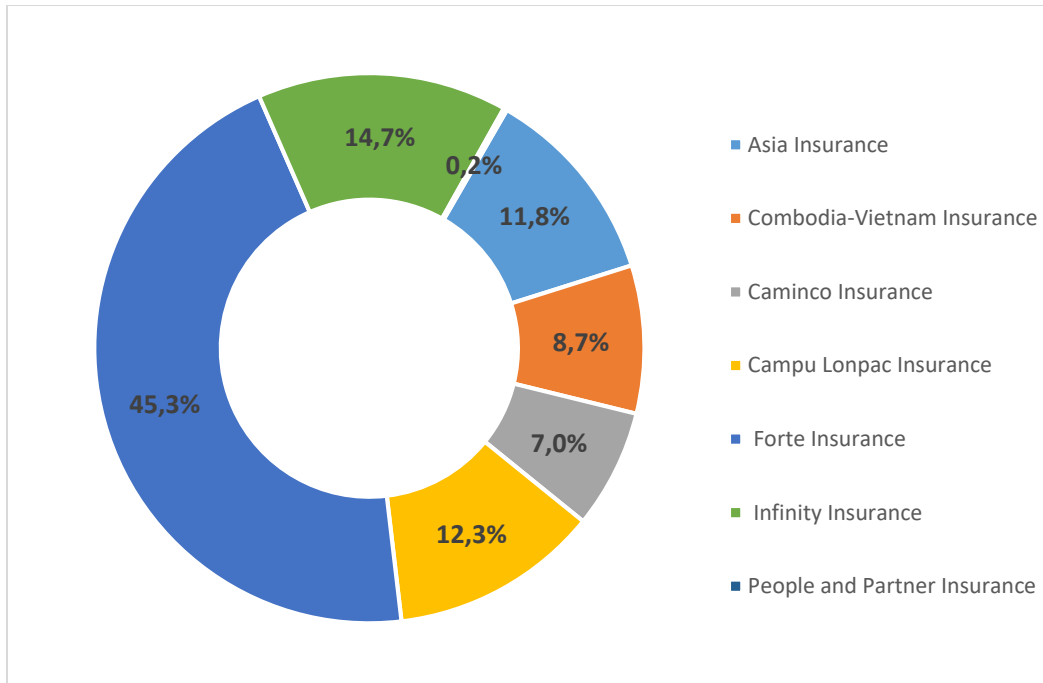
**Figure 41: Market shares of various general insurance products (2015)**

Source: Insurance Association of Cambodia

260. In terms of products, as shown in the above Figure 41, property insurance (40%) has the highest demand followed by auto (15%), miscellaneous (15%) and medical (14%) insurance.

261. **Non-Life Insurance dominated by a single player.** Forte Insurance is the dominant player in Cambodia's Non-life insurance market covering around 45.3% market share in terms of gross premium. Beside Forte, Infinity Insurance (14.7%), Campu Lonpace (12.3%) and Asia Insurance (11.9%) are key players in the market as shown in the Figure 42 below.

<sup>17</sup> ASEAN Insurance Council,,



**Figure 42: Market share by gross premium, non-life insurers, 2015**

Source: Insurance Association of Cambodia, 2015

262. *Life and Micro-Insurance has been recently introduced.* Life insurance products have only recently been introduced in 2012 and has the potential to grow amidst economic growth and social development (Refer: The market for Insurance - Who are the providers?). Currently there are four life insurance companies, out of which two are micro-insurance companies which provide health, life and personal accidental insurance. With the introduction of these companies, they are now reaching out to general uninsured population with products meeting their risk mitigation requirements.

#### How about “Re-Insurance”?

#### Retirement Funds

263. *Retirement fund mainly covers organized sector workers.* There are currently four autonomous national social security schemes rolled out by the government for the formal sector workers namely;

- National Social Security Fund for Civil Servants (NSSFC)
- The National Fund for Veterans (NFV)
- National Social Security Fund (NSSF)
- The Persons with Disability Foundation (PWDF)

Hence, the majority of employees and workers outside the public sector and formal sector have not benefited from existing social security benefits. In 2008, the share of informal employment was estimated to be 83%, with only 17% of total employment considered formal.<sup>18</sup>

<sup>18</sup> Social Security for the Formal Economy, outlook and challenges ahead, ILO 2012

264. ***National Social Security Fund for Civil Servants (NSSFC)***. Established in 2008, NSSFC offer services from both provincial and municipality levels. Civil servants are entitled to benefits such as sickness cash benefits, employment injury benefits, maternity benefits and retirement benefits amongst others. According to latest data, the scheme currently covers around 175, 000 civil servants including about 60,000 women.
265. ***The National Fund for Veterans (NFV)***. This fund was established in 2010. It covers social security benefits provided to war veterans and to personnel of the armed forces and national police force. Some of the benefits under the scheme are sickness cash benefits, maternity benefits, employment injury benefits and retirement benefits amongst others.
266. ***National Social Security Fund (NSSF)***. This fund was established in 2007 with the mandate to administer social security provisions for private sector workers defined by the provision of labor law, 2002. The law stipulates the provision for employment injury benefits, pension and others as relevant, and applies to all workers covered under the Labor Law. The coverage of the NSSF scheme has been restricted initially to enterprises with at least eight employees. Currently the scheme only provides employment injury benefits to the insured (occupational risk) however, other benefits such as pensions, health insurance are also in the pipeline. As of 2015, NSSF has already registered more than 7,796 enterprises and reported a total of 1,077,079 insured workers amongst which 762,013 are women workers i.e. 70.74% of total registered workers.
267. ***Pension funds for private sector employees yet to kick off***. Despite having formulated the law on Volunteer Pension of Private Sector; which allows companies to save part of their employees' income in order to provide pensions for their employees, it hasn't commenced because the legal framework is still being established. NSSF is currently implementing Phase 1, i.e. social security scheme on occupational risk and intends to launch Phase 2 i.e. health care and Phase 3 i.e. pension in near future. There are no private pension funds available, except for employees of large companies or institutions that manage pension schemes for their own staff members. Once, this law is fully implemented then companies with more than 8 workers will need to be part of the National Social Security Scheme where employers and employees contribute jointly.

## Payment Service Providers

268. There is significant flow of remittances between rural and urban population. Thus, mobile money transfers have played a key role in facilitating such payments which used to earlier happen via informal mediums.<sup>19</sup>
269. ***Increasing number of mobile money providers leveraging agent network***. There are currently 13 companies that provide mobile money services in Cambodia and are driving digital payments. Wing, which is the first and largest mobile money provider, has now been converted into a specialized bank. TrueMoney, SmartLuy and Asia Wei Luy are mobile payment providers. E-money is a joint service of Metfone and MB Bank while AMK bank is also providing AMK Mobile Money Transfer Service (Menghuot, 2016).

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<sup>19</sup> 'Financial Inclusion in Cambodia is Trending Digital', <https://www.cgap.org/blog/financial-inclusion-cambodia-trending-digital>



270. ***Over-the-counter (OTC) preferred channel for transactions.*** In Cambodia, mobile money agents conduct over-the-counter (OTC) transactions on behalf of the customers by charging certain fees. Although mobile money providers have their own apps, the preferred channel of usage is via agents. Wing has a listing of 3700 agents with 600,000 registered accounts. New entrants such as True Money is targeting to establish 5,000 agents across the country, reflecting the high usage and reliance on agent network (Kourchettana, 2015).

## Informal Providers

271. The informal provider sector is characterised by informal groups or associations of people that pool savings funds to extend credit to their members, as well as capital-flush individuals that on-lend to their local community. Various informal saving and credit groups such as Village Savings and Loan Associations (VSLA), *Tong Tin*, local private moneylenders among others, can be grouped in this category.
272. ***Village Savings groups and private moneylenders key providers in the informal market.*** Informal lending has been widespread in Cambodia even before the entry of banks and microfinance instances and still play a significant role as alternative access to finance. Money lenders are generally people belonging to higher economic classes; a result of their higher financial endowments. Likewise, Village Savings groups are community-based savings groups; where members purchase shares in the group and do regular savings and as such are also able to take out loans with lower interest rates than through other middlemen or MFIs. Many farmers continue to rely on informal credit and private money lenders in the village. Since there is no mechanism for registering these sectors/groups, data on their transaction volumes and activities is not available.
273. ***Government crackdown against unlicensed lenders.*** MEF and the NBC has warned against a rise in unlicensed lenders who are dangerously operating outside of Cambodian regulation and threatening financial stability. There is an increasing prevalence of unlicensed lenders, often operating in small groups and masquerading as NGOs or MFIs, claiming to be officially-licensed lenders. As per the government, these informal operators give loans to people with short-term payment structures, but charge interest rates twice or triple to that of a formal institution thereby hurting the reputation of legal lenders like MFIs and banks (Kimsay, 2015). The government intends to work with local authorities, like village and commune chiefs, to collect information about these informal groups.
274. ***Tong Tin a popular informal mechanism.*** *Tong Tin* is one of the most popular informal mechanisms used for loans and depositing savings and provide help to members of the group. Amongst the group a person acts as a president or a banker who oversees all transactions. It functions on the basis of savings and rotating credit, whereby members have a turn-wise access to the total funding pool. The sources of funds of these *Tong Tin* are driven from savings mobilized by members, who contribute at regular intervals
275. Deposits, loans, and interest payments are made in cycles, usually once or twice a month in some case people play weekly and or even daily. For example, a *Tong Tin* of 10 people decide they will have monthly cycles of loan distributions. Each month, the members will give USD 100 to the president, who acts as the banker. With USD 1,000 in the “bank,” the members all meet at a scheduled time to prepare secret bids for the amount of “interest” each person is willing to pay that

month for the loan, and member with the highest interest rate is disbursed the contribution. But rather than the 2% to 2.5% annual interest rates offered by banks the tong tin rates can be much higher and paid monthly (Ham, 2001). There are many risks associated with *Tong Tin*. The trusted president or banker may run away with the deposits, or some unscrupulous bankers may gather a *Tong Tin* with fake members who appear to offer higher bids than other members in the group and disappear with the money.

276. ***Pawn Shops-other key player in informal sector:*** There are both licensed and unlicensed pawn shops operating in the Cambodian market. Pawn shops that have no license extend loans on any collateral (pawned item), even without proper documentation. Their key clients are people who may not have access to banks, other kinds of credit, or people who are in urgent need of money. These people trade valuable goods (pawned) for temporary credit and later reclaim their possessions when they have paid the initial loan amount along with the interest. Licensed pawn shops charge from 2-3% per month whereas unlicensed pawn shops can charge from 4-5% per month.
277. ***Remittance sent through informal private agents:*** Informal channels such as private agents are the primary medium used by Cambodian migrant workers besides relatives, friend or an employer to send money back home. For e.g. a migrant worker working in Thailand will contact a private agent in Thailand, the agent will contact an agent in Cambodia who will inform the recipient household directly or through a relative or the village chief, the Cambodian agent will then arrange a meeting with a family member. After establishing contact, the migrant pays the amount to be transferred to the agent in Thailand, while at the same time the agent in Cambodia will give the money to the family member.

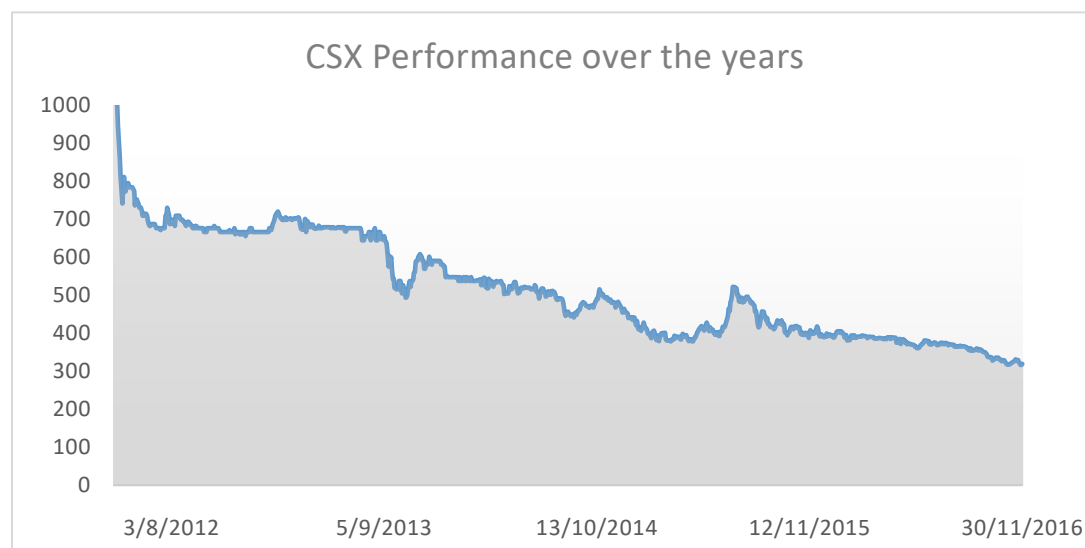
## Financial service infrastructure

278. Financial institutions often do not operate in isolation and require supporting infrastructure to effectively run their businesses. For example, these institutions need access to capital, support with day-to-day needs and channels through which to distribute their products. These channels can be provided by the institutions themselves or traditionally connected distribution channels (considered the traditional channel) or by new, third-party institutions (considered the alternative channel).
279. This following section focuses on two financial services infrastructure components, namely: capital markets and distribution channels.

## Capital Markets

280. Securities and Exchange Commission of Cambodia (SECC) regulates and supervises the securities market for both government and non-government securities. There are two key laws governing the securities market; Law on government securities and Law on the issuance and trading on non-government securities. The objective of these laws is to regulate the securities exchange, clearing and settlement system, securities depositories and other operators in the securities markets who trade or provide financial services including public limited companies or registered legal entities that issue securities. The law contributes to socio-economic development through capital mobilization from the public or securities investors in order to meet the need for finance for investment.

281. **Stock Exchange at very nascent stage.** The existing Cambodia Securities Exchange (CSX) was incorporated on February 2010 as a public enterprise with government shareholding of 55% and remaining stake held by the Korean Exchange. There are six securities underwriters, one security dealer and three securities brokers associated with the exchange. The first listed company was state owned Phnom Penh Water Supply Authority Listed in April 2012 which floated shares worth KHR 81 billion (USD 20 million) with IPO price of KHR 6300 (USD 1.56) per stock.



**Figure 43: CSX performance over the years**

Source: Cambodia Securities Exchange

	2012	2013	2014	2015	2016
CSX Index	666.67	576.34	432.38	399.1	356.31
Trading Volume (in million units)	6.04	2.22	1.78	1.42	2.64
Trading Value (in KHR billions )	45.37	13.65	12.11	7.03	10

**Table 16: Key Indicators**

Source: Fact book Cambodia Securities Exchange 2016

282. **Only five companies listed in the exchange.** There are currently only five companies listed at the Cambodia Securities Exchange (CSX) namely: water utility, apparel clothing, port services, and a Special Economic Zone (SEZ) developer. TY Fashion (Cambodia) Pic, a garment manufacturing company is in pipeline to be listed in the exchange soon. Other large companies from key sectors such as banking, telecom, mining has yet to be listed largely due to compliance issues.

Company	Industry	Market Capitalization (in millions KHR)	Turnover Ratio
Phnom Penh Water Supply Authority	Water Utility	356,590	6.23%
Grand Twin International	Apparels Clothing	172,800	5.52%
Phnom Penh Autonomous Port	Port Services	109,627	8.89%
Phnom Penh SEZ Plc	SEZ Developer	165,523	8.45%
Sihanouk Autonomous Port	Port Services	NA	NA

**Table 17: Details of listed companies at CSX, 2016**

Source: Cambodia Stock Exchange

283. There are very limited avenues for investment in the Cambodian securities market. Large companies such as insurance companies, providers of pensions amongst others and especially life insurance companies are facing challenges as there are very limited avenues for long term investment. Moreover, the stock exchange has only been recently introduced and issuance of government securities is limited. Small and Medium Enterprises (SMEs) may soon be listed on the Cambodian stock exchange, following the signing of a memorandum of understanding (MoU) between the Federation of Associations for Small and Medium Enterprises (FASMEC) and the Securities and Exchange Commission of Cambodia (SECC) recently. With the signing, SMEs will have access to capital and will also help in initiating the standardization of financial records and correct payment of taxes.
284. *Regulations are the key barriers for entry:* Since the practice of auditing company accounts is very low in Cambodia, it is seen as one of the key impediments for attracting companies in the stock exchange. International Financial Reporting Standards (IFRS) have not yet been fully adopted in Cambodia. One of the key listing requirements is that the company accounts should be audited by an accredited international accounting firm approved by the Cambodian Government. Likewise, the requirement of listing in Cambodian Riel may be another impediment amidst higher usage of US dollar. Moreover, most of the companies seem to be holding off listing; largely due to compliance and concerns over market liquidity (Wong, 2014).
285. *Key incentives and programs for attracting companies to be listed:* In order to develop the securities market and diversify, the Government of Cambodia provides tax advantages to companies willing to be listed in the stock exchange. As per the current provision, companies who list in the stock exchange receive a 50% tax exemption on revenue for the first five years, and income tax suspended for the same time period. Likewise, various marketing and awareness programs have also been conducted. Likewise, to create other necessary infrastructure and regulations to attract companies, the government is working on an insolvency law, credit rating agency, legal framework for corporate bond market, collective investment schemes and securities borrowing and lending associated with trading and settlement.

## Distribution Channels

286. This section outlines the current traditional and alternative distribution channels used in Cambodia, in the process also identifying a number of future opportunities for extending distribution.
287. *Traditional Distribution:* Table 18 below provides the overview of key traditional distribution such as commercial banks, specialized banks and MFIs.

<b>Commercial Banks</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Total Numbers	32	35	36	36	37
Number of Branches	448	487	541	593	783
Human Resource	13,233	16,221	19,763	21,969	27,569
ATM terminals	681	766	940	1,118	1,260
POS machines	NA	NA	NA	6010	7,278
<b>Specialized Banks</b>					

Total Numbers	7	8	11	11	15
Number of Branches	7	10	16	21	29
Human Resource	244	347	510	863	1,469
POS Machines	NA	NA	NA	3629	4,483
<b>Microfinance Institutions (MDIs &amp; MFIs)</b>					
Total Numbers	35	36	39	58	71
Total Number including Registered Microfinance Operators	67	71	77	167	241
Number of Branches	2,452	2,659	3,203	5,533	6,237
Human Resource	13,157	16,703	20,532	29,523	30,238
ATM terminals	31	73	197	298	307

**Table 18 Branch Network, Human Resources and ATM terminals across various financial service providers**

Source: National Bank of Cambodia Supervision Report, 2015

288. **MFIs extending outreach rapidly.** As of December 2016, there are over 71 MFIs in operation, moreover taking into consideration 241 registered microfinance operators the total rises to 241, with over 6,237 branches in operation.
289. **Banks using variety of channels to improve distribution.** Financial Institutions in Cambodia are using a number of channels to distribute their services by opening new branches and representative offices in the capital and provinces. In addition to using ATMs, banks are using branchless banking, point-of-sale (POS) banking, internet banking and mobile banking to extend their financial services reach. The acceptance and usage of cards, mobile banking and internet banking is slowly gaining momentum and popularity due to its convenience and flexibility. As of 2016, there were 55,402 credit card users, 1.56 million debit card users and 1,567 ATM terminals in Cambodia.

## Alternative Distribution

290. As discussed above, the distribution of financial services to low-income and rural populations in Cambodia is often challenging. Since extending physical reach via branches with well-trained staff and traditional agents is an expensive exercise and often only possible to execute cost effectively in well-connected urban areas.
291. By contrast, the *alternative forms of distribution* can reduce the cost of provision, while helping to improve the use of financial services, by providing a familiar and trusted environment for the users. Distribution of financial services is labelled 'alternative' when it occurs in partnership with institutions that are not the primary financial service provider or the channels commonly associated with that financial service provider. These channels could be other financial service providers (e.g. insurance distribution through banks), or institutions that see value in aligning their primary service offering with financial services (e.g. retailers, post offices and mobile network operators) (Cenfri, 2015).

292. This section explores some of the current and potential alternative distribution points in Cambodia
293. **Mobile technology.** As Cambodia has low banking penetration rate, with 17% Cambodian adults accessing banks, there is large unmet demand for financial services especially in rural areas. With increment in mobile phone penetration there is a large potential of providing financial services at lower cost which would not be possible through brick-and-mortar branches to serve low income customers. There are already 13 companies operating in Cambodia providing mobile based financial services to large unbanked population. These service providers provide cash-in, cash-out, bill payment and person to person money transfers through their assigned outlets and ATMs.
294. **Agent banking a key distribution channel:** Most mobile service providers partner with various local MFIs in an agency model. These types of partnerships have helped both parties as it helps financial institutions leverage more deposits and mobile money transfer service providers to receive the necessary liquidity for transactions. Likewise, many mobile banking service providers built their own agency network outside MFIs such as small businesses and merchants as its retail agents, foreign exchange offices, grocery stores, pharmacies amongst others. Agency model is also widely used by insurance companies across Cambodia.
295. **Retailers.** Currently, mobile banking service providers are joining hands with local grocery stores to act as their agents and providing limited banking services. The activities are mainly limited to cash-in/cash-out and remittances. Furthermore, the transaction costs of these services is very low. On average, customers save more than 50% on transferring money by using WING in comparison to the most widely used alternatives, such as hiring drivers or using informal money-handlers. According to CGAP, customers typically pay between USD 1 and USD 5 to transfer USD 100 using informal money-transfer services, whereas WING charges USD 0.50 for the same service (CGAP 2010).
296. For expansion of financial services, the agent network needs to be provided with adequate training and infrastructural support. Since liquidity is one of the issues in an agency model, liquidity management planning and budgeting needs to be done.

### Opportunities to expand distribution

297. This section sets out the alternative distribution channels that can be used in Cambodia and, in so doing, identifies further opportunities for extending distribution of financial services and increasing access. Cambodia is low overall in terms of its bank infrastructure outreach. While alternative channels do hold potential, often traditional channels are still required, both to support these channels and for consumers that prefer the traditional touch point.
298. The alternative distribution landscape in Cambodia is still in its infancy or mostly informal. Potential exists to develop it further in the following areas.
299. **Potential to leverage mobile financial service providers in partnership with traditional banks.** In Cambodia, mobile money providers are currently providing fund transfer services along with utility payments and micro-insurance products. 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. In this scenario, traditional financial service providers including commercial banks, life and non-life insurance companies can leverage on the network of mobile money providers to distribute financial products. Since mobile money is currently being used mostly for fund transfer, the

availability of financial products in the same platform will provide access to the larger population, particularly those based in rural areas facing mobility constraints, the majority of whom being women dependents and farmers.

300. ***Increase in traditional outlets, where appropriate.*** Given financial constraints and low incentive to venture into rural markets, expansion of traditional branches has been deemed a costly investment in Cambodia. However, traditional branches still play a key role in expanding distribution and access to finance. In the current scenario, branches are mostly concentrated in urban areas or city centres of rural areas. 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. Hence NBC should provide incentives for financial institutions to venture into rural areas either through branches or branchless banking operations.
301. ***Reach beyond Phnom Penh and key city areas is low.*** Although the number of bank branches is increasing, these branches are generally located in urban and peri-urban areas with high concentration of banks and MFIs especially in Phnom Penh and Battambang (Refer Figure 45 Number of offices of CMA member MFIs and NGOs at Provincial level ).The establishment of a brick and mortar branch especially in rural areas; where customer volume will potentially be low, the cost of premises, as well as security costs, maintenance costs, staff salaries among others may not justify the volume being served. By contrast, the cost of a branchless bank agent is limited to infrastructure and management to provide a POS device and service support to agents.
302. Alternative channels in the form of branchless banking, electronic banking and partnership with mobile money providers can be explored to increase the footprint of formal financial service providers in rural areas. Given that 75% of the population is based in rural areas, there is immense opportunity to tap this underserved market. Considering the high mobile penetration, there are immense opportunities for expansion of financial services using digital finance services through mobile money. However, the product offered should also meet the needs of the market to ensure adoption and incentivize usage. They should provide customer centric use cases for example banks and MFIs can introduce a mobile-based savings and loans products, or low cost transfers, cashless payment for wide array of services, moving from current mobile based micro-insurance to offering traditional insurance products (health, vehicle, accident) through mobile money.

## Product market

[The market for payments](#)

[The market for savings](#)

[The market for credit](#)

[The market for insurance](#)



## The market for payments

What payments are made, and how are they made?

Context: payments

What payments are made, and how are they made?

The different payment categories and their relationship to cash

How are payment products and services currently being used?

What products are available and in use?

Who are the providers?

What are the barriers to usage of payments services and products?

What regulatory and policy issues needs to be considered?

Where and what are the gaps and opportunities in the payments market?

Use cases per category of payment

Other areas of opportunity

303. The efficient provision of financial services (credit, savings and insurance) requires the establishment of effective payment mechanism which will facilitate the provision of goods and services in the economy. Improving payments system while availing affordable and efficient payment mechanisms will contribute in driving the growth of the economy.

### Summary: the market for payment

- Cash based economy with free circulation of multiple currencies – KHR, USD, Thai Baht
- Highly dollarized economy with efforts to promote the usage of local currency – KHR
- Mobile money channel is the preferred means of transferring funds for remittance receivers and senders
- Shadow economy posing a challenge for acceptance of digitization of payments
- Cash is the pre-dominant payment instrument used with Mobile money gaining traction for non-cash transactions; 32% adults using other formal channels to make their payments
- Formally employed target segment has the highest uptake of payments, and informally employed have the lowest uptake
- Urban dwellers have better access to payments
- Both male and female have high uptake of payments services
- Dependent target segment has the highest inclusion in remittance
- Domestic remittance transactions sent mostly from urban area to rural areas
- Irregular flow of remittance with only 19% remittance senders sending money on a monthly basis
- Remittance receivers mostly use the received fund for consumption
- Higher usage of USD denominated cheques with end of day cheque settlement
- Retail domestic fund transfer done in real time through the FAST system
- Increasing number of mobile money providers leveraging agent network
- Selective interoperability of banks, wallets and mobile money
- Urban centric distribution network of banks, MFIs and MDIs
- Cost of inward remittance higher than global and regional average
- Proximity is the key driver for mobile money uptake
- Awareness and financial literacy are key barriers to access payment services
- NBC working towards the introduction of regulatory framework for payment systems and payment services
- ASEAN Financial Integration Framework a key guiding factor for development of payment sector

### Context: payments

304. Cambodia is predominantly a cash based economy with the banking system being largely run on cash-based transactions. The local currency Cambodian Riel is used along-side US Dollar and Thai Baht in the day to day activities and banking transactions. The circulation of multiple currencies in the economy creates a unique set of challenges for the development of payment systems.
305. *Usage of Cambodian Riel being promoted:* In 2015, Cambodian Riel in circulation increased by 17% with NBC targeting a 12% increase in 2016. Although, NBC is actively promoting the usage of local

currency in the economy, foreign currency deposit constituted 83% of the total money supply (NBC, 2015). NBC is attempting to increase the acceptability and usage of Riel through a gradual process. Experience in other countries has shown that forced de-dollarization can significantly threaten the financial stability of the country. As was the case in Peru where the forced de-dollarization of 1985 caused capital flight and financial disintermediation. Similarly, in Bolivia, forced de-dollarization during the 1982 resulted in economic crisis, hyperinflation and capital flight. Both of these countries had to abandon the policy resulting in re-dollarization of the economy (Staines, 2014). The Royal Government of Cambodia's National Strategic Development Plan (2014-2018) also prioritizes the gradual de-dollarization of the economy.

306. *Mobile money driving digitization of payments:* The commencement of WING by ANZ Bank in 2009 was the start of mobile money in Cambodia. Six years later five companies SmartLuy, Metfone's eMoney, True Money, Asia Wei Luy and AMK's Mobile Money Transfer has proliferated the market. Research has shown that millennials between the age group of 18-34 are more likely to be internet and smartphone users compared to the 35 and older age group (Poushter, 2016). Given the large population of young people in Cambodia, the acceptance and adoption of mobile money has been increasing and is expected to grow steadily. Domestic money transfer service is the key business driver of e-money providers (Strangio, 2015). FinScope (2015) shows that 89% of the remittance sending population use mobile money as the channel of payment.
307. *Digital payment channels providing options to transact in USD and Riel:* During the early stages of mobile money, only transaction in Riel was permitted. However, given the free circulation of multiple currencies, the mobile money providers were later allowed to transact in USD and Riel. Similarly, most of the Automated Teller Machines (ATM) in Cambodia allow the option of withdrawing cash in USD or Riel. The ability of mobile money and ATMs to deal in dual currency, increases its usability while also increasing geographic access for the end users. The higher usability and expanded access to mobile money and ATMs assists in increasing financial inclusion through affordable access to core banking touchpoints while also providing cost efficiencies for organizations to expand footprints beyond bank branches.
308. *Adoption of cards increasing but extra charges levied on card transaction:* Although the adoption of debit and credit card is increasing, the pace and growth has been slow. Mobile money providers such as Wing is also issuing ATM cards which has contributed significantly in increasing the adoption of cards. Culturally, the ownership of ATM cards is seen as a social status symbol and act as assurance for customers as a confirmation for the ownership of digital money which is thereby pushing its adoption (Riskfrontier, 2013).
309. *"Yesterday I had lunch at Kinley, I tried to pay the bill of USD 48 with my Visa Credit Card but the waiter came back with the card saying either I pay a total of USD 50 or pay the actual bill with cash. Since I was carrying enough cash, I settled the bill in cash."*
- Salaried worker, male, aged 48**
310. *Issue of language:* Growth of Cambodia's mobile money was marred by the issue of inability of mobile phones to show payments menu in Khmer language. Since most of the people living outside urban centers were unable to read English, this acted as a major barrier for adoption of mobile money. This led to adoption of Point of Sale (PoS) machines which displayed menu in Khmer and printed receipts in Khmer language and mobile money apps which displayed options in Khmer. With technological advancement and increased adoption of smartphones, the ability to provide

payments menu in Khmer has become a possibility which various providers such as Asia Wei Luy have started adopting.

## What payments are made, and how are they made?

### The different payment categories and their relationship to cash

Table 19 shows the prime payment categories in the country.

		PAYER		
		Government (G)	Person (P)	Business (B)
PAYEE	Government (G)		Tax Bill payments Spot payments	Tax Fee payments
	Business (B)	Procurement Bill payments	Bill payments Spot payments	Bill payments Spot payments
	Person (P)	Salaries Social benefit transfers	Salaries/wages Remittance	Salaries

**Table 19 Payment grid - categories of payment in Cambodia**

311. **Salary payments (G2P, B2P, P2P).** Salary payments are regular and consistent payments made by the government, business or individuals to their employee. The usage of digital payments including the bulk transactions of salary payments is seen as a gateway to new customers. This is a key tool to integrate financial inclusion into the operation of banks and businesses with salaries paid into bank accounts acting as a starting point for previous unbanked and also as a platform to cross sell financial products to the existing customers. In 2013, the Royal Government of Cambodia moved from cash only-payment to a new payroll system where salaries are paid through electronic banking system. The government provided the option of deposit through banks or through mobile money. This is expected to reduce the cost of handling cash while making salary payments efficient and timely. FinScope (2015) shows that:
- 2% of the population receive income in their bank account while 92% receive their income in cash.
  - 72% of the people drawing salary from government receive cash in hand while only 27% receive their salary in into bank accounts.
312. Although FinScope shows that a large proportion of government employees receive their salaries in cash, when compared to the general population, significant number of government employees receive their salaries into their bank accounts, indicating the impact of the government policy.
313. **Tax payments (B2G, P2G).** Tax obligations on enterprises and individuals governed by the Cambodian Tax Law mandates regular payment of tax under three regimes – real regime tax system, estimates regime and simplified regime. Efforts are underway to eliminate the estimated tax regime that mostly covers small companies with no formal accounting where taxable amount is estimated through discussion between the taxpayers and tax officials (Hutt, 2016). The government plans

to widen the coverage of real regime tax systems to include the enterprises previously falling into the estimates regime.

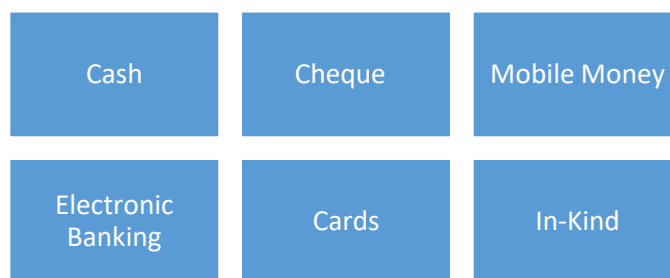
314. In an effort to improve tax collection, the government has provided the facility to fill out tax return forms online and pay taxes through banks and mobile money platforms (General Department of Taxation, 2016). In 2015, the increased collection of tax through profit tax, domestic excise and domestic VAT resulted in an overall revenue collection being increased by 22.1%. Similarly the General Department of Customs and Excise (GDCE) also registered a growth of 12.4% in tax collection in 2015 (MEF, 2016).
315. **Remittance (P2P).** Around 1% of Cambodian adults rely on remittance as the main source of income while 3% of the total adult population receive remittance (FinScope 2015). Moreover, 25% of Cambodian households consider remittance as their other source of income. 98% of the remittance receiving population receive it in cash while only 2 % receive it into their bank accounts. This further ascertains the high prevalence of cash in the economy. Although there is a growing number of migrant population working outside of Cambodia, domestic migration is still a key source of remittance with 19% of the adult population remitting money within the country.
316. **Bill payments (P2G, B2B, P2B, G2B).** Bill payments includes settlement of recurrent or one time payables in respect to the usage or purchase of goods and services. In Cambodia, cheques are still used for majority of the formal business transactions. However, in case the cheque bounces and the receiver files a breach of trust complaint, the issuer can be served a jail sentence (Sarom, 2015). Banks are required to report to NBC, regarding bad payments with insufficient funds in the issuer's account. In case of insufficient funds, NBC charges USD 5 from the member banks for KHR denominated cheques and USD 10 for USD denominated cheques. FinScope (2015) shows that only 1% of Cambodia adults have cashed cheque in the past three months and 0.3% have deposited cheque into bank account during the same period. In 2016, the volume of Riel denominated cheque decreased to 82,291 compared to 106,919 cheques in 2015. However, in terms of value the cheque cleared amounted to KHR 5,421.8 billion (USD 1.33 billion) which is an increased compared to KHR 4,854 billion (USD 1.1 billion) in 2015. Similarly for US dollar denominated cheque, the number of cheques cleared increased from 992,434 in 2015 to 1,025,209 in 2016. In terms of value, it is substantially higher than the value of KHR denominated cheques amounting to USD 21,790 billion (NBC, 2016).
317. With the increased usage of mobile money, consumers are now able to make utility payments such as electricity and water bill payments through money mobile platforms or agents. The availability of utility and other bill payments through digital channels can lead to wider digital payment adoption and can act as the first point of contact for formal financial services.
318. **Spot payments (P2B, P2G, B2B).** Spot payment transactions are done at the point of delivery of goods or services. These payments are accompanied by the handover of goods or services. In Cambodia, cash, card and mobile money is used for spot payments, however, the usage of cash is much more widespread than any other means. The usage of cash brings with it the cost associated with handling cash, manual record keeping, storage and security of cash. The usage of cash is further facilitated as ATM withdrawal of cash from same bank is rarely charged with only few banks levying annual usage charge of USD 3- USD 6. However, withdrawal from other banks are charged in the range of USD 1.50 – USD 3. However, the cost of using debit cards and credit cards in some cases

are on charged to the customers, in other cases the merchants themselves take on the cost which ranges from 1%-2% of the transaction value (Qualitative Survey, 2016). Since the retail payment product policy from the providers are not conducive for spot payment there is a need to align the push and pull factors for increasing uptake of electronic payments. Mobile money is largely being used for fund transfers, airtime top-ups and tax payments among others.

319. ***Social benefit and welfare transfers (G2P)***. Grants, incentives and allowances paid by the government to eligible recipients constitute social benefit and welfare transfers. This includes in-kind and cash transfers and can be either contributory protection mechanisms or non-contributory. The key schemes of social protections in Cambodia are: National Social Security Fund for Civil Servants, National Fund for Veterans, National Social Security Fund, Social Health Protection, Social Assistance and Safety Net, Active Labour Market Policies (UNICEF, 2012). These welfare programs are designed to protect individuals, households and communities against financial, economic and social consequences of risk events. Under the contributory schemes, the beneficiaries or the employer needs to pay the contributions which are paid into bank account, however bank slips needs to be provided. It is estimated that the administrative cost of cash transfers is 10% of the total value (UNICEF, 2012).The implementation of biometric national ID cards can be leveraged to digitize the process of identification and payments under the contributory scheme. (Refer Regulatory issues to be considered). This can lead to reduced cost of operation while also expanding access to digital financial services.
320. ***Procurement (G2B)***. Government and private businesses have a set of criteria to procure goods and services. The Procurement Manual of the government lays down the criteria for externally financed projects in Cambodia under which payment can be made either in Riel or US Dollar or a combination of both. Under the Public Financial Reform Program Phase III, Ministry of Economy and Finance in partnership with the NBC has introduced an online banking system which enables the General Department of Treasury to check their bank statement and conduct electronic fund transfers between its accounts maintained at the NBC. This will ease the Treasury Department in managing, monitoring, transferring and receiving funds. The online platform also facilitates the payment of salaries for government employees and supports tax collection. The General Department of Public Procurement is the responsible department under MEF, to handle the process of government procurements. Public administration provides the volume required to sustain investments in payment systems. The government, through the provision of digital payments, facilitate the advancing of financial inclusion by support account opening and usage which then supports the deepening of retail payment systems in the country.

### **The different payment channels**

321. The payment instrument available in Cambodia mostly accepts both US Dollar and Cambodian Riel. The Law on Negotiable Instruments and Payment Transactions defines the legally accepted non-cash payment instruments prevalent in the Kingdom.



**Figure 44 Payment channels to reach customer**

## Who are the providers?

322. This sub-section considers the existing supply of payments services in Cambodia in terms of players and products, including the payments infrastructure underlying each of the providers' operations.
323. *Banks and other formal channels are the key providers of payment services.* The providers of payments services can be categorized into banking institutions and other formal regulated institutions.
- The banking institutions providing payments products include commercial banks, specialized banks, MFIs' and MDIs.
  - The other formal institutions include mobile money providers and post offices.
324. *Banks are the most trusted payment channel but not the most used.* Out of the total adult population, 66% consider banks as the most trusted (6,606,687) institutions, while only 2% (246,402) did not trust banks. Interestingly, although the usage of mobile money is high, it is one of the least trusted institutions with around 38% (3,778,550) not trusting mobile money operators. However, only 14% adults use bank accounts to make payments or get money while only 5% (340,005) adults do not trust the service provided by mobile money operators.
325. *Uptake of banks discouraged by issue of proximity:* Cambodia has a denser network of bank branches in the urban centres. Cambodia has 25 provinces which is sub divided into 163 districts. These districts constitute 1,621 communes which houses 14,073 villages. As shown in Table 20, 31% of the total commercial bank and specialized bank branch is concentrated in a single province – Phnom Penh. This shows the disparity of branch distribution and high concentration of bank branches in the capital city. FinScope indicated that 52% of Cambodian adults needed to travel more than 30 minutes to reach the nearest bank.

	Phnom Penh Branch		Provincial Branch		Total
	Number	%	Number	%	
Commercial Banks	236	30%	547	70%	783
Specialized Banks	258	32%	554	68%	812
		31%		69%	1595

**Table 20 Bank branch distribution network**

*Source: Annual Report, National Bank of Cambodia, 2016*

326. MFIs and Micro Finance Deposit Taking Institutions (MDI) on the other hand are spread across the 25 provinces and have their presence at the lowest village level as shown in Table 21. However, FinScope (2015) shows that 51% of adults need to travel more than 30 minutes to reach the nearest MFI. Although MFIs have rapidly expanded their reach in rural areas, these are mostly concentrated in the market centres of rural areas, whereby despite the proliferation, a significant section of the population still need to travel a long distance to reach the nearest MFI touch point.

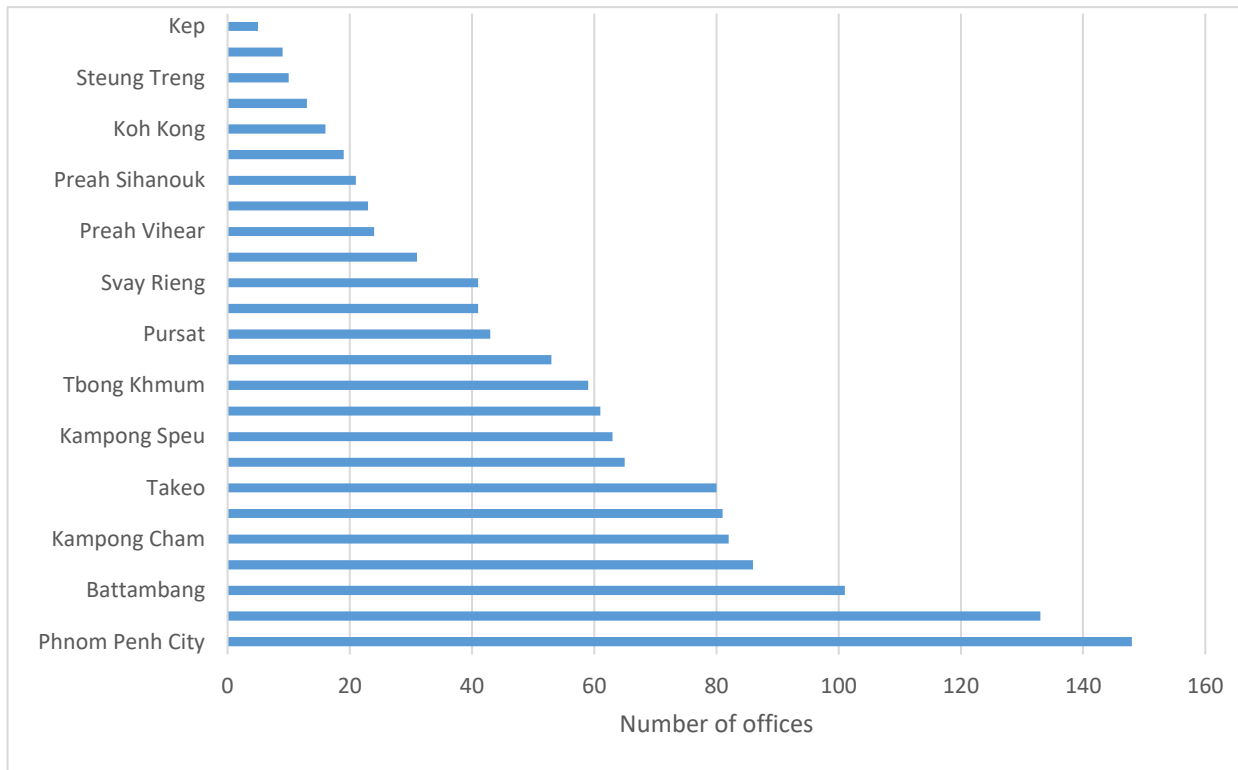
	Province	District	Commune	Village
MDIs	173	1,283	10,872	76,103
MFIs	382	2,316	10,651	38,896

**Table 21 MDI and MFI branch distribution network**

*Source: Annual Report, National Bank of Cambodia, 2016*

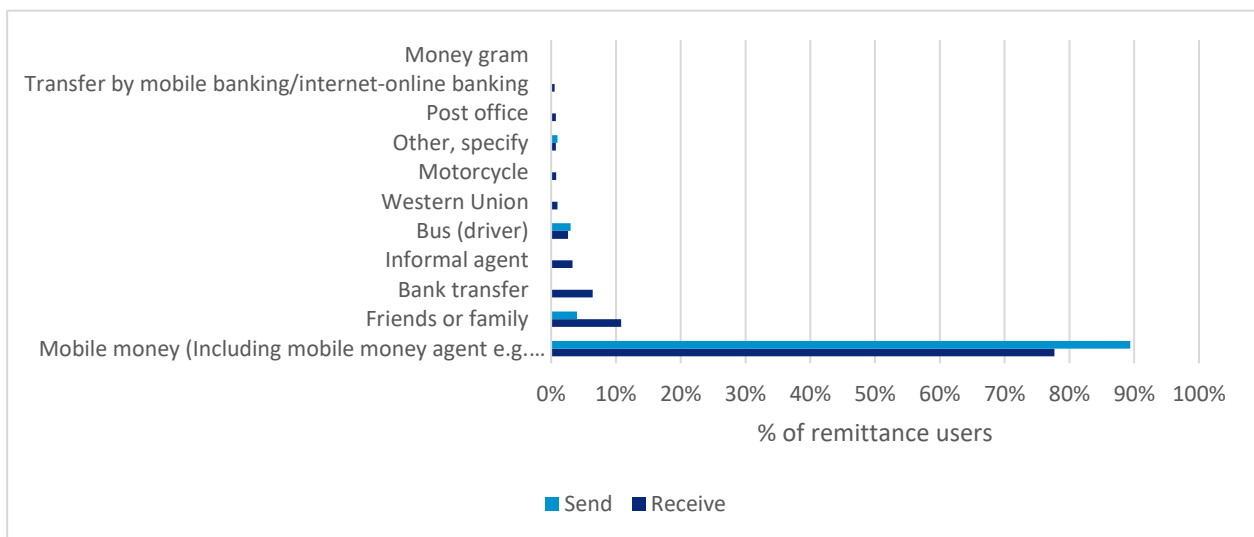
327. However, looking at the distribution of offices of MFIs at provincial level as shown in Figure 45, the concentration of branches is in the largest cities of the country. While Phnom Penh, Battamabang, Prey Veng, Kampong Cham and Siem Reap are some of the largest cities of Cambodia, Kandal serves as the economic belt. This further ascertains the skewed distribution of formal banking channels in Cambodia.





**Figure 45 Number of offices of CMA member MFIs and NGOs at Provincial level**

Source: Microfinance Network Information Exchange, Cambodian Microfinance Association, December 2015



**Figure 46 Usage of payment channels for sending and receiving money in Cambodia**

Source: FinScope 2015

328. *Mobile money with their agent networks are the most popular remittance channel.* MAP qualitative research has shown that the wide presence of mobile money agents has made them accessible throughout the country. Not only is the presence of agents increasing awareness and

acceptance of mobile money but their wide-spread presence also implies convenient cash in and cash out options for the users who do not necessarily need to have an account. The agents provide direct assistance to both mobile money account holders and non-account holders while also making the service available in the local Khmer language.

329. *On the lane leading to my home you will see a number of umbrella with WING written on it. They are very easy to spot and the agents are very friendly. The one outside my house has become a good friend as he calmly teaches me how to send money to my wife in Battambang and I can also top up my mobile and my wife's mobile from WING.*

**-47, male, worker**

330. Despite the increasing acceptance of mobile money, FinScope shows that 11% of remittance receivers receive money through friends and family, while 4% send money through friends and family.

331. *Proximity the key reason for mobile money uptake.* FinScope (2015) showed that 62% (161,547) of mobile money users choose to use mobile money because they do not have to pay for transport. A further 59% (154,039) claimed that mobile money is convenient to use. However, 35% (2,575,540) adults found the service too complicated to use. This suggests that although access to mobile money is easier than banks, the process for sign-up and transaction is perceived to be complicated. Digital financial awareness would be key in driving the uptake of digital payments.

332. *Minimal usage of post office.* As shown in Figure 46 a negligible 0.4% (4040) Cambodian adults use post offices to deposit cash into a bank account. Only 1% (23,405) of remittance receiving population claim to use Post office to receive the remitted money. In terms of payments, 1% (3,336) use post-office to pay for household goods/equipment. Although 57% adult population live within 60 minute distance from the post-office, the proximity is not translating into uptake of services of post office. In order to revive the postal service, Cambodia Post and Wing Money entered into an agreement in 2016 wherein domestic money transfer is now offered in all of the 25 Cambodia Post Office branches through Wing Cash Express (Cambodia Post, 2016). Cambodia Post under the regulatory authority of Ministry of Posts and Telecommunications is providing express money order service including international money order and domestic money order.

## How are payment products and services currently being used?

333. *Cash is the predominant payment instrument used with mobile money gaining traction for non-cash transactions.* Less than half of the adult population i.e. 49% use payment services while 51% remain excluded. While 11% of the adult population use banks to make payments, the majority of those that use payment services i.e. 32% adults use other formal channels to make their payments (FinScope 2015). The other formal channel includes mobile money, which is gaining traction with increasing numbers of people using mobile money for transaction and remittance. As shown in Figure 47, formally employed target segment have the highest uptake of bank payments while understandably, informally employed and farmers have the lowest uptake of bank payments. Interestingly, dependents have higher inclusion of 60%, coming only second to formally employed with 64% inclusion.

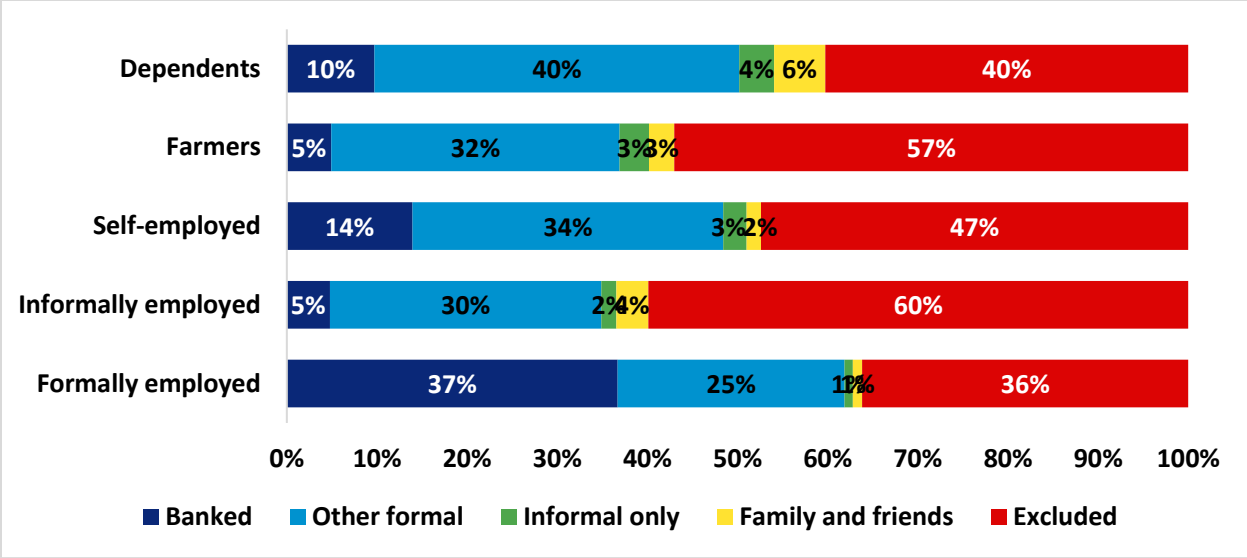
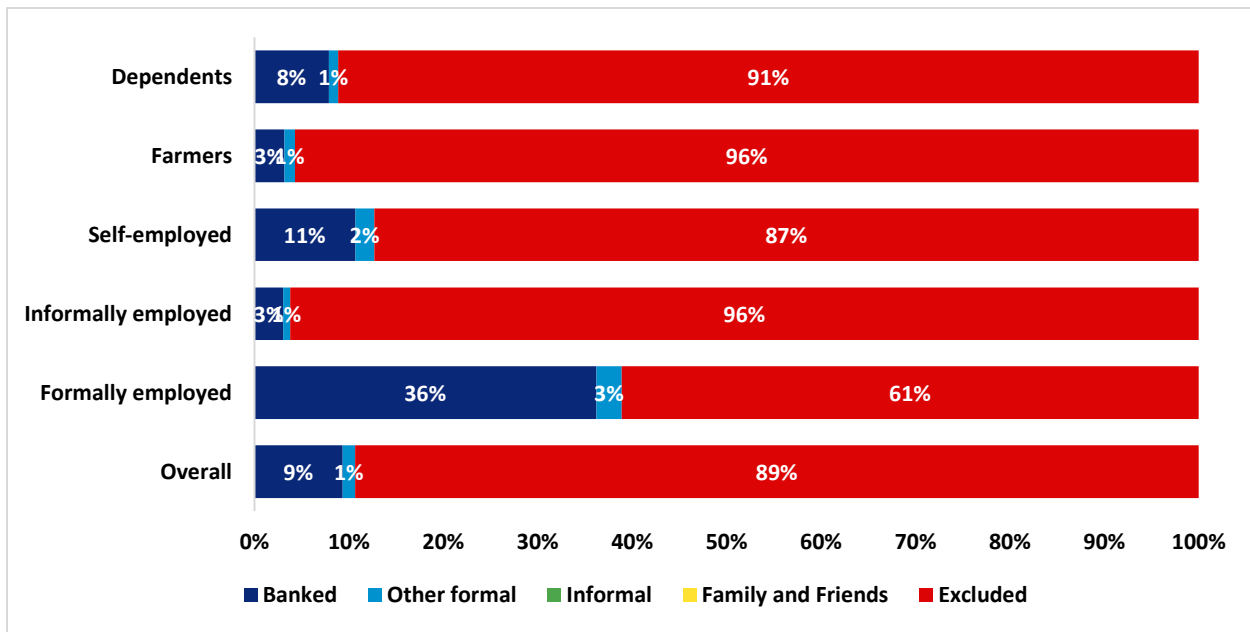


Figure 47: Payments access strand across target market segments<sup>20</sup>

Source: FinScope, 2015

334. *Formally employed the highest user of transaction accounts.* Figure 48 below depicts the usage of transaction accounts. Formally employed target market have the highest uptake of transactions through banks at 36%. However, the overall uptake of transaction is strikingly low at 9% using banks for transaction. Throughout all target markets, a significant portion remains excluded from transactions with the overall exclusion of 89% of total adults.

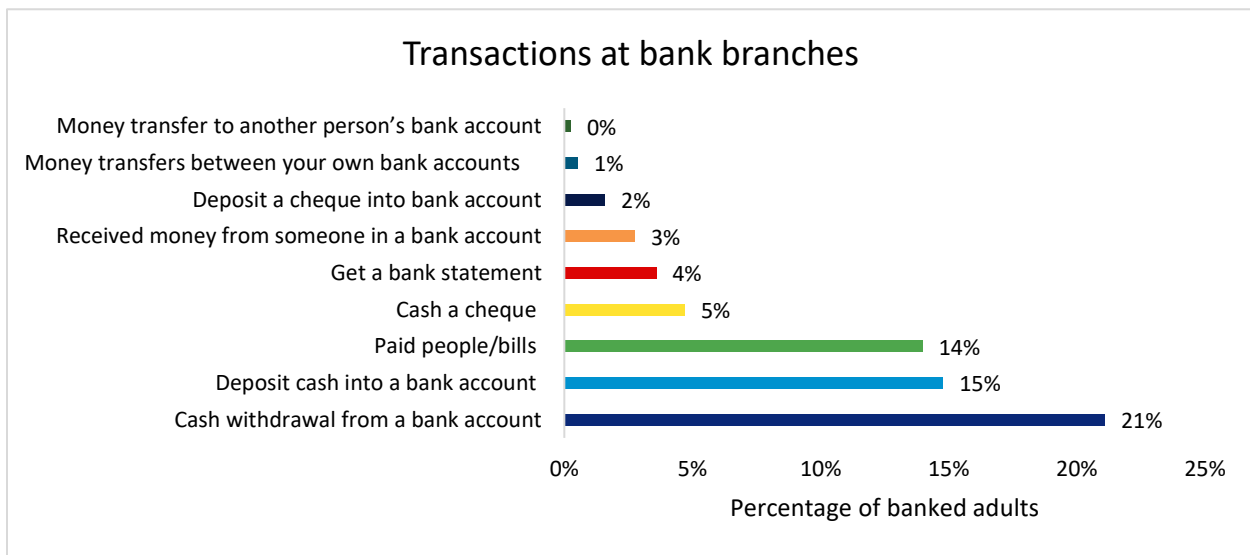
- <sup>20</sup> In the current analysis, payment products and services refers to all non-cash mechanisms for making payments.
- Payment access strand includes remittance strand and transaction strand. While remittance strand takes into account adults who send or receive remittance, the transaction strand accounts people with bank account or mobile money account which is used for executing personal or business dealings.
- Exclusion from usage of payment services does not mean the people in question are not making payments but they are not using any of the following mechanisms to do so: bank, other formal financial service provider, informal service provider, family and friends (Refer The FinScope access strand explained).



**Figure 48: Transaction access strand across target market segments**

Source: FinScope, 2015

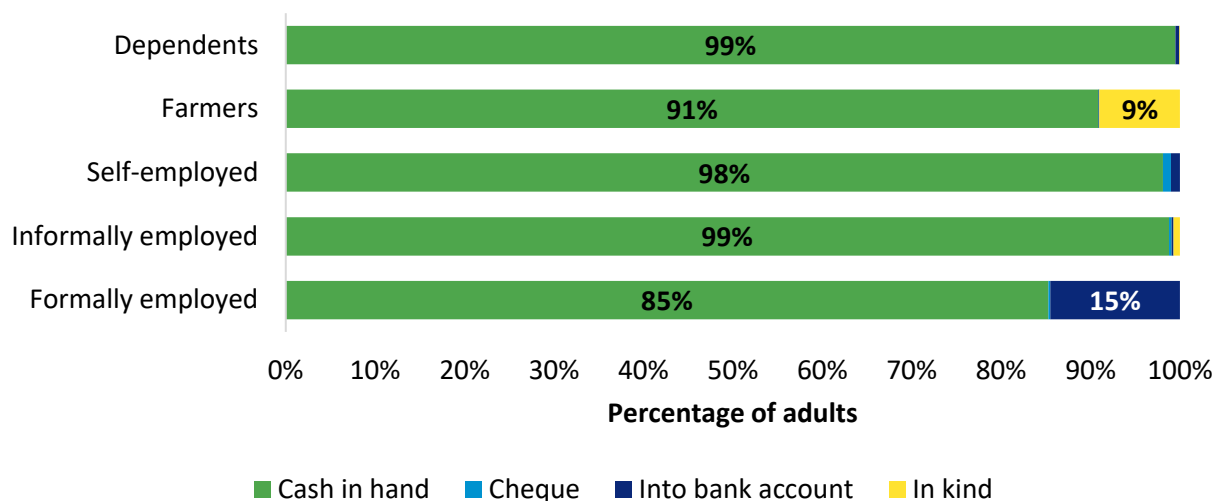
335. As shown in Figure 49, banked adults mostly use bank branches for cash withdrawal from a bank account, this is followed by 15% banked adults depositing cash into bank account. Only 14% banked adults paid people/bills from bank branches while 5% banked adults cashed a cheque at the branch. The low usage of transaction through bank branches validates the overall low uptake of transaction through bank.



**Figure 49: Transaction at bank branches**

Source: FinScope, 2015

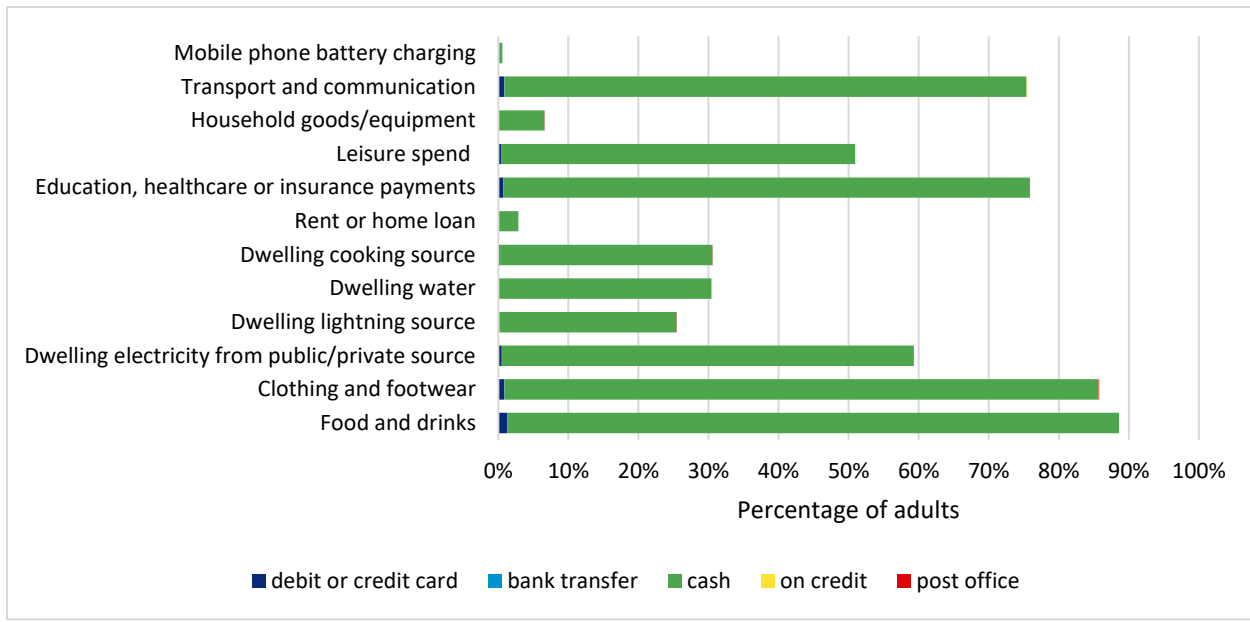
336. **Cash is the pre-dominant channel for receiving income.** As shown in Figure 50, cash is the key channel of receiving income across all target markets. A slight exception is seen for farmers and formally employed target market. 9% of farmers target market receive income in-kind indicating the likely existence of barter system within this segment of the population. The formally employed have the highest uptake of digital channel in the sense that 15% receive their income directly into bank accounts. Cheques are used to a small extent by formally self-employed (3%); the uptake of cheque as a channel of payment is negligible. Although more than half of the pensions or annuities are disbursed in cash, around 36% of the disbursement is deposited into bank accounts. Similarly, 27% of government salaries are deposited into bank account. Banks are mostly used for income from government and formal investments.



**Figure 50: Usage of payment channels for receiving income from specified**

Source: FinScope, 2015

337. **Payments for expenses mostly done in cash.** In line with high usage of cash for receiving income, key payments are also done in cash as shown in Figure 51. The usage of both cards and bank transfers for paying expenses is low, however, the usage of cards is slightly more than bank transfers. In terms of utility payments, the usage of cash is highly prevalent with only 0.1% adult population using bank transfers to pay for electricity. The highest usage of bank transfer is for paying rent or home loan at 2%. This reinforces the strength of cash across the economy and provides ground for revenue leakages, which in turn supports unequal, regressive tax collection modalities as has been the case for estimate tax regimes. This will have a disproportionate impact on the formally employed and formally registered enterprises.



**Figure 51: Usage of payment channels for expenses**

Source: FinScope, 2015

338. Although mobile money, online banking and payment kiosks for utility payment is picking up, the dominance of cash remains mainly due to ease of availability/usage and universal acceptance of hard currency.
339. **High usage of cash with increasing digital banking infrastructure.** The dominance of cash is also reflected from the high instance of withdrawing all money once it is deposited in the account. 25% of people receiving money in bank accounts withdraw all at once while 50% only maintain a minimum balance (FinScope 2015). Convenience for having cash in hand (49%) and cost of withdrawing money (32%) is seen as the key reason for withdrawing all money at once. The payments landscape currently functions with a combination of footprints and reach of POS, ATM and more recently the advent of mobile agents.
340. **There** has been an encouraging increase in the number of ATMs and POS in the country as shown in Table 22. These infrastructures can act as the access point for rural population where the establishment of a traditional brick and mortar branch may not be feasible. However, there is only 1 ATM per 9,149 individuals in Cambodia while the global average stood at 43.97 ATMs per 100,000 adults implying 1 ATM per 2,327 individuals (The World Bank, 2016). In terms of POS, there is 1 POS per 1027 adult in Cambodia when the global average stood at 1 POS per 97 individuals (World Bank, 2015).

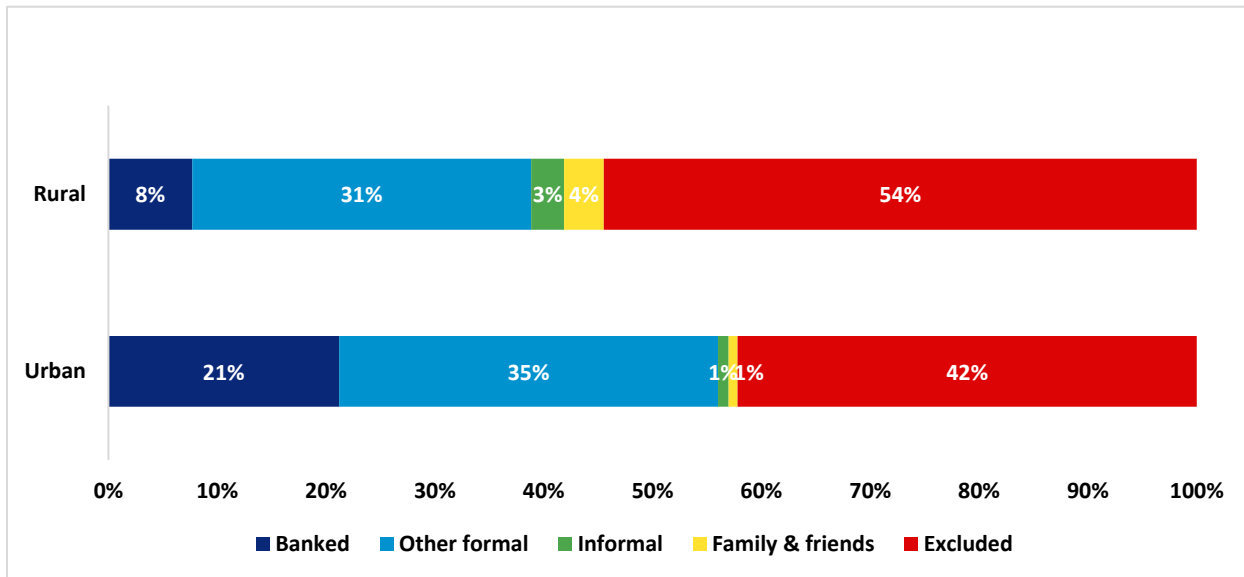
Particulars	December 2011	December 2012	December 2013	December 2014	December 2015	December 2016
Credit Card	21,353	18,198	24,412	31,261	39,710	55,402
Debit Card	761,876	957,556	1,010,858	1,296,875	1,450,381	1,548,120
ATMs	588	681	766	940	1,082	1,118
POS	3,794	4,236	4,838	5,831	9,639	11,761

**Table 22 Electronic banking infrastructure in Cambodia 2014-2015**

Source: National Bank of Cambodia, Annual Bank Supervision Report 2011, 2012, 2013, 2014, 2015, 2016.

341. *Uptake of bank cards increasing.* As shown in Table 22, the uptake of both credit card and debit card has been increasing. Compared to 2011, there has been a 159% increase in the number of credit cards and 103% increase in debit card in 2016. The demand for cards has increased in line with demand for savings and credit. However, this data reflects the number of cards issued, which may not necessarily be unique users and can include duplication with single individual holding multiple cards.

342. FinScope 2015 shows that only 8% of the adult population own a debit card/ ATM card while less than 1% of the adult population own a credit card (0.3%). In terms of uptake of debit card, Banks are the preferred channel with 83% of debit card holders claiming to hold a card from bank while 17% have taken debit card from MFIs. The uptake of bank cards is also influenced by the availability of cash in cash out payment infrastructure, which includes ATMs and POS machines.



**Figure 52 Rural/Urban payments access strand**

Source: FinScope 2015

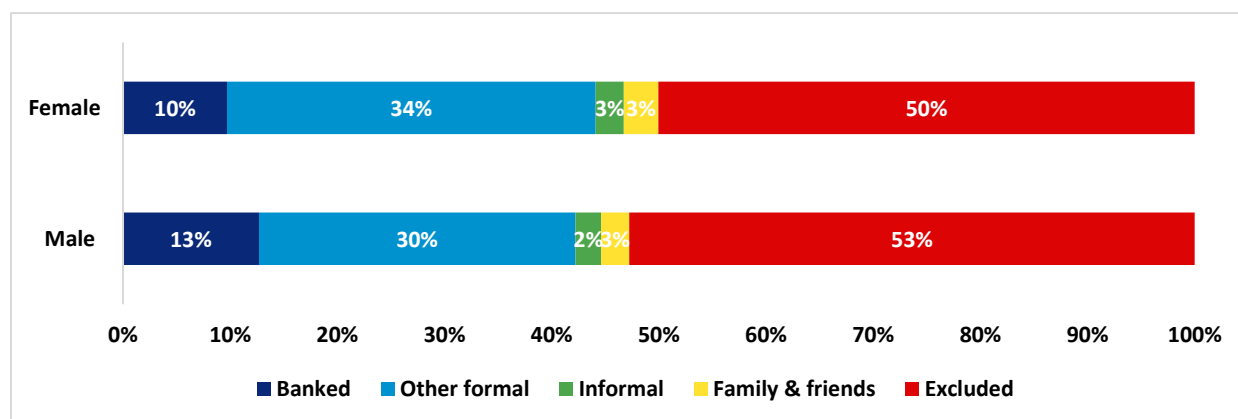
343. *Urban dwellers have better access to payments.* As show in Figure 52, urban dwellers have better access to formal channels with 21% (535,838) of urban adults accessing payments through banks compared to only 8% (570,875) of rural adults accessing payments through banking channels. However, in absolute numbers, the number of rural dwellers using banks is higher due to the high

concentration of population in rural areas. In terms of exclusion, 42% (1,065,952) urban adults remain excluded and 54% (4,038,638) of rural adults are excluded. In terms of geographical reach, Cambodia has 8.02 ATMs per 1000 km<sup>2</sup> while the neighbouring countries Thailand has 124.29 ATMs and Vietnam has 54.62 ATMs per 1000 km<sup>2</sup> (IMF, 2015). The low coverage of ATM infrastructure especially in the rural areas discourage the uptake of cards as it diminishes its usability while in the urban areas the availability of such infrastructure is encouraging uptake.

344. *“In Phnom Penh I can find ATMs at every nook and corner and in almost all shopping mall so I withdraw money whenever I need it, but if I go outside of Phnom Penh I always carry cash because I am not sure where I will find the next ATM.”*

**35, male, salaried worker**

345. **Encouraging uptake of payments across both men and women.** FinScope 2015 shows that under the payments strand, both males and females have high uptake of bank and other formal channels as shown in Figure 53. Payment product category is the most used among Cambodian adults when compared with the uptake of credit, savings and insurance. Female exclusion is slightly lower at 50% (2,589,696) compared to male exclusion of 53% (2,514,894). Given that the payment strand comprises of transaction and remittance, the exclusion in payments is mostly driven by high exclusion in transaction where 89% (8,880,440) Cambodian adults is excluded. In terms of transaction, female exclusion stands at 91% (4,690,770) and male exclusion of 88% (4,189,670) reflecting a marginally higher preference of cash transaction by female.

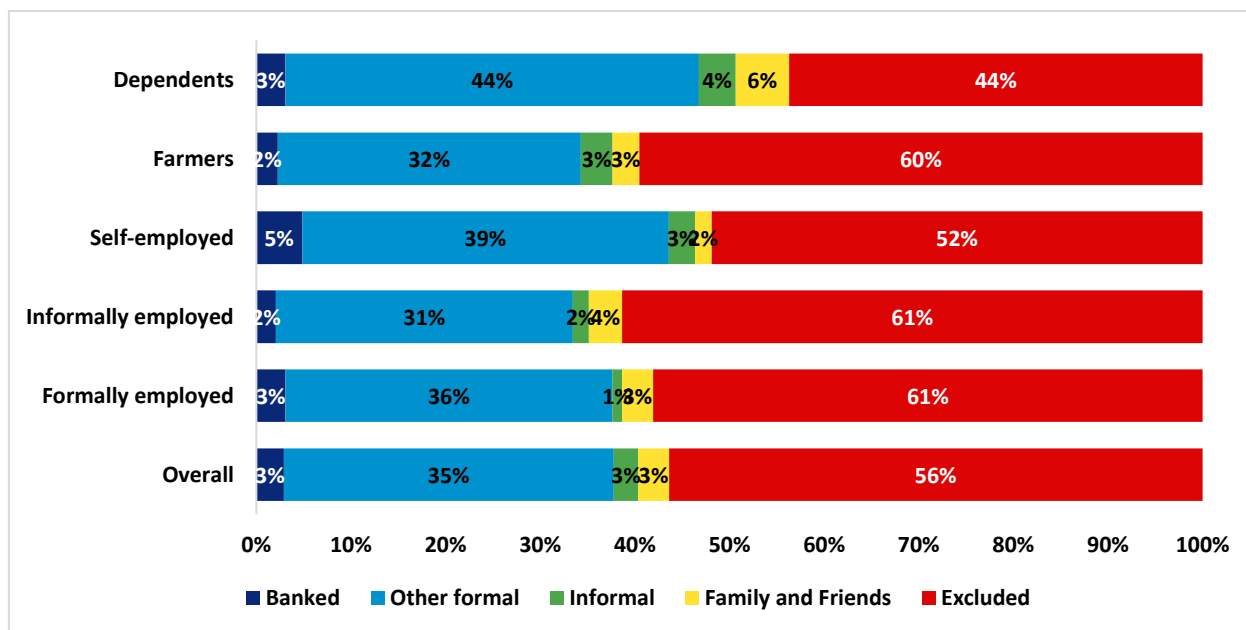


**Figure 53 Gender difference in access to payments**

Source: FinScope 2015

346. **Dependents are the key users of remittance services.** Figure 54 shows that the uptake of other formal channel (35%) for remittance transaction is significantly higher than the uptake of formal channel (3%). However, more than half of the adult population (56%) remain excluded from remittance transaction. The uptake of informal channel (3%) and family and friends (3%) is equivalent to the uptake of banks (3%). The self-employed target market use banks relatively more for remittance than the other target markets (5%).





**Figure 54 Remittance access strand across target segments**

Source: FinScope 2015

347. *Other formal channel the preferred means of transferring funds for remittance receiver and senders.* Among the various channels, other formal channel has the highest uptake of 35% among the remittance receiver and senders. It is notable that 26% of remittance receivers use other formal channels which includes the uptake of mobile money, while only 18% of remittance sender make use of the other formal channel. The ease of using mobile money for domestic remittance has been a key reason for the high uptake of other formal channels. The widespread agent network of mobile money providers throughout the Kingdom has made it convenient to use mobile financial service providers for sending and receiving remittance. This is further substantiated by 89% (1,776,827) remittance sender using mobile money and 78% (2,566,677) of remittance receivers using mobile money. As shown in Table 23, there are total of 20,232 mobile money agents operating throughout Cambodia implying a coverage of 1 mobile money agents per 580 adults. This vast network of agents has facilitated in the higher uptake of mobile money. The higher coverage of mobile money indicates the potential of this network to substitute heavily infrastructure dependent access point such as ATM and POS.

Mobile Money Operators	Number of Agents
WING	4,453
Emoney	5,232
True Money	4,604
Ly Hour	1,564
Smart Luy	1,784
PayGo	203
PIPAY	1,298
SEATEL	23
ASIA CASH Express	1,025
SPEED Pay	N/A
FULLERTON	N/A
<b>Total</b>	<b>20,232</b>

**Table 23 Mobile money operators and agents in Cambodia (as of June, 2017)**

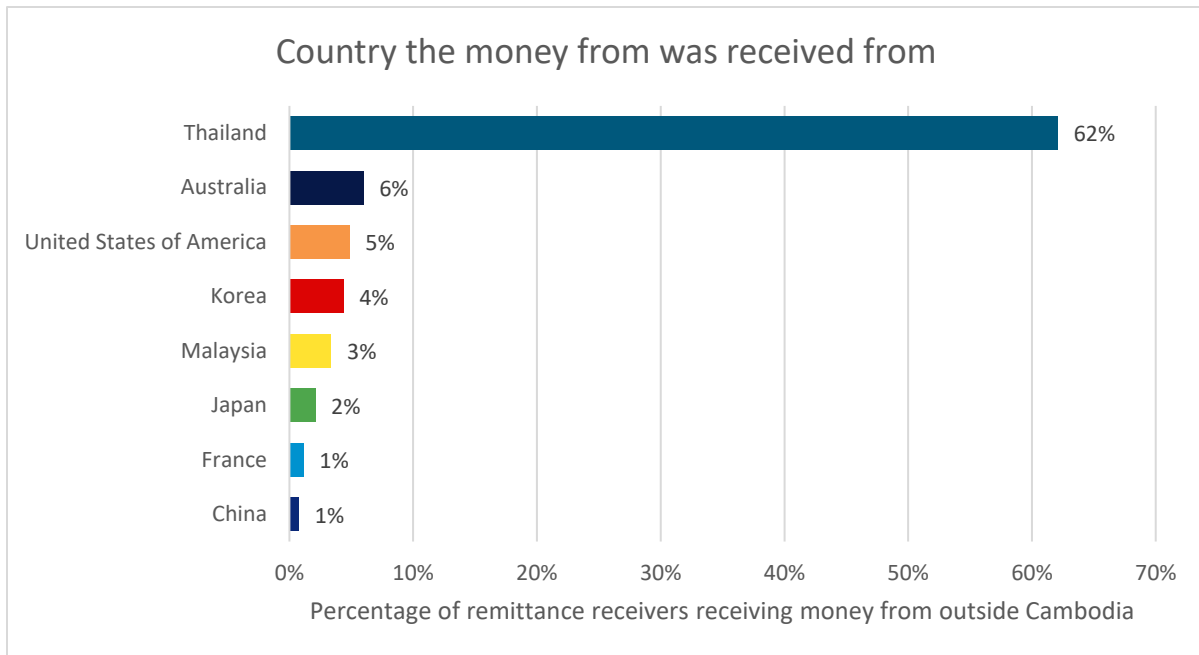
Source: National Bank of Cambodia

348. **High domestic remittance transactions to rural area.** FinScope 2015 shows that 19% (1,930,229) of the adult population sent money within the country while only 1% (102,638) sent money outside the country. Interestingly, 40% (793,323) of the money sent is sent to other family members while only 25% (498,709) send money to a parent. This could imply that more parents are migrating for jobs to support families. Moreover, culturally extended families in Cambodia live together with relatives and support each other financially and also avail credit to each other. Since the rural population is migrating to urban areas for better job opportunity, 56% (1,104,045) of the total remittance is sent to rural villages.

349. *“I live with my Uncle’s family in the village. My parents had taken a loan of KHR 15 million from my uncle so now I work near the Thailand border and send money back to pay off my uncle.”*

**27, female, worker**

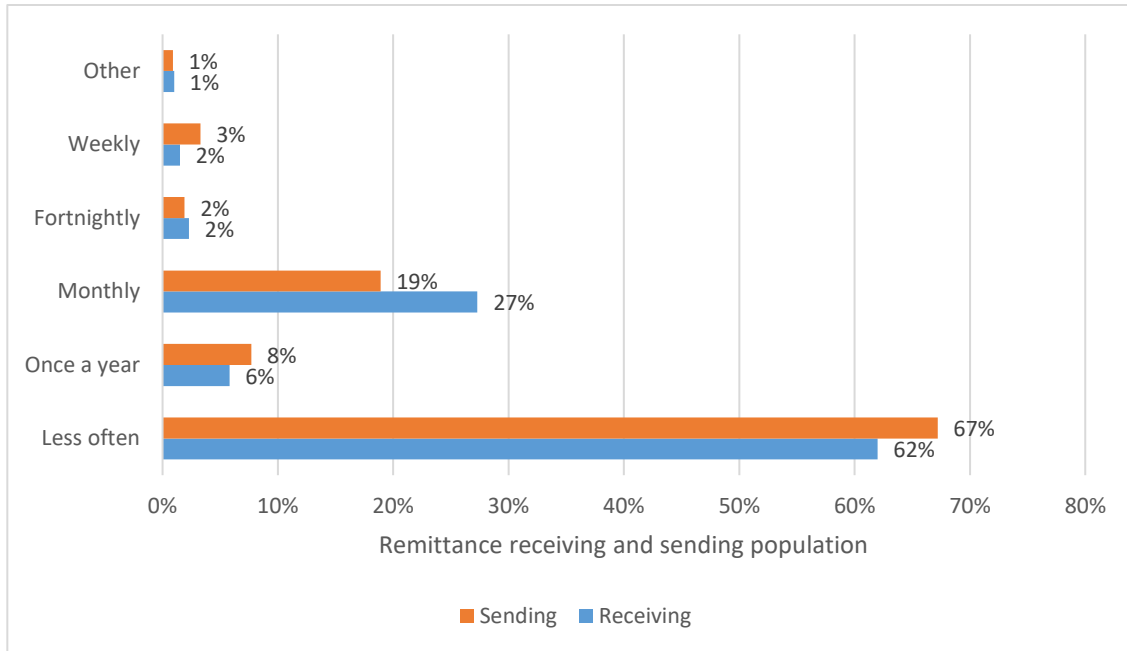
350. Only 9% (887,498) of the adult population receives remittance from outside Cambodia with the children of the recipients (44%) and other family members of the recipient (31%) being the key remittance senders. In terms of international in-bound remittance, 62% (550,981) of remittance-receiving adults receive the fund from migrants working in Thailand as shown in Figure 55 .



**Figure 55 Countries from where Cambodian adults receives remittance**

Source: FinScope 2015

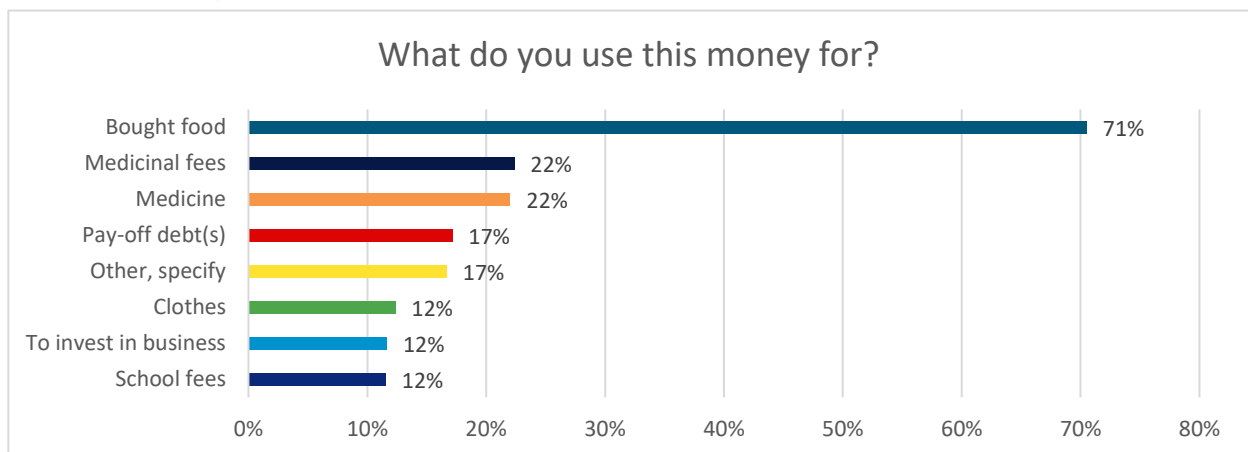
351. **Irregular remittance inflow and outflow.** In 2015, Cambodia received personal remittance of KHR 1,616.70 billion (USD 397,420,307) (The World Bank, 2015). FinScope 2015 showed that on average remittance receivers received KHR 1,141,565 (USD 280). However, as shown in Figure 56 only 27% (903,352) of remittance receivers receive remittance on a monthly basis, while 62% (2,047,357) of remittance receivers receive remittance less than once a year. Similarly, 19% (376,559) remittance senders send money on a monthly basis, while the larger section i.e. 67% (1,335,592) of remittance senders send money less than once a year. Given that 10% of Cambodian adults are dependents (Refer Target market segments: detail ), the irregularity of remittance implies irregular income. Lack of regular income is cited as one of the key reasons for individuals' inability to save (Refer The market for savings). Remittance is seen as a key enabler to sustain rural local economies, however, the cost of sending international remittance to Cambodia is high, which discourages higher sending frequency (Refer: What products are available and in use?). Irregular income makes the recipient vulnerable to income shocks, which impacts their ability to manage their financials.



**Figure 56 Frequency of remittance transaction in Cambodia**

Source: FinScope 2015

352. *Remittance receivers mostly spend on consumption.* Figure 57 shows that 71% (2,329,763) of remittance receivers spend the money received on buying food. This is followed by expenses incurred on medicinal fees (22%) and medicine (22%). Only 12% (385,101) of remittance receivers use the money to invest in business while the rest is consumed. Daily maintenance and health related expenses are the primary expenses of remittance receivers, implying the functioning of remittance as a social security net. Remittance income, when directed towards investment and education, tend to support economic growth while the spending on consumption creates a multiplier effect impacting the economy by stimulating demand for goods and services (The World Bank, 2005).



**Figure 57 Usage of remittance money received**

Source: FinScope 2015

## What products are available and in use?

353. This section takes a closer look at the following payments products: account-based products, which include bank accounts, and mobile banking; and non-account-based products, which include domestic money transfers, and cross-border money transfers.

### Account-based products

#### Bank accounts

354. *Bank ATMs and POS facilitating transaction in USD and KHR.* The availability of multiple currency accounts also provides for individuals to make payments in multiple currencies. The majority of ATMs provide the option to withdraw in KHR or USD. The charges for issuing and using ATM cards varies from one bank to another. Most of the banks issue ATM cards for free given that the individual has an account with the bank. However, a monthly fee of average KHR 2,034 – 3,254 (USD 0.50- 0.80) is charged. Similarly, in terms of usage of ATM, cash withdrawal from same bank ATM is usually free but some banks charge KHR 2,034 – 12,204 (USD 0.50-3) per transaction. In terms of transaction limits, this varies from bank to bank while some banks allow withdrawal of KHR 4.06 – 12.204 million (USD 1,000 – 3,000) per day from ATMs, cash withdrawal from POS is generally limited to KHR 813,600 – 4,068,000 (USD 200-1,000), while transaction from POS is limited to around KHR 16 million – KHR 20 million (USD 4,000- 5000).

355. *Higher usage of US dollar denominated cheques.* The usage of cheque transactions has increased significantly in the last five years. Although the usage of USD denominated cheques is significantly higher reflecting high dollarization of the economy, in the recent years, the uptake of KHR denominated cheques is also increasing. However, only 459 KHR denominated cheques and 4,259 US Dollar denominated cheques are cleared on a daily basis (NBC, 2016). While in the global scenario, the usage of cheques declined by 10.8% in 2014 continuing the declining trend of the last decade, the usage of cheques is increasing in Cambodia (Capgemini, 2016). Given the high operational cost of clearing cheques, globally countries are moving towards electronic checks, cheque imaging, and electronic fund transfers (EFT) which are less costly and more efficient than physical cheques. In line with the global trend, Cambodia has established the FAST payment network to facilitate real time fund transfer as an alternative to the National Clearing system. Similarly, cost effective and lower risk EFT clearing should be established for both KHR and USD transactions while slowly decreasing the usage of the costlier physical cheques clearing.

356. As shown in Table 24, the uptake of KHR denominated cheques increased by 139% in 2015 compared to 2014. However, in terms of value, the transaction value in KHR is only a small fraction (0.01%) of the total value of USD cheque transactions in 2015. Cambodia with its high usage of USD is attempting to promote the usage of Riel even for cheque transaction. This could entail policy intervention such as in Peru where 2% tax is levied on foreign currency denominated cheques (IMF, 2011).

		2012	2013	2014	2015	2016
	Volume	39,288	42,993	44,778	106,919	82,291

<b>KHR-denominated cheques</b>	<b>Value</b>	KHR 2,344 billion (USD 576,204)	KHR 3,506 billion (USD 861,848)	KHR 3,789 billion (USD 931,415)	KHR 4,854 billion (USD 1.2 million)	KHR 5,421.8 billion (USD 1.33 billion)
<b>USD-denominated cheques</b>	<b>Volume</b>	658,329	803,352	888,970	992,434	1,023,209
	<b>Value</b>	USD 13 billion	USD 15 billion	USD 18 billion	USD 21 billion	USD 21,790 billion

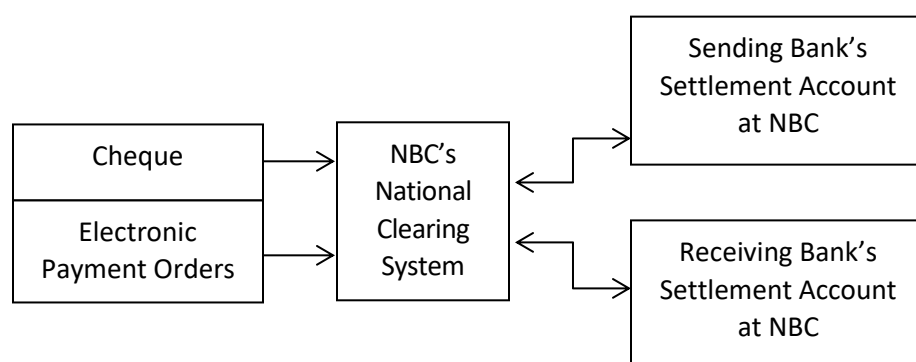
**Data of electronic payment order:**

		2012	2013	2014	2015	2016
Riel	Volume ('000)	0	0.264	1.20	1.8	3
	Value (mill. KHR)	0	30,703.18	414,945.51	1,197,446.62	2,114.99
USD	Volume ('000)	0	9.80	49.60	72.8	47.09
	Value (mill. USD)	0	158.18	1,793.13	2,245.92	1,512.65

**Table 24 Usage of cheques and electronic payment order in Cambodia**

Source: Economic and Monetary Statistics, National Bank of Cambodia, January 2016

357. **Cheques settled on same day basis.** The National Clearing House (NCH) under NBC established the National Clearing System in 2012, which enables cheque clearing within the same day (Refer Annex 2 for member list of National Clearing System). Given the increasing usage of cheques as shown in Table 24, the clearing system was necessary to ensure efficient settlement. Settlements take place daily at set times in NBC, whereby the automated clearing house debits and credits each bank's settlement account as shown in Figure 58. The system also allows for electronic fund transfer among member banks on same day basis (T+0). This has enabled a better reconciliation process while also saving on time and manpower cost. The increased operational efficiency directly benefits the customers. As the system provides for electronic fund transfer, even if the country slowly moves away from cheque transactions to electronic transaction, the existing system will be able to support the shift.



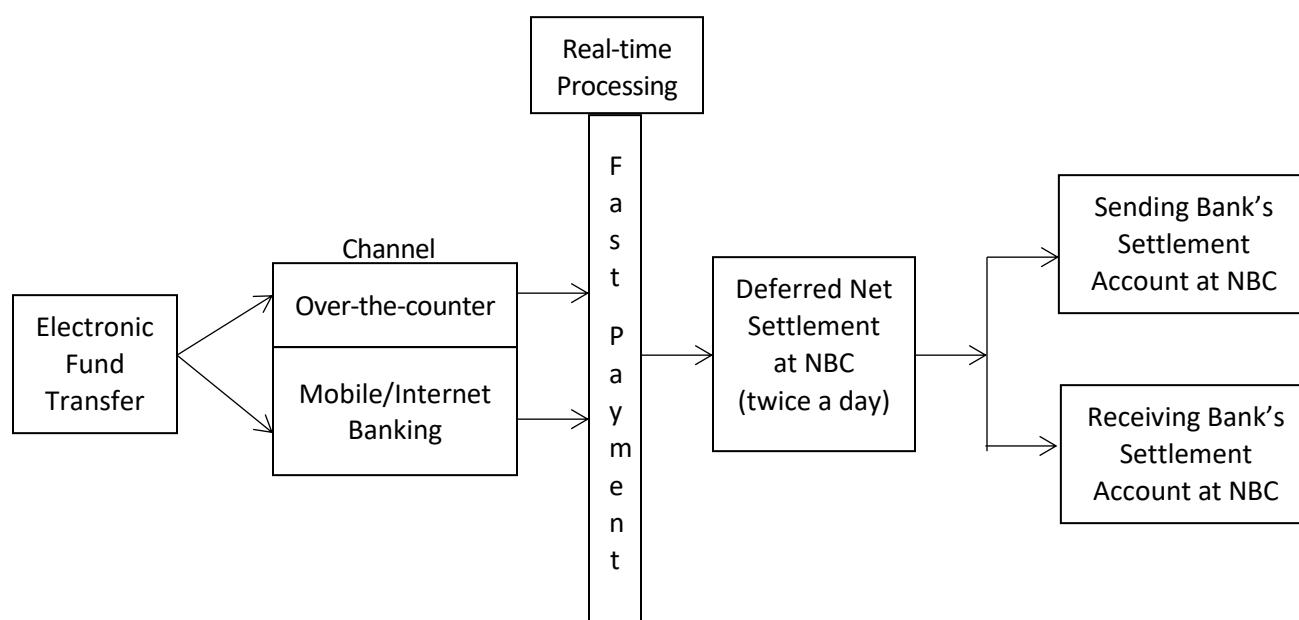
**Figure 58 Cheque and Electronic Payment Settlement Process**

Source: National Bank of Cambodia

358. **Real time domestic fund transfer.** With the recent introduction of FAST payment system by NBC, fund transfers can now be conducted among member banks, MDIs, and PSP. The FAST system underpins the retail payments system and lessens risk of retail transaction. As shown in Figure 59, mobile banking transaction among member banks, MDIs and PSPs along with electronic fund

transfer is routed through the FAST payment system and settlement for the acquiring and issuing bank occurs in real time. Earlier, USD 5 was charged for domestic fund transfer of less than USD 5,000 and for transfers larger than USD 5,000, a fee of USD 10 was levied. With this system, transfer of KHR 4 million (USD 1000) is charged KHR 4000 (USD 1), transfer of amount in the range of KHR 4 million (USD 1,000) – KHR 20 million (5,000) is charged KHR 8000 (USD 2) while amounts exceeding KHR 20 million (USD 5,000) is charged KHR 12,000 (USD 3). This encourages the uptake of digital transaction while the country is attempting to minimize the usage of cash in the economy.

359. However, the FAST system currently only allows Riel based operations, which at one end can increase the adoption and usage of Riel but at the same time, the high dollarization of the Cambodian economy would entail a limited usage of the system. The government is strategizing to promote the usage of local currency through FAST system while also promoting wider usage and access to financial services.



**Figure 59 FAST Payment System for KHR Transactions**

Source: National Bank of Cambodia

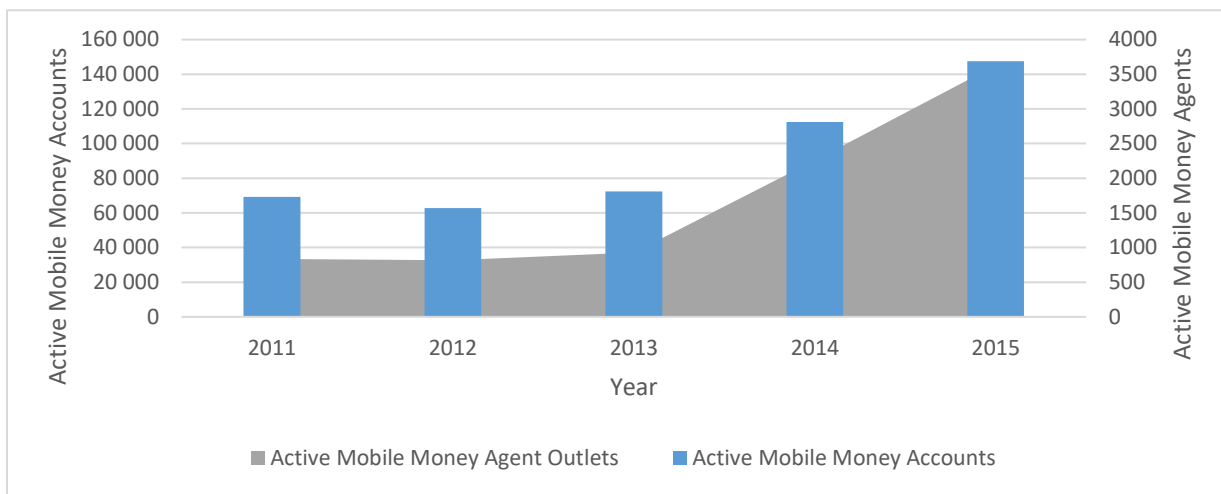
### **Digital Financial Services**

360. **Mobile and internet banking through banks slowly picking up.** Banks in Cambodia have started introducing internet banking and mobile banking services. These services allow customers to check account balance, make bill payments, transfer fund to same bank, ATMs or other accounts. Some banks also allow fund transfer to individuals without bank accounts where the details of the recipient along with their ID is provided to the bank and the recipient can go to the designated branch to withdraw the cash (Qualitative Survey, 2016). Despite the availability of service, the uptake of mobile and internet banking is low with banks claiming the key users of these services being expatriates and non-residents (Qualitative Survey, 2016). However, as mentioned earlier, the number of financial institutions offering mobile and internet banking service is low, limiting overall access and contributing to the low uptake. The low usage among local people can also be attributed

to a certain degree to the low internet usage in the country. Compared to the world average of 43.98 internet users per 100 people, Cambodia has a comparative lower uptake of internet, with only 19 internet users per 100 people (The World Bank, 2015).

361. *Increasing number of mobile money providers leveraging agent network.* There are thirteen companies that provide mobile money services in Cambodia. Wing, which is the first and largest mobile money provider has now been converted into a specialized bank. Mobile money service providers and the service offered is shown in Box 1. In Cambodia, mobile money agents conduct over-the-counter transactions on behalf of the customers by charging certain fees.

362. As shown in the figure below, active mobile money accounts have gradually increased in the last five years with a corresponding increase in the number of active mobile money agents. It is also notable that throughout the review period, 100% of the registered agents were found to be active as per IMF’s Financial Access Survey (IMF, 2016). The high retention of agents can be attributed to the value proposition being offered by mobile money providers to its agent base, the majority of whom run a retail store along with acting as an agent. Retail agents are required to maintain a balance of USD 200 in their mobile accounts and an additional USD 200 in cash. The case study of WING in Cambodia showed that providing a comprehensive two day training to the agents to help them grasp detailed understanding of the product has been a key step to recruit and retain agents (IFC).



**Figure 60 Active mobile money agents and mobile money accounts in Cambodia**

Source: International Monetary Fund, Financial Access Survey 2016

363. Moreover, the table below shows that the geographical reach of mobile money agents has also been increasing with 20.6 mobile money agent outlets per 1,000 km<sup>2</sup> in 2015. During the same time the coverage of ATMs stood at 8.02 ATM per 1,000 km<sup>2</sup>. The proliferation of agents is a key factor leading to higher usage of mobile money. Transaction volume per 1000 adults also increased to 5,793 in 2015, indicating repeat usage. This has led to increased transaction volume with mobile money transaction value reaching 67.8% of national GDP.

	2011	2012	2013	2014	2015
Mobile money agent outlet per 1,000 km <sup>2</sup>	4.7	4.6	5.2	12.8	20.6



Mobile money transactions: number per 1,000 adults	338.8	352.7	1,364	3,818.2	5,793.6
Mobile money transaction value (% of GDP)	0.4%	2%	14%	41.6%	67.8%

**Table 25 Growth of Mobile Money in Cambodia**

Source: International Monetary Fund, Financial Access Survey 2015

Name	Business Summary	Products/Services	Established
<b>Wing(Cambodia) Limited Specialized Bank</b>	It is Cambodia's leading mobile banking services provider providing financial services via mobile banking services to the unbanked and under-banked.	<ul style="list-style-type: none"> <li>• Wing Account</li> <li>• Wing Card</li> <li>• Prepaid Visa Cash Card</li> <li>• Money transfer</li> <li>• Bill payment</li> <li>• Online payment</li> <li>• Cash in</li> <li>• Cash out</li> <li>• Top up</li> </ul>	2009
<b>TrueMoney</b>	It is a fintech brand, providing e-payment services in Southeast Asia. TrueMoney enables unbanked customers to access financial services using their mobile phone or TrueMoney agent network.	<ul style="list-style-type: none"> <li>• Cash in</li> <li>• Cash Out</li> <li>• Top Up</li> <li>• Money Transfer</li> <li>• Bill Payment</li> <li>• Payroll</li> <li>• Cashless</li> <li>• Retail Payment</li> </ul>	2016
<b>SmartLuy (Smart Axiata)</b>	SmartLuy provides money transfer service in Cambodia. It also offers a secure way to pay utility and other bills and mobile top up of any operators.	<ul style="list-style-type: none"> <li>• Money Transfer</li> <li>• Mobile Top Up</li> <li>• Utilities Payment</li> <li>• Bill Payment</li> </ul>	2014
<b>E-money or Viettel</b>	It is operated jointly by MetFone and MB Bank and provides secure banking and financial services to mobile subscribers. It manages financial transactions and settlements on mobile, web and point of sale (POS) platforms.	<ul style="list-style-type: none"> <li>• Transferring money</li> <li>• Withdraw and deposit</li> <li>• Phone top up</li> <li>• Bill payment</li> <li>• Inquiries</li> <li>• Change Pin Code</li> </ul>	2015
<b>Asia Wei Luy (Asia Cash Express)</b>	It is a mobile payment service provider that allows customers (individuals and businesses) to transfer, deposit and withdraw money between each other and with anyone in Cambodia, via any mobile phone. Asia Wei Luy allows customers to make payments like bill payment, phone top up and loan services whenever and wherever.	<ul style="list-style-type: none"> <li>• Phone Top-up</li> <li>• Money Transfer</li> <li>• Payroll Service</li> <li>• Deposit</li> <li>• Business Location</li> <li>• Withdraw</li> <li>• Exchange Currency</li> </ul>	2017

<b>Ly Hour Pay Pro</b>	Ly Hour Pay Pro is a domestic money transfer service provider owned by the Ly Hour Group which is engaged in microfinance, real estate and pawn shop operations.	<ul style="list-style-type: none"> <li>• Money Transfer</li> <li>• Phone Top-up</li> </ul>	2016
<b>Pay Go SEA</b>	PayGo allows users to transfer money, top up phone, and utility payments among others. Pay Go also provides a payment Kiosk which can be used to refill a Pay Go Wallet or make other payments. Withdrawal of funds can be done through bank transfer with associated banks. Pay Go also provides for transaction between mobile money providers including SmartLuy, TrueMoney and eMoney.	<ul style="list-style-type: none"> <li>• Phone Top-Up</li> <li>• Money transfer</li> <li>• Electricity bill</li> <li>• Water bill</li> <li>• Internet bill</li> <li>• Television bill</li> <li>• Tuition fees</li> <li>• E-commerce website payment</li> <li>• Travel tickets</li> </ul>	2014
<b>AMK's Mobile Money Transfer</b>	The service allows individuals to send and receive money anywhere in Cambodia. AMK bank offers this service for individual and business transactions. Users can open savings account using mobile phone number and can make deposits, withdrawals and transfers through AMK Agents.	<ul style="list-style-type: none"> <li>• Loans</li> <li>• Deposits</li> <li>• Money Transfers</li> <li>• Micro-insurance</li> <li>• Payment Service</li> <li>• Payroll Service</li> <li>• Foreign Exchange</li> <li>• Fast Service</li> </ul>	2003
<b>ACLEDA Unity</b>	ACLEDA Bank in collaboration with Mobiliti Reach is offering Unity accounts which do not require the customer to open a bank account with ACLEDA.	<ul style="list-style-type: none"> <li>• Money Transfers</li> <li>• Bill Payment</li> <li>• Phone Top-up</li> </ul>	2012
<b>Pi Pay</b>	Pi Pay allows users to pay bills, send money to other Pi Pay users and provides cash-in and cash-out at designated Pi Pay Hubs or send money directly to a ABA bank account.	<ul style="list-style-type: none"> <li>• Bill Payment and bulk payments</li> <li>• Phone top-up</li> <li>• Merchant payments</li> <li>• Online payment</li> </ul>	2016
<b>Speed Pay</b>	Speed Pay is an online payment platform by Western Union. The company provides customized payment	<ul style="list-style-type: none"> <li>• Cash in/out</li> <li>• Transfer</li> <li>• Bill/Invoice Payment</li> <li>• Merchant payments</li> <li>• Online payment</li> </ul>	2017
<b>SEATEL</b>	SEATEL aiming to be an advanced 4G/LTE mobile network operator in ASIA. It would like to build an e-payment system or third-party online payment platform enabling financial transactions online by granting the ability to transfer funds electronically between individuals and business. Through this system, users can remit or receive payments for	<ul style="list-style-type: none"> <li>• Cash in/out</li> <li>• Transfer</li> <li>• Bill/Invoice Payment</li> <li>• Phone top-up</li> <li>• Merchant Payments</li> <li>• Online Payment</li> </ul>	2016

	transactions on websites, purchase or sell goods and services, make or receive donations, or transfer their money from/to the bank account, etc.		
<b>FULLERTON</b>	Canadia-Fullerton Mobile Money Co.Ltd ('CFMMCL'), established a 50/50 joint venture between Fullerton Financial Holdings ("FFH") and Canadia Investment Holdings ("Canadia"), operates a mobile wallet & payments business in Cambodia. Fullerton leverages the network to build a payment/lifestyle wallet ecosystem while providing basic financial services. Quick-start and scaling up process using the existing network (Canadia bank and Cambodia Post Bank) as a base; all brought to end consumers in an easy-to-access, easy-to-use and affordable way.	<ul style="list-style-type: none"> <li>▪ Cash in and Cash out</li> <li>▪ Domestic money remittances</li> <li>▪ Bill payments and bulk payments</li> <li>▪ Phone top-up</li> <li>▪ Merchant payments</li> <li>▪ E-commerce and Payment gateway</li> </ul>	2017

#### **Box 1 Mobile Money and Money Transfer Operators in Cambodia**

Source: Authors' own

364. *Selective interoperability of banks, wallets and mobile money.* While over-the-counter transactions drive the traffic of mobile money and mobile wallets, there is selective interoperability between these players. Most of the wallets are either introduced by banks or are introduced in partnership with banks, which entails the sharing of banking infrastructure and services such as ATMs, internet banking and mobile banking. Cash-in ATMs provide the option of loading wallets or mobile money accounts while cash out ATMs provide the option of card less cash withdrawal. Non-bank providers such as PayGo is acting as a platform for interoperability with the current option of loading the wallets of SmartLuy, TrueMoney and eMoney.

365. NBC has authorized institutions to offer mobile payment, mobile banking, mobile phone banking services and internet banking services. In order to ensure interoperability and integration of systems, NBC is planning to regulate the payment systems through the promotion of the safety, efficiency and competitiveness of the national payment systems. NBC is currently in the process of developing the Central Shared Switch (CSS) which covers ATM and POS inter-bank transaction using debit card.

### **Non-account-based products**

#### **Domestic money transfers**

366. *Mobile money safer alternative for domestic transfer.* Internal migration is a growing trend in Cambodia with individuals travelling seasonally or permanently to Phnom Penh and urban centres such as Battambang, Kampong Cham and Siem Riep. This scenario combined with an estimated 93% of Cambodian adults owning a mobile phone, the acceptance and usage of mobile money for domestic fund transfer has been increasing given their low cost. Domestic mobile money transfers

are charged around KHR 1,017- 9,153 (USD 0.25 –2.25) depending on the total amount and selection of cash out options (WING, 2016). Since non-bank account holders can send and receive money with little documentation requirement, mobile money is the preferred channel for urban-rural remittance.

367. *“I used to send money to my uncle in the village whenever someone came to Phnom Penh but it would be months before I could send money to my village. But now I use Wing to send money and call my uncle to give him the details so he can get the money the same day. Now I do not need to worry about my money not reaching my uncle in time.”*

- **Women, 27, Factory Worker**

368. Mobile money network being leveraged for domestic money transfer. As shown in Table 26, there are a total of 17,840 mobile money agents and 1,285,021 walk-in customers. In 2016, the average transaction value through mobile money was USD 182, as of November 2016. The high average value of transaction also indicates the usage for fund transfer more than bill payment. Wing is the largest customer base while E-money has the largest agent base. New entrants such as True Money target establishing 5,000 agents across the country, reflecting high usage and reliance on agent network. The availability and ease of access to mobile money agents, along with the availability of human factor for interaction, has been a key factor for its usage in domestic fund transfers. In markets with high over the counter transactions via agents, the providers will have to gradually shift to a less costly cash-in/ cash out networks as the sector reaches a high growth stage. New entrants such as Pay Go is providing cash-in options through Kiosks while cash out is provided via network banks. Moreover, mobile money providers are increasingly moving towards interoperability with cash-in option for competing mobile money operators is also provided. Mobile money providers can leverage agent footprint and provide better value proposition to the customers.

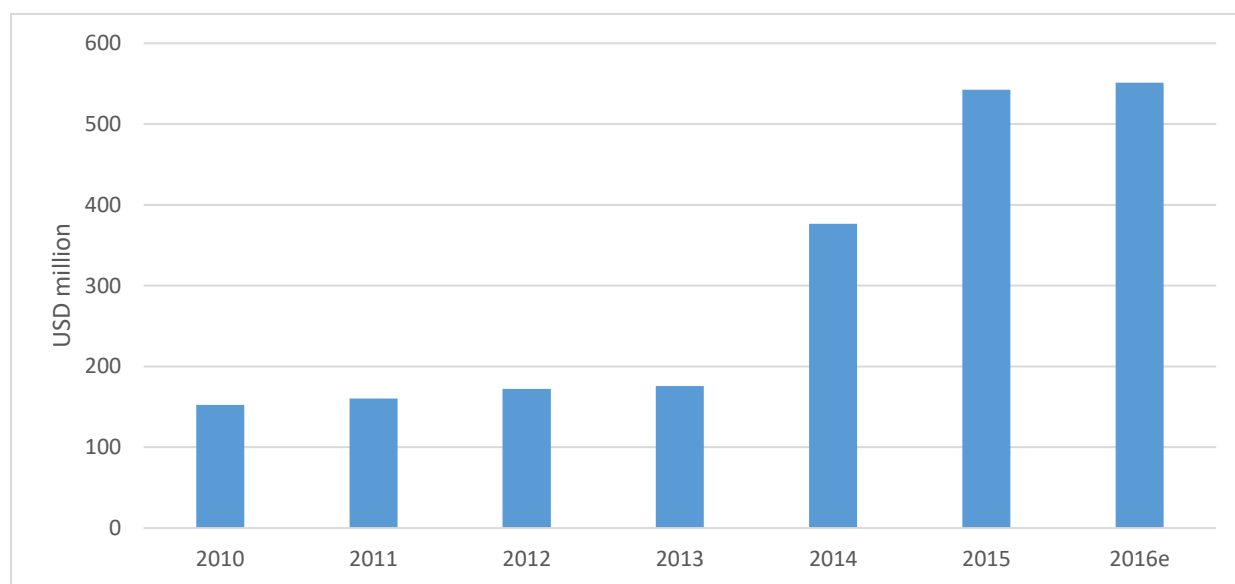
Providers	Agents	Customers	No of Transaction	Total Value
WING	4,453	758,709	2,523,769	KHR 3,003 billion
E-Money	5,232	11,042	507,965	KHR 303 billion
TRUE Money	4,604	397,191	792,716	KHR 240 billion
Ly Hour Paypro	1,564	18,321	29,746	KHR 29 billion
Smart Luy	1,784	758	1,937	KHR 437 million
PayGo SEA	203	0	1,260	KHR 518 million

**Table 26 Mobile Money Provider’s agent network, customer and number of transactions, November 2016**

Source: National Bank of Cambodia, 2016

### **Cross-border money transfers**

369. *International inward remittance increasing.* In the last few years, inward remittance to Cambodia has increased sharply. Compared to 2013, when Cambodia received domestic remittance of KHR 715,968 million (USD 176 million), by 2016 the number rose sharply to KHR 2.24 billion (USD 551 million) as shown in Figure 61. Moreover, remittance expressed as a proportion of GDP stood at 3% of Cambodia’s GDP in 2015 while during the same time the global remittance contribution to GDP stood at 0.8%. An estimated 300,000 Cambodians have migrated overseas for work (ILO, n.d.)



**Figure 61 Migrant remittance inflow in Cambodia**

Source: Migration and Remittances Data, World Bank, 2016

370. **Cost of remitting higher than global and regional average.** The top destination country for migrants from Cambodia is Thailand. However, the cost of remitting money from Thailand to Cambodia is 14.06% of the amount sent which is almost double of the global average cost of 7.42% (The World Bank, 2016). As shown in Table 27, the cost of remitting KHR 813,600 (USD 200) to Cambodia from Thailand costs around KHR 114,392 (USD 28.12). Furthermore, this cost is higher than the regional average cost of 7.97% of total amount sent to East Asia and Pacific countries in 2015. Processing time varies depending on the firm, with banks generally taking 1-5 days and money transfer companies taking less than an hour to transfer funds. Moreover, the cost of sending money through banks is also substantially higher, with fees ranging from KHR 130,176 – 154,584 (USD 32 – 38) for a transaction of KHR 813,600 (USD 200), while money transfer operators charge between KHR 16,272 – 65,088 (USD 4 – 16) for the same value transaction (The World Bank, 2016).
371. The high cost of remittance is dependent on the corridor specific variables, which also requires the number of migrants to be economically significant to lower the cost of remittance in the Thailand-Cambodia Corridor. The increased number of providers in the corridor generally tend to lower the cost of remittance, however a larger share of banks in the remittance sector generally tend to support higher fees (Bect, Soledad, & Peria, n.d.). GSMA study has shown that sending remittances through mobile money is 50% cheaper than other channels overall.

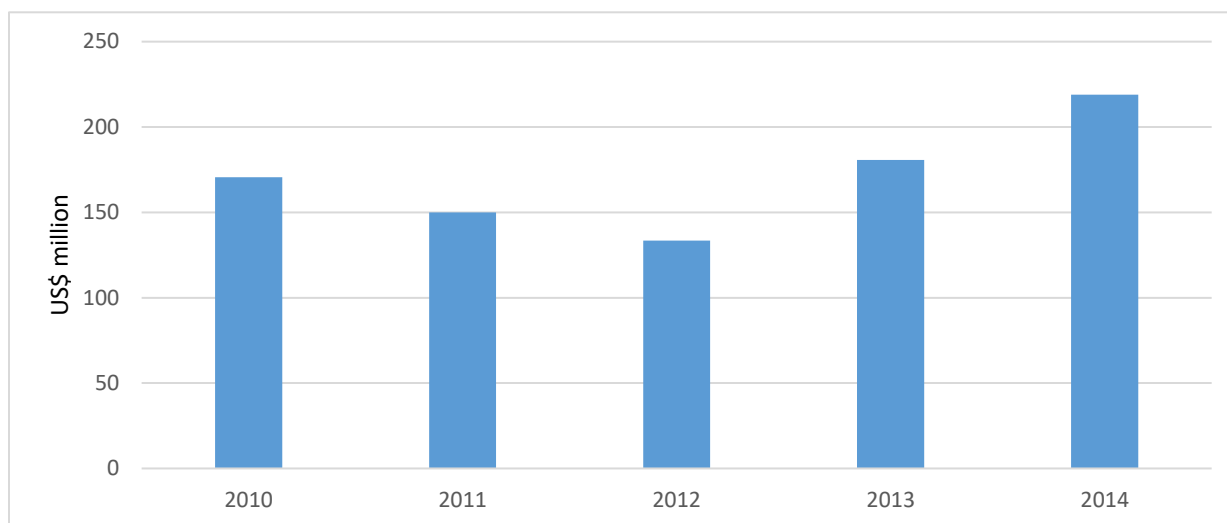
Country	Transfer speed	Total Cost (%)	Total Cost (USD)	Payment Instrument
Thailand	1 hour – 3 days	14.06 %	28.12	Cash /Bank Account Transfer

**Table 27 Cost of sending USD 200 to Cambodia**

Source: The World Bank

372. **High inward and outward remittance:** Cambodia is a net migrant sending country, however, it is also one of the high remittance sending countries. In 2014, Cambodia registered total migrant remittance outflow of KHR 890,892 million (USD 219 million), while the migrant remittance inflow during the same period was KHR 1,533,636 million (USD 377 million). It is estimated that 7.4%

(1,118,900) of the population are emigrants while immigrants comprise of 0.5% (75,600) of the total population (The World Bank, 2016). Given that fewer number of emigrants are remitting large sums, this indicates that there is an inflow of high skilled white collar workers in Cambodia. For instance, MAP stakeholder consultation showed that higher level management positions are generally occupied by skilled manpower from outside Cambodia, especially in Insurance companies. The economy can potentially benefit from the inflow of high skilled white collar worker through knowledge and skill transfer in the local workforce.

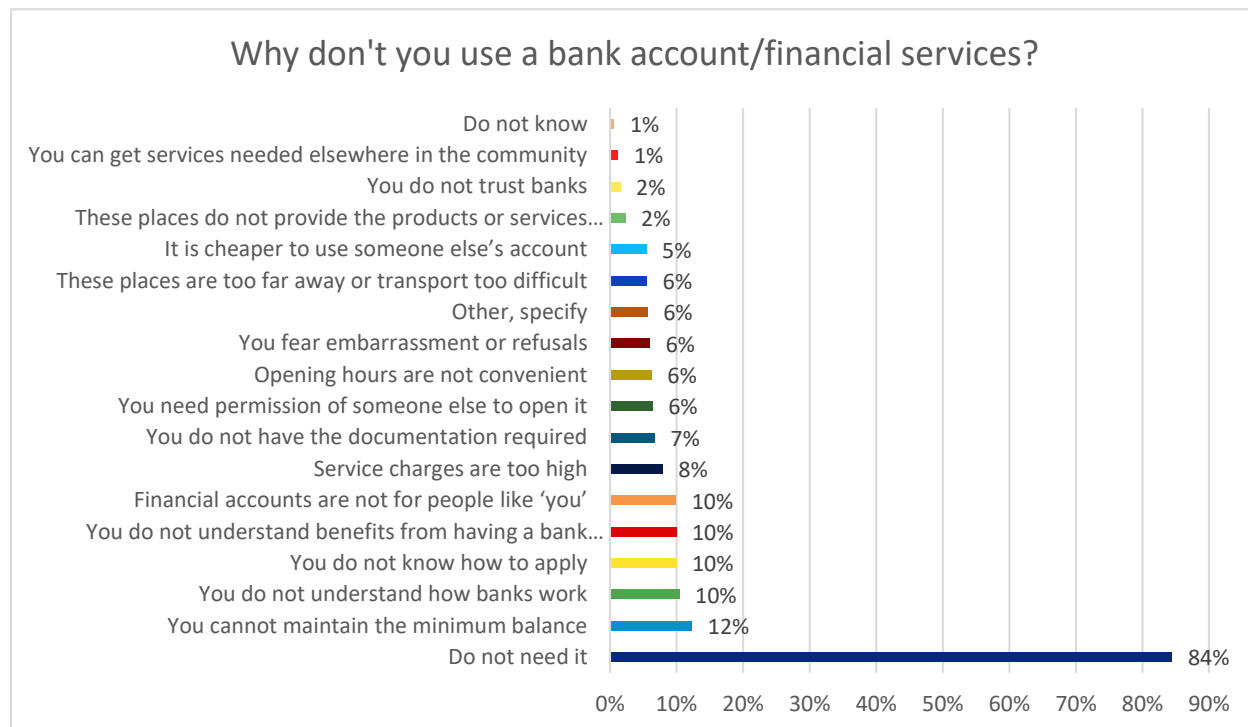


**Figure 62 Migrant remittance outflow in Cambodia**

Source: Migration and Remittances Data, World Bank, 2016

373. **Overlapping role of banks, mobile money and money transfer operators.** Domestic remittance services are provided by banks, mobile money and money transfer operators (MTO). All these players can do direct transfers with cash-in and cash-out option for non-account holders. While banks and MTOs provide the service of remitting money outside the country, mobile money generally provide the option of receiving remittance from outside Cambodia. The competition between these institutions can, to a greater extent, benefit the customers with the availability of multiple low cost competitive options. The cost and convenience aspect of using the limited bank branch network appears to be a key factor behind the low uptake of banks for remittance, while the proliferation of mobile money agents and availability of one-on-one assistance appears to be encouraging the uptake of mobile money as evident in the MAP qualitative research (2016).

## What are the barriers to usage of payments services and products?



**Figure 63 Reasons for not using a bank/financial services**

Source: FinScope 2015

374. **Awareness and financial literacy are key barriers to access.** FinScope shows that 84% (6,838,214) of Cambodian adults do not see the need for having a bank account. This, on one hand, can be the result of low financial literacy and awareness about the benefits of using formal financial services, while on the other, could also imply that the value proposition of formal services are not aligned with the needs of Cambodian adults. This gap, to an extent, can be served by the informal channels. However, there appears to be a general lack of financial literacy, given that a considerable number of adults do not understand the basic function of banks. S&P Global Financial Literacy ranked 143 economies in terms of the level of financial literacy. Cambodia ranked the lowest with only 18% financial literacy rate as per the S&P Global Financial Literacy Survey. 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 use informal channels and family and friends. However, efforts are being undertaken to improve financial literacy and awareness in the country. NBC has partnered with MEF to implement an Awareness Raising Program against informal credit operators. In an effort to promote financial literacy to students in primary and secondary schools NBC along with MoEYS in partnership with the charity Good Return has initiated the Let's Talk Money program (NBC, 2016).

375. **Availability of eligibility documentation not a major issue.** As shown in Figure 63 only 7% of Cambodian adults are not using a bank or financial services due to the lack of eligibility documentation. Given that Cambodian adults have access to multiple IDs issued by the government,

this has to an extent minimized the issue of not having identification proof (Refer: Regulatory issues to be considered).

376. *Operational issues and lack of consistent power supply plaguing digital infrastructure.* The reliability of digital infrastructure stems from pro-active measures to tackle operational issues. Network and power outages greatly hinder sign-ups and transactions. Currently NBC is yet to finalize the rules and procedure for the central shared switch for ATM and POS. Ideally, these regulations should touch on the allowable limit of ATM/POS downtime and guidelines on how incorrect transaction are to be charged back. Power and data lines are the back bone of ATM network; disturbances in these lines can cause disruption in working of ATMs. The uptake of electronic banking will be impacted with high downtime of these infrastructure as this will reduce the trust on it as well as its reliability. The Telecom sector governed by the Ministry of Posts and Telecommunications has specific criteria for quality of services (QoS) that the GSM network providers need to adhere to. There are QoS standards and return transaction rules for both POS and ATM issued by card associations. However, non-card associated ATMs and POS need QoS guideline from NBC.

### What regulatory and policy issues need to be considered?

377. Under the Financial Sector Development Strategy, NBC plans to introduce regulatory framework for payment systems and payment services, establish guidelines on standards for payment messages, standards for ensuring that quality of service from providers and also determine whether e-banking transaction constitutes a deposit, a money transfer or a cross border transaction. These developments will be key in shaping the regulatory scenario of Cambodia's payments sector.
378. *The Royal Government of Cambodia has participated in the ASEAN Financial Integration Framework:* The ASEAN members adopted the ASEAN Financial Integration Framework (AFIF) in 2011, which focuses on financial integration in the areas of financial services, capital account, payments and settlement systems and capital market complemented by capacity-building initiatives, infrastructure building and creating an enabling environment for effective and efficient financial flows. In order to prepare the country for integration with the ASEAN payment and settlement systems, the NBC is making good progress towards this. NBC has been investing in the improvement of banking infrastructure by strengthening legal frameworks for payments and setting up the National Payment System. This type of institutional infrastructure lay the foundation of the payment ecosystem. ASEAN has established the Working Committee on Payment and Settlement Systems which focuses on policy, legal frameworks, instruments, institutions, and market infrastructure.
379. Under this integration banks need to meet the criteria of Qualified ASEAN Banks (QAB) to be eligible for equal access, equal treatment and equal environment. This would require forward looking regulation from NBC to enhance banking regulation to bring it in par with other ASEAN countries. Since QAB banks will be able to operate branches in other ASEAN countries being governed by the same regulation of host country, it will open the local market for regional players. The integration is anticipated to be completed by 2020 for the ASEAN-5<sup>21</sup> countries following which NBC in

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<sup>21</sup> ASEAN-5 countries include Indonesia, Malaysia, the Philippines, Singapore and Thailand. The other ASEAN member states includes Brunei, Cambodia, Laos, Myanmar and Vietnam.



Cambodia needs to guide and prepare the local market towards this integration by issuing *Prakas* and regulation that are in line with the regional strategy.

### **Associations of Southeast Asian Nations (ASEAN) Payment Switch**

There are two main types of systems that currently exist within ASEAN countries, the real-time gross settlement system (RTGS) for high-value payments, and the Automated Clearing House (ACH) for low-value payments. However, all member countries do not necessarily have these payment infrastructures.

Asian Payment Network (APN) has been developed and it seeks to develop common standards and guidelines to enable domestic and regional switching of ATM networks and low-value payment (LVP) systems. The implementation of this switch will enable ASEAN-wide cross-border payment and settlement system with multicurrency capabilities while also facilitating local currency trade settlements. This will also reduce the costs associated with cross-border payments, which is currently very high for inbound remittances to Cambodia. Furthermore, the common messaging standards will also enhance the ability to automate cross-border and local payment activity within ASEAN.

In terms of regulatory documentation, the extensible Markup Language (XML) standard used in the payment system can carry any required regulatory documentation, which will significantly improve the cross-border connections as currently most of the documentation is paper-based. Another key benefit will be the establishment and sharing of common infrastructure.

In Cambodia, NBC is working on the Shared Switch System (SSS), responding to the needs of the ASEAN financial integration in 2015. It is also looking to establish the RTGS.

ASEAN's Strategic Plan for Financial Integration (2016-2025) emphasizes the adoption of international standards to prepare domestic payment system for bilateral and multilateral linkages within ASEAN. This would entail the convergent of prudential regulations across the region.

### **Box 2 ASEAN Payment Switch**

380. ***Clear regulation for digital finance players:*** Currently the Law on Banking and Financial Institutions states that banking activities includes provision of means of payment to customers and the processing of said means of payment in national currency or foreign exchange. Any entity carrying out these activities is *de facto* considered to be engaged in banking activities. There is a need for harmonizing the legal and regulatory frameworks governing mobile money providers and e-banking services provided by banks. The Law on Negotiable Instruments and Payment Transactions provides NBC the mandate to regulate the payment system in the country. However, there is no clear regulation on e-money as such. The *Prakas* on Third Party Payment Processors lays down the regulation for all institutions that partner with banks to conduct payment transaction services and organization that perform services on behalf of the bank. This has allowed the outsourcing of cash collection and disbursement thereby reducing the cost of financial services while also expanding reach. However, with the advent of technology and introduction of digital finance players offering mobile money wallets and app based services, there is a need for a forward looking regulation designed specifically for mobile financial service providers and their agent base. Given the

proliferation of mobile money, NBC needs to come with timely regulation to ensure the supervision of this sector.

381. Telecom regulation and bank regulation should be jointly worked on to ensure that no conflict arises. Given the country's aim to integrate with the ASEAN payment system, the system requirements has been laid down. In order to be globally compatible and keep up with global trends, Financial Action Task Force's (FATF) Risk Based Approach guidance can also be considered.
382. *Mobile financial service providers are dependent on MNOs.* While mobile financial service providers (MFSP) are registered third party providers with the NBC, the operation of mobile money requires the collaboration with telecommunication providers. With the advent of technology, app based system are taking over the traditional system, however the reliance on telcos is still high in Cambodia. While a higher mobile penetration is a factor contributing to the growth of mobile money, Mobile Financial Service Providers (MFSP) are willing to partner with telcos with the widest reach and favourable terms. Telcos offering their own mobile money service have added sources of revenues and grounds to retain customer loyalty. Banks providing electronic banking and mobile money benefit through increased banking penetration and customer base.
383. In Cambodia, nine registered mobile telephone operators are serving the market with Smart Axiata, Metfone and Cellcard controlling the major market share. Among these, Smart Axiata and Metfone operate their own mobile money business Smart Luy and E-Money, respectively. In this scenario, the lack of clear regulations makes third party processors and mobile financial service providers susceptible to the whims of banks and telcos and can lead to anti-competitive behaviour. Thereby, it becomes crucial that government regulations address the issue of competition and create a level playing field for bank led and non-bank led MFSP. The regulators need to chart out a Quality of Service (QoS) regulation to ensure that no institution is locked out of any network or protocol. This will also help ensure that the service level and standard is not degraded for competitors using the same network.
384. *Challenge in using same agents for multiple financial institutions.* NBC's Prakas on Third-Party Processors clearly lays out that an entity which is not a bank cannot engage in the business of payment transactions unless entrusted by agreement by a Bank to act as its Third-party Processor or is licensed by NBC (NBC, 2010). Since the regulation allows third party providers to provide services on behalf of one or more banks, the third party providers may not exclusively work with one bank or one teleco. Without clear regulation on the usage of agent and third party providers, banks and telcos will face the challenge of either duplication of agents or same agent being used for multiple institutions. Conflict resolution and customer data security will be a key issue in this scenario.
385. *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

## Where and what are the gaps and opportunities in the payments market?

### Use cases per category of payment

386. This section outlines some of the main use cases for potential uptake of cost-efficient and cost-effective payments mechanisms in Cambodia.
387. **Salary payments (G2P, B2P, P2P).** Despite the Royal Government's effort to disburse government salary directly into individuals' accounts, this has not been fully implemented. As discussed earlier, 92% Cambodian adults receive salary in cash. FinScope shows that 15.31% (1,403,206) Cambodian adults claim salary from government as their main source of income. Given the sheer number of government employees, it becomes vital for the adoption and development of payment infrastructure that the government becomes a supporter of electronic transactions. FinScope (2015) showed that 20% of Cambodian adults opened bank accounts to receive salary or wages. This implies that payment of salary into bank accounts can be the trigger for people to adopt formal banking channel for financial dealings. Ministry of Economy and Finance is working towards ensuring that all government staff receive their income in their bank accounts and has been implementing the same since 2013.
388. **Remittance (P2P).** Cambodia has significant volume of cross border remittance inflow and outflow with remittance received equating to 2.2% of national GDP in 2015 (The World Bank, 2015). In the domestic remittance scenario, mobile money is the preferred channel for both receiving and sending money within the country. The preference for assisted transactions is one of the reasons for higher usage of mobile money. This is followed by dependence on friends or family to receive (11%) and send (4%) money. Bank transfer ranked third in terms of usage for remittance, with only 4% sending money and 6% receiving money through bank transfers (FinScope, 2015). While mobile money providers are currently not providing outward remittance service, banks are catering to this segment. Although Banks do facilitate domestic cash transfers, with the commencement of the FAST system, banks are also now able to provide competitive rates for domestic money transfers. As mobile money providers have not entered into the international remittance sector, this still remains a strong domain for banks.
389. In terms of mobile money operators, domestic remittances are generally of small ticket amount whereby individual's choice of operator is guided by low cost and availability of cash out option. International remittance remains an uncharted area for mobile money providers, however MAP stakeholder interview highlighted the interest of mobile money operators to enter the international remittance sector provided NBC opens up the area for mobile money operators. Given the high level of informal migration, the easy documentation requirement of mobile money transfers provide an opportunity to bring remittance transfers via informal channels into the formal channel as remittance transfers can be done through ATMs, mobile money agents and kiosks.
390. **Bill payment (P2G, B2B, P2B).** The preferred channel of bill payment will be guided by the transaction cost levied by these channels and who pays the cost and gains the benefit of such transactions. This can either be the receiver/business who gains through reduced cash administration and logistics costs or the consumer who have multiple payment channel options and it becomes preferable to opt for the payment channel instead of travelling to a payment point and waiting in queue. Electricity bills of Electricity du Cambodge (EDC), water bills, mobile top ups,

internet bill payment, cable bill payment and school bill payment can be carried out on ATMs of banks, payment kiosks and through mobile money agents/accounts. Bill payments are charged around KHR 1,017 – 2,034 (USD 0.25 - 0.50), which should be gradually reduced as the volume of transaction picks up to sustain the payment system so as to bring a larger segment into the payment system.

391. **Spot payments (P2B).** The convenience of carrying cash and its easy availability along with its universal acceptability continues to guide consumer's preference for cash transactions for spot payments. Cambodia is witnessing increasing footprint of POS machines with the availability of 1 POS per 1027 adults by the end of 2015. Card transactions through POS at a number of places is levied extra usage charge, which to an extent encourages the usage of cash against electronic channels for spot payment. The adoption of QR based transactions, which is being successfully implemented in countries like India, can further encourage the uptake of digital payments for spot payments. Given that EMV cards are already in operation, the availability of offline authorization will facilitate low value low risk payments while enabling rapid checkouts. The use of Near Field Communication (NFC) enabled POS for high volume low value retail applications can compete directly with cash, depending on convenience and operational efficiency.
392. **Tax payments (B2G, P2G).** The government requires all tax payments equivalent or exceeding KHR 4 million (USD 983.3) to be paid by cheques. The Department of Customs and Excise is implementing an online platform enabling importers to pay customs duties, VAT and excise taxes online. Moreover, the government has provided the provision to fill out tax return forms online and pay taxes through banks and mobile money platforms (General Department of Taxation, 2016). The fiscal stability of the country stands on a robust and efficient tax collection system. The government's initiative to enable tax payments through digital payment channels can increase the effectiveness of small-value tax collection which will result in increased compliance from tax payers.
393. **Social benefit and welfare transfers (G2P).** Welfare beneficiary are generally low income group with limited uptake of formal financial services, social benefit and welfare transfer to bank accounts or mobile wallets can be the stepping stone towards financial inclusion. Given that the government is issuing new biometric national ID cards, this could be used as leverage to identify recipients and distribute social benefits without shrinkage. However, financial institutions need to have their distribution footprint across the country, such that welfare recipients can easily access formal financial institutions to avail the state provided welfare transfers. Mobile money providers already have a well- established agent network while MFIs and MDIs have branches all across the country. This can be leveraged to ensure that all cash transfers are done to the beneficiaries' respective accounts.
394. **Procurement (G2B).** Government procurements are some of the high value and high volume transactions that is executed in a country. Currently, efforts are being undertaken to integrate an online banking system in the management of funds in the Treasury Department. This will help in the establishment of an efficient and fast government payment mechanism which can then lead to the streamlining of the entire procurement process; saving the administrative and time cost of manually managing these fund transfers.

## Other areas of opportunity

395. *Consolidated programs on raising awareness about digital transaction.* Private players, development partners and the government have been working in the field of raising financial literacy, awareness and acceptance of digital money. Ministry of Economy and Finance, along with NBC is already working on projects to increase financial literacy at school levels. Similarly banks and mobile money providers conduct trainings and awareness programs on their own to educate their potential clients. NBC needs to consolidate the work of different agencies working in the field of access to finance, and assist in creating a database on the level of financial literacy and awareness such that targeted interventions can be designed.
396. *Increase the members of FAST network.* NBC introduced the FAST system, enabling real-time fund transfer between banks and MDIs allowing Riel based transaction. With the establishment of FAST network system, real time electronic funds transfer (EFT) has been made possible. This system will also allow mobile banking transactions between banks and microfinance deposit taking institutions (NBC, 2016). Currently only 15 financial institutions are a member of the FAST system, including few microfinance deposit taking institutions. In order to encourage the adoption of digital transaction of the local currency, it is crucial that all financial institutions become a member of FAST. The availability of real time settlement and inter-operability between banks can incentivize businesses and individuals to adopt digital payments as it can outweigh the hassle and time cost of manually transacting in hard currencies.
397. However, given the high usage of US dollar, the ability of FAST network to increase its footprint and utility will be limited. In this sense, Riel transactions need to be facilitated into USD accounts through a market exchange mechanism or USD deposits should be slowly converted to riel.
398. *Integration into ASEAN Switch:* 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. The APN system focuses on the retail payment especially catering to card payment via ATM and POS. Connecting to the APN no doubt holds the possibility of significantly reducing the cost of international remittances for select regional corridors. Once this integration is done, the users of ASEAN member countries will be able to use ATM/POS to process cross border debit withdrawal. This will greatly benefit the remittance sending and receiving population of Cambodia while also increasing the efficiency of payment services in the country. NBC is also in the process of developing a Central Shared Switch, which will facilitate interbank transaction through the use of card on ATM and POS. This is being done with the aim of preparing the country's financial infrastructure to integrate with the ASEAN Switch. Cambodia needs to ensure that it complies with the protocols for intra-trade settlement, retail payments, monthly remittances, capital market settlement and standardization of the system so as to smoothly transition into the APN switch. However, given that establishment and operation of switches are expensive affairs and when multiple private players establish local switches, there will be resistance in adopting regional integration into the APN switch. NBC needs to promote accelerated integration into APN switch which can help the central bank avoid investments in the possibility of redundant switches. A regional switch would provide operational efficiencies and wider foot prints which can be critical in increasing adoption of digital transactions.

399. *Developing retail payment infrastructure to increase the adoption of digital payments.* The usability of digital money should be at par with the usability of cash such that the benefit of carrying digital cash outweighs the risk of carrying cash. This can only be possible with the establishment of different layers of retail infrastructure. In a highly cash economy like Cambodia, the convenient and easy access to cash-in and cash out option will be key for the transition into the adoption of digital money. The existence of a robust retail payment infrastructure will build trust and confidence in digital payments and create compelling value proposition for the users. Moreover, given the increased volume of transaction, it will also provide a strong business case for banks, MNOs and third party providers. As a member of ASEAN member states, NBC needs to ensure that the National Payment System adheres to the system requirements of ASEAN and the United Nations ITU guidelines on DFS. This is crucial to prepare system and processes in line with the global trend. 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. . 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.

## The market for savings

[Context: savings](#)

[What saving is done, and how?](#)

[Why are people saving?](#)

[Who are the providers?](#)

[What products are available and in use?](#)

[What are the barriers to usage of savings services and products?](#)

[What regulatory and policy issues need to be considered?](#)

[Where and what are the gaps and opportunities?](#)

## Summary: the market for savings

- Low percentage of adults save. Of those that do save, the majority save informally.
- Savings in cash and assets common across all the target segments
- A higher proportion of urban adults have taken up formal savings products than rural adults.
- Higher percentage of female report savings than men.
- Key use of saving for consumption smoothing, risk mitigation, retirement, education and for business
- Commercial banks are the most trusted primary providers of formal saving products by value, and have their client base in the urban areas
- Savings groups has been a dominant provider by client numbers though decreasing over time. Majority of the rural population used to choose to save with the savings groups
- Financial literacy and awareness among the Cambodian adults is low
- Maintaining minimum balance, high service charge are prime reason for not having bank accounts
- Higher rate of returns on savings done with informal providers in comparison to the formal providers
- No deposit Protection or guarantee schemes to protect the depositors
- Limited regulatory capacity to supervise vast numbers of agriculture co-operatives
- Mobile money accounts are not promoted as savings products
- Registration of the informal savings groups with provincial and municipal administration for legal identity.

## Context: savings

400. 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 channeling 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.
401. This section will explore the current usage and use cases for savings in Cambodia, as well as provide an overview of institutional product landscape. From this, it will conclude with identifying the gaps and opportunities for savings in Cambodia



402. *Low value of savings held.* Cambodia has seen very encouraging growth and penetration in the financial sector; however, the level of savings mobilization has remained relatively low in comparison with that of other Association of Southeast Asian Nations (ASEAN) countries. The same is evident in Table 28 that compares the Gross Savings as a percentage of GDP with other ASEAN countries for the year 2015.

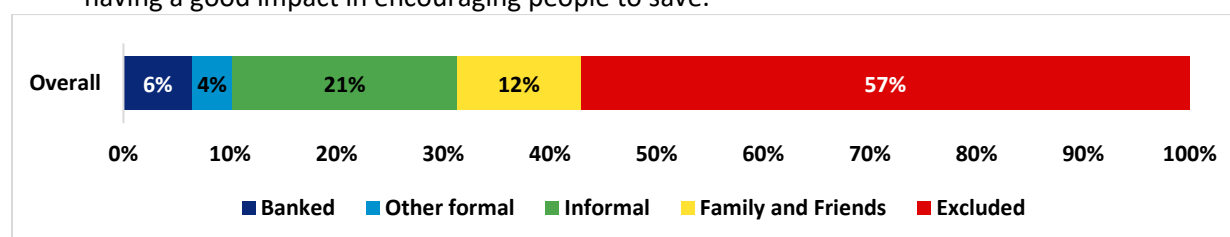
Country	Gross Savings (% of GDP)
Brunei	56%
Singapore	45%
Philippines	43%
Indonesia	32%
Thailand	32%
Malaysia	28%
Vietnam	27%
Myanmar	15%
Laos	14%
Cambodia	12%

**Table 28 : Comparison of Gross Savings as a Percentage of GDP among the ASEAN Countries**

Source: World Bank national accounts data, and OECD National Accounts data files, 2015

## What saving is done, and how?

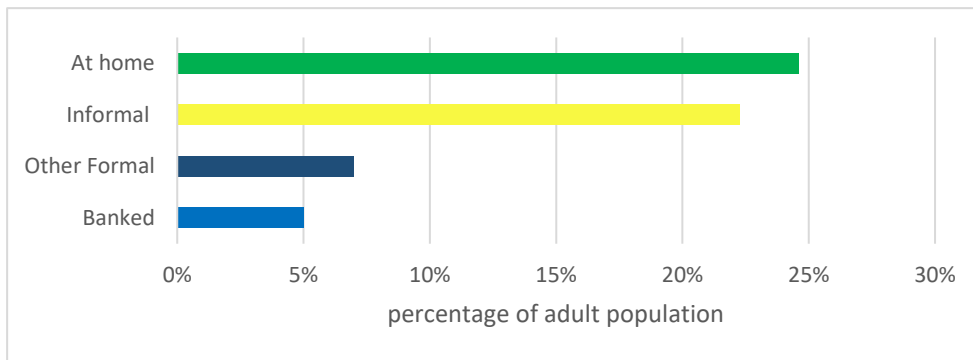
403. *Low percentage of adults Save.* Of the total adult population in Cambodia, 57% do not report any savings; and amongst those who do save, they use informal providers, or with family and friends to maintain savings. The low level of usage of formal saving products is because of the poor access to and the high cost of maintaining savings account (Refer Access barriers), as well as low incomes confining surplus available to save (Refer What saving is done, and how?). In recent years, regulated savings deposits is taking off slowly in-line with the growth and development of the financial sector of Cambodia. In the last five years, banks and MDIs have seen a Compounded Annual Growth Rate (CAGR) of 24.41% in the number of depositors and a CAGR of 23.53% in the deposit amount (NBC, 2016). This reflects that the recent government plan and policies to mobilise savings along with the different campaigns and projects being carried out jointly by the donors and providers are likely having a good impact in encouraging people to save.



**Figure 64 : Savings Access Strand**

Source: FinScope 2015

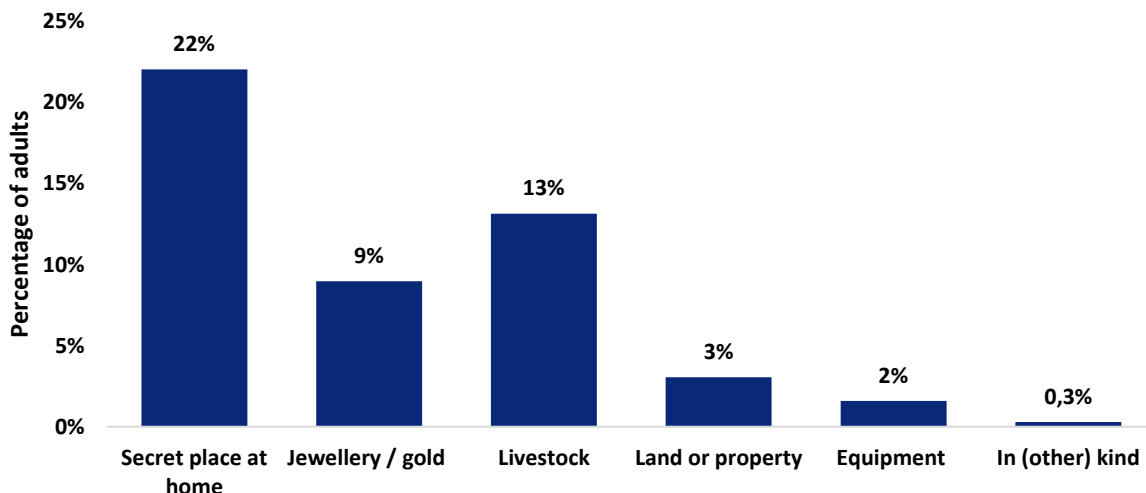
404. **Majority of the people who save, save informally.** Of the 42.9% (4,263,547) adults who save, more than 76% (3,248,518) save with informal providers. When overlaps are considered, adults taking up savings through informal providers is the most popular as shown in Figure 65, which indicates that there is potential unmet demand within the different access categories. MAP qualitative and quantitative demand-side research (2015) showed that savings groups, co-operatives are very popular in Cambodia as it is based on the concept of self-help through mutual solidarity. With low or no access barriers to be members with these informal bodies, they have enjoyed significant popularity. Also the high returns offered on the savings has attracted more people to save informally. Average annualized return on the informal savings around 20-25% (Chin, 2015) as opposed to 2-7% (on deposits in KHR) and 1-5% (on USD deposits) from formal institutions (Refer What saving is done, and how?)



**Figure 65: Total Uptake of Savings (with overlaps)**

Source: FinScope 2015

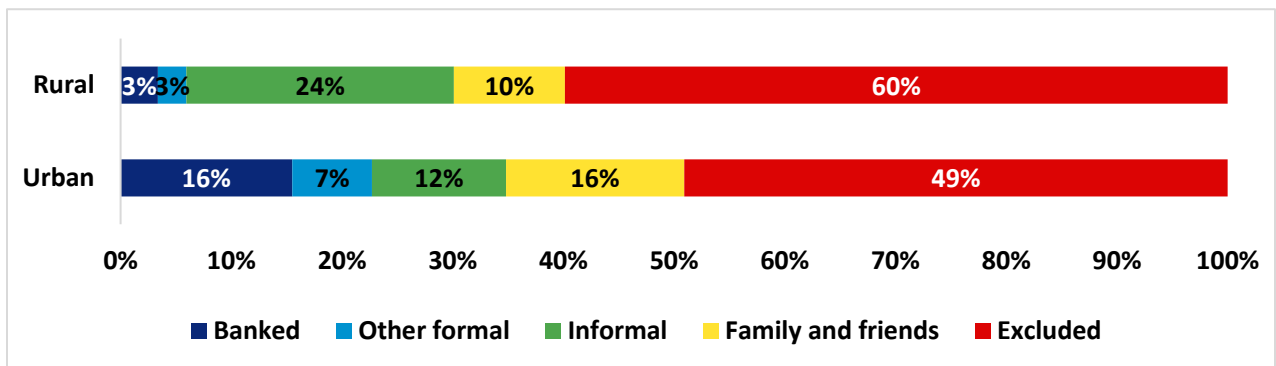
405. **People save in cash and assets.** 49.1% of the adult population (including overlaps), save in cash and assets as shown in Figure 66 below. The primary reason behind holding savings in these forms are a combination of reasons like high liquidity, convenience, low transaction costs etc. Cambodian adults believe in holding on to assets as savings, due to the ease and high potential of these to be liquidated to cover urgent cash flow shortages as well as to safeguard against any potential economic downturns. Most of the rural adults hold their savings in the form of livestock assets (cows, pigs, etc.) as a safeguard against their uneven stream of income due to seasonality, as majority of them are engaged in agriculture (UNDP, 2011).



**Figure 66: Savings in cash and assets (with overlaps)**

Source: FinScope, 2015

406. *A higher proportion of urban adults have taken up formal savings products than rural adults.* As seen from the FinScope data 1,286,488 of urban adults save compared to 2,977,059 rural adults. Yet, proportionately there are more urban adults saving than rural adults (11% more adults in urban versus rural) as shown in Figure 67 below. Urban population have higher incomes and includes the majority of formally employed (civil servants and private sector) who have regular income, and higher savings. Most of the formal providers have strong presence in the urban areas, which results in easy accessibility of services for the urban adults in contrary to the rural adults who live further away from physical distribution network of the formal providers, which limits their accessibility to the services. 23% of the urban adults who save, save with the formal providers in contrary to 6% of the rural adults who save, saving with the formal providers. Many NGOs run micro-finance or co-operative programmes as part of community development programmes focused on increasing the financial discipline of their target groups. Savings groups, cooperatives require mandatory savings from its members to qualify for benefits offered by these informal providers. This could be the reason for high percentage (24%) of rural adults who save with the informal providers in contrast to 12% of the urban adults who save.



**Figure 67: Savings access strand by location (rural/urban)**

Source: FinScope 2015

407. *Females save more than males.* As illustrated in Figure 68 below, there were more female adults using different saving products as compared to male adults. Of the 1.3 million deposit accounts with micro-finance institutes, 69% of the deposit accounts were held by females and 31% of the deposit accounts by men (NBC, 2015). The usage of formal products was similar across both genders. However, females were seen to have more savings with the informal providers and family and friends. Female adults were found to be more engaged in informal groups as it provided them with a social platform to discuss and share their problems and find solutions.

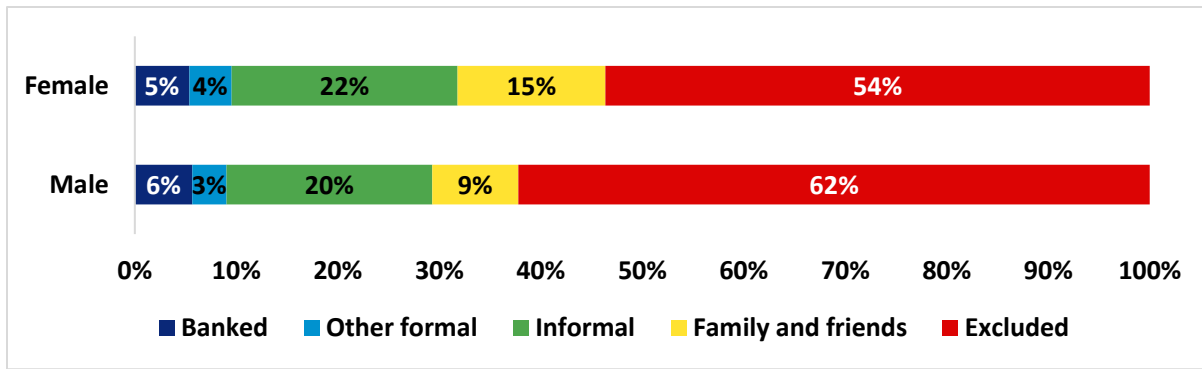


Figure 68: Savings Access Strand by Gender

Source: FinScope 2015

408. *Higher Proportion of Target Market Formally Employed and Self Employed save.* As shown in Figure 69 below, the target market formally has the highest number of savers (59%) as they have stable source of income. The formal employment sector is smaller relative to other income opportunities, with paid work positions available only in Government and some primary sectors garment, tourism, construction, etc. and mostly in urban areas. 31% of the formally employed adults save with the formal providers attributed to their better access to the service providers.

409. The target market Self Employed are engaged in the MSME sector and have monthly income just below the formally employed target segment. Majority of the self-employed adults hold their savings with the informal providers mainly because of the higher interest rate on savings and easy availability of saving backed loan schemes to meet their working capital needs.

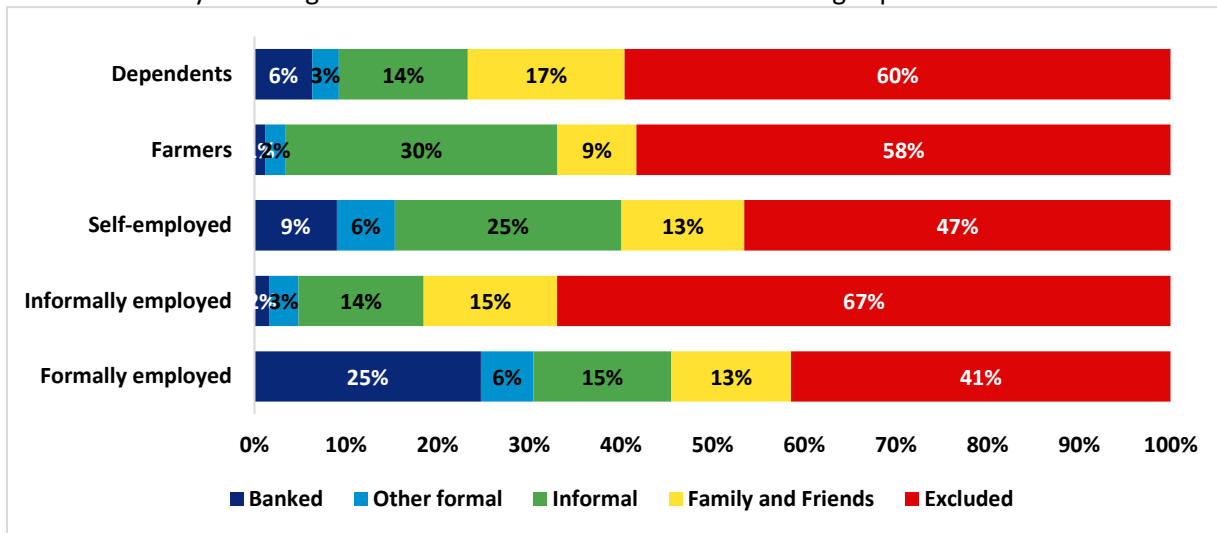


Figure 69: Savings Access Strand per Target Segment

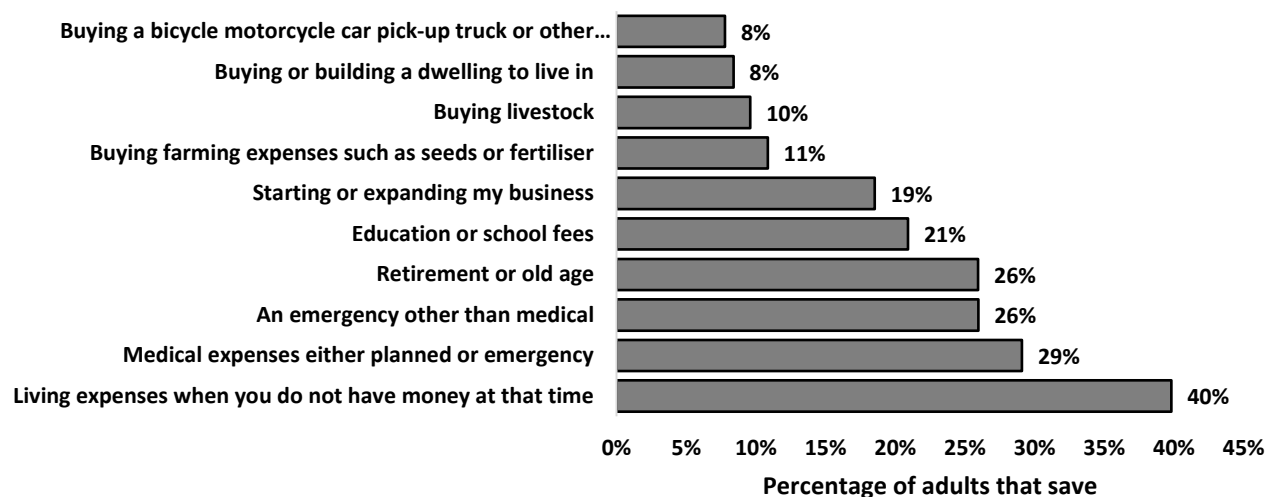
Source: FinScope 2015

410. *Lower Proportion of Target Markets Informally Employed, Farmers and Dependents save.* As per Figure 69 the target markets informally employed, farmers and dependents are the lowest savers. The target market informally employed do not have a fixed source of regular income resulting in this target segment being the most excluded at 67%. The higher percentage of informal savings used is due to relatively small amount of savings, which are not attractive for banks or do not meet minimum balance requirements. The income of the farmers are uneven and mostly based on the

seasonality. Since the majority of farmers are associated with co-operatives or informal saving groups and it is mandatory for them to save to be eligible for getting credit and minimal hassle. Therefore, they have the lowest access to savings from formal providers but the highest access from the informal providers. The target segment dependents have low income and are supported by the family members or through the government welfare programs, hence they do not have savings or have very low savings. Interest rate is the key determinant, therefore they prefer to keep their savings with informal providers or family and friends, towards realizing a higher interest rate or meeting social causes related expenses for the latter.

## Why are people saving?

411. This section outlines the use cases for savings as identified through the MAP qualitative and quantitative demand-side research (2015). It enquires into why people currently save, what their saving needs are and where the potential drivers for savings lie. As evident in Figure 70, the top four reasons for saving are: consumption smoothing, risk mitigation (medical and other), education, and provision for old age and retirement. Additional reasons for saving that feature high on the list include business expansion, farm input and asset building.



**Figure 70: Use cases for savings in Cambodia**

Source: FinScope, 2015

412. **Use of saving for consumption smoothing.** Saving for consumption smoothing means setting aside funds to meet living expenses and manage income volatility. Figure 70 shows that the highest use of savings is to meet living expenses. 40% of Cambodian adults who save indicate that they save in order to cover their living expenses i.e. smoothing their consumption between income receipts. This is a particularly important function in Cambodia, given the large proportion of adults who earn their income from infrequent and/or irregular sources such as farming, dependents or informally employed (daily wages or piecework). Saving for consumption smoothing is prevalent across all the target groups and is the highest priority consistently across all target market segments (excluding the Self-employed).

413. ***Use of saving for risk mitigation.*** Savings for risk mitigation requires the accumulation of funds to absorb losses during risk events. The use of savings to mitigate risks is a commonly cited purpose of saving by Cambodian adults across the target market. 29% of adults who save indicate they save for medical expenses. In the absence of a well-developed insurance industry, generally adults use savings (rather than insurance) as the first financial service to mitigate the impact of risk events. Insurance is currently limited to few products, and medical insurance offerings are mostly limited to group schemes. 26% of adults who save, save to manage emergencies other than medical. This shows a need to build up protection against unexpected events. Given the high proportion of population involved in agriculture, a savings safety net is a necessity to protect against droughts or fall in income from dropping prices for agricultural produce. For the formally employed, who have fixed term contracts (mainly for private sector employees) it is to manage job insecurity and for the self-employed, mostly MSMEs there is loss of income from unforeseen business risks. This is supported by evidence from the qualitative study as seen below:

*“I make my living by selling vegetables in the outskirts of the city. My family includes my two children and me. I force myself to save at least 1/4<sup>th</sup> of what I earn. Unlike others I don’t have family to turn to for financial help if something goes wrong. It is embarrassing going around asking people money. Since my sole earning is from farming there is always risk of less rain resulting in crop failure hence in such a situation my savings will help me and my children”.*

**Female, Farmer, 41 years old.**

414. ***Use of saving for old age and retirement.*** According to FinScope (2015), 26% of adults who save, save for old age and retirement. Savings for retirement can be considered as a medium for lifetime consumption smoothing as savers save their surplus during their working years to support themselves when they are no longer earning an income. The degree to which adults save for old age and retirement varies significantly across the target markets. Target segment self-employed and farmers save well above the average at 14% and 10% of adults respectively. The next highest target market is formally employed with 8% of adults saving for old age and retirement, however this target segment is eligible to certain retirement benefits from the social security funds. As part of the Cambodian culture community and family support can provide a substitute for support from retirement savings but being able to have your own savings for retirement provides a general sense of security and independence.
415. ***Use of saving for education.*** According to FinScope (2015), 21% of Cambodian adults that save, save for education or school fees. Education is considered by many Cambodians as a vital investment to improve the situation of their children and their wellbeing. However, saving for education is likely to be higher amongst higher income target markets as they are better able to afford to save for this purpose. Savings for education is highest among the Self-employed in the target market and lowest in the informally-employed and dependents.
416. ***Use of saving for investment.*** Saving for use in a business or asset purchases can be considered as saving for investment purposes due to the income generation or value appreciation potential. Figure 70 above shows that 19% of adult savers, save to start or invest in their business (this is largely driven by the self-employed target segment), whilst 10% save for buying livestock and 8% for buying real estate or vehicles.
417. ***Buying farming expenses such as seeds or fertilizers.*** Cambodia’s agriculture sector continues to play an important role in supporting economic growth with majority of the population engaged in

agriculture while contributing around 21.2% in 2015 (National Institute of Statistics, 2016). Savings for buying farm inputs is uniform across all target segments as they are involved in some form of subsistence farming except farmers who save 8% for this purpose.

## Who are the providers?

418. *Range of formal and informal providers active in savings provision.* The providers of saving products can be classified into formal (regulated) institutions and informal (unregulated) institutions.

- The formal financial institutions include: BFIs (i.e. commercial banks, specialized banks, MFIs, MDIs, Leasing Companies and registered microfinance operators), Agriculture Co-operatives, and Credit Union and Pension funds.
- The informal financial institutions include: village savings and loan associations, Rotating Savings and Credit Associations (ROSCAs), Tong Tin and informal savings groups. There are a large number of community-based savings associations operated/supported by Non-Government Organizations (NGOs), most of these groups have both savings and credit functions.

## Tong Tin

Tong Tin—a type of rotating savings and credit association—is one of the most common financing methods in Cambodia. A Tong Tin group consists of core members who make regular contributions to a fund, which is given to each contributor in rotation.

A sealed-bid auction is used to determine which member is allocated the lump sum. Members participate in the bidding process by writing their bids along with their names on pieces of paper and sealing them by folding or rolling. The bid represents the amount the bidder is willing to forego in order to receive the remaining lump sum. The person who has not obtained the lump sum before and has the highest bid is deemed the winner. In case of a tie, members submit new sealed bids until a winner is determined. The winner receives the lump sum, which consists of contributions minus the bid amount from members who have not previously won, and full contributions from previous winners. The winner's bid hence serves as a discount for members who have not won the lump sum before.

Tong Tin leaders are responsible for collecting bids, declaring winners and collecting contributions to give to the winner. Tong Tin leaders start the groups and receive the lump sum first; they collect the amount in full but also repay the amount in full. As such, Tong Tin leaders do not earn any interest. Moreover, Tong Tin leaders are responsible to pay the winner regardless of whether they are able to collect contributions or not. As such, Tong Tin leaders bear a lot of risk. A common reason for individuals to become Tong Tin leaders is that they are in urgent need of money.

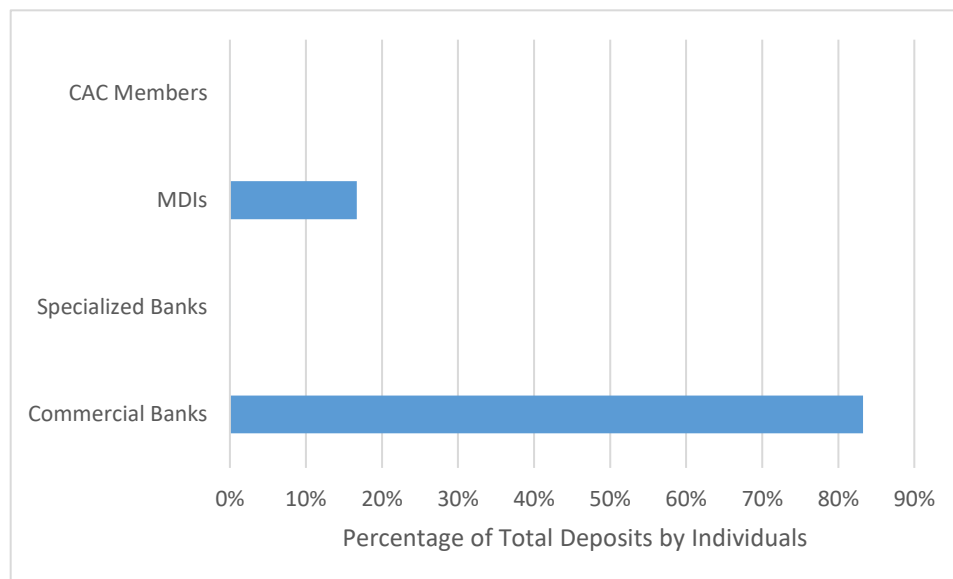
It is not uncommon for Tong Tin groups to collapse when the leader is unable to pay for members who have run away or when Tong Tin leaders themselves run away. The informal nature of Tong Tin means that there is a high risk associated with membership. Despite the risks, Tong Tin is highly prevalent in rural parts of Cambodia. One of the reasons for Tong Tin's popularity is that members are able to earn interest if they wait long enough before bidding. Many Tong Tin members also believe that the cost of capital for Tong Tin is cheaper than that for a Micro Finance Institutions (MFI) loan. There is also less opportunity costs associated with Tong Tin groups as individuals do not have to travel to microfinance branches and queue up to make their repayments. Moreover, these groups allocate the money to the people who need it more urgently, providing a safety net in case of emergencies.

However, interest earnings in Tong Tin are dynamic and members cannot predict them from the onset. The complexity of bidding and the long duration of Tong Tin prevents members from fully understanding their outcomes until the Tong Tin group has completed its cycle. In addition, most Tong Tin groups are large (between 25 to 165 members) and take a long time to complete their cycles. The long cycles make interest earned even harder to monitor. The wide spread use of Tong Tin signals a need for credit products that are easier to access, and hints toward the sophisticated financial needs of rural Cambodians.

### Box 3: Description of Tong Tin



419. **High level of un-intermediated savings.** As per FinScope, 49.1% of the adult population (including overlaps), save in cash, jewellery, livestock and assets or with family and friends. This is indicative of un-intermediated savings forming an important part of the consumer’s financial lives (What saving is done, and how?).



**Figure 71: Formal savings providers’ share of the market – by savings deposits value**

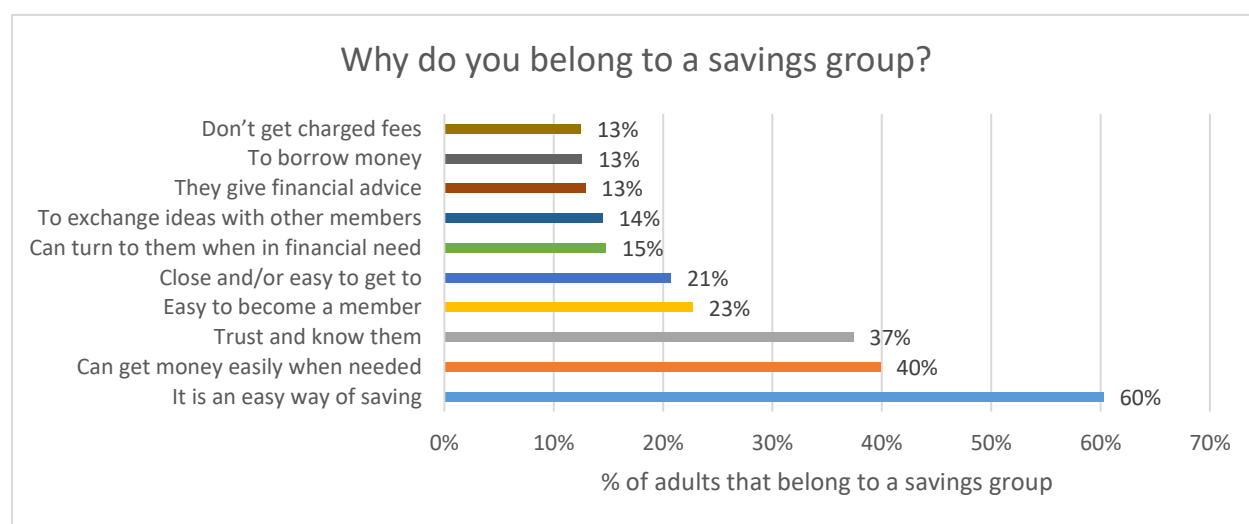
Source: Annual Report, NBC, 2015

420. **Trust issues a secondary decision factor when choosing the provider.** Trust is an important factor for savings, as clients need to have a level of trust in the fact that the institution or instrument storing their savings will do so in the manner they have signed up for and reduce the possibility of loss of savings. As already mentioned, some FSPs hold higher trust levels than others: 67% of the adult population that save reported trusting banks for saving over other providers. As validated by the MAP qualitative survey (2015), people trust banks because these institutions are registered and regulated by NBC. The trust factor is enhanced by an institution being registered and having official client-facing elements such as office buildings and strong branch networks. However, this trust has not translated into uptake of savings or resulted into stronger market dominance by banks.
421. However, Cambodian adults across all the target market still take the risk to save with ‘less trusted’ providers because they provide high interest rates with lesser legal formalities. Therefore, higher returns and less hassles are bigger factors for the uptake of savings unlike trust factor.
422. **Commercial banks are the primary providers of formal saving products by value.** As shown in Figure 71, of the total deposit mobilization of USD 780.5 million from individuals, commercial banks are the market leaders, with 83% of the overall individual savings deposit pool. MDIs are the second largest mobilisers of deposits, with 17% of the market share. Deposit mobilization by specialized banks and Cambodia Association of Cooperatives (CAC) was a meagre 0.01% and 0.02% respectively, this is because these institutions are not allowed to mobilize deposits and are closing their prior commitments or some form of compulsory deposit. The share of deposit by individuals to the total

deposit was 47.2% and the mobilisation of deposits from individuals by commercial banks grew at the rate of 12% (NBC, 2016).

423. ***Agricultural Cooperatives more popular in rural areas:*** Agricultural co-operatives is a mutual institutional structure where all members own the institution through purchasing shares. These shares are a long-term fixed savings instrument that is cashed out when membership is terminated. These co-operatives provide access to short-term flexible savings products, fixed deposits, credit and insurances. They hold various advantages that can drive growth. These include farmers gaining access to a group that assists their primary business (e.g. with input sourcing and marketing) and financial needs, the ability to access finance in an environment where peer engagement can help overcome access barriers of financial literacy, and the potential access to credit in a credit constrained environment.
424. ***The stock exchange is a small-scale savings provider, with potential for growth.*** The stock exchange is a provider that holds high potential for mobilization of savings due to the high returns that it can provide. This can also help in mobilization of savings from informal or unproductive sectors to productive investment avenues encouraging entrepreneurship and providing for capital. The Cambodia Securities Exchange (CSX) is in nascent stage and is yet to make a remarkable impact in terms of public securities market (Refer Provider Overview). At present, there are limited financial instruments and no government and non-government securities. There are only three companies listed and to encourage more companies to list tax incentives, awareness and marketing campaigns have been currently carried out. Mobilizations of savings through stock exchange hasn't happened and due to the low penetration, it is not a significant player. Also, access to the stock exchanges are usually limited to urban centres and is a challenge to make it accessible to all.
425. ***Pension Funds:*** The government has four organisations for managing pension funds: (i) the National Social Security Fund for Civil Servants (NSSFC), (ii) the National Fund for Veterans (NFV), (iii) the Persons with Disability Foundation (PWDF), and (iv) the National Social Security Fund (NSSF). Despite having formulated the law on Voluntary Pension Scheme which allows companies to save part of their employees' income in order to provide pensions for their employees, it hasn't commenced because the legal framework is still being established. Because of this, there are no private pension funds available, except for employees of large companies or institutions that manage pension schemes for their own staff members. Once this law is fully implemented, companies with more than 8 workers will need to be part of the Social Security Scheme where employers and employees contribute jointly. This can be a reasonable saving tool for old age.
426. ***Mobile money Providers.*** They do not explicitly provide a savings product at present, although they have the potential to reach underserved remote areas. Their mobile wallet is a store of value where clients can hold savings, but it does not provide the benefit of earning interest as mobile money operators are currently allowed to provide domestic transfer services and bill payment services only. Given that mobile money is the most preferred channel for domestic remittance, the availability of interest bearing saving accounts with this platform can encourage savings.

427. **Savings groups' dominant provider by client numbers:** Savings groups are the dominant provider with 2.2% of adults who save accessing savings through these institutions. 60% of the users of Savings groups belonged to ROSCAs. The reason for the savings group being popular can be understood from the Figure 72 below. In response to this picture and the need, an alternative, highly decentralized, non-institutional savings-led approach has gained popularity in the rural areas. It is an emerging movement, where members of savings groups save together, lend their savings to each other with interest, and share the profits. Even in the urban areas, savings groups complement the existing services of regulated formal financial institutions for its easy access and simplicity.



**Figure 72 : Reasons for using the savings group**

Source: FinScope, 2015

428. **Village Saving and Loan Associations (VSLA):** VSLA are community based savings groups that bring together almost twenty community members- predominantly women- to pool their savings and access small loans. The members of these self-selected groups accumulate capital over a 10-12 month cycle through weekly or monthly savings contributions and monthly on-lending of funds via short-term loans. Despite the low level of prioritisation of savings groups as an important provider by the Government, they are a key institution for saving in the remote areas. Of the various formats a savings group can take, the village savings group was noted as the most popular.

429. **Rotating Savings and Credit Association (ROSCA):** These are a form of informal and easy local savings mechanism; where a group of individuals come together and make regular cyclical contributions to a common fund. It provides a means for the utilization of surplus funds and savings of low-income households-which is then given as a lump sum to one member in each cycle. A type of informal financing, ROSCA called Tong Tin (by locals) is used very commonly in Cambodia. Tong Tin has existed in Cambodia for many years as a way of linking core members who have savings with those who are short on money. Deposits, loans and interests are made in cycles, usually once or twice a month. In Cambodia, the system is mostly managed by a chairperson or organizer, who convenes the group, collects all amounts due, compensates for occasional defaulters, and collects the first round for her/him in return. A distinctive feature is that members do not necessarily meet physically; in many cases, it is sufficient to send the contribution through someone else or hand it over to the organizer. At times, only persons bidding for the allotment need to join the meeting.

## What products are available and in use?

### General trends and salient facts

430. **Formal providers provide low Interest Rate.** The average interest rates being provided by the banks and MDIs on the normal savings deposit products is low. The spread between the deposit and loans is very wide as seen from Table 2 below, which compares the yearly interest rate on deposits and loans for both the riel and dollar. At present there are no regulatory provisions or guidelines on spread or ceilings for determining the rate of interest to be provided on between deposits and loans. One of the reasons for using informal savings was high interest as earnings from those savings that can be in the range of 25-60%.

Details	2016(July)	2015	2014	2013	2012	2011
Interest rate on Saving Deposit KHR	2%	1%	1%	1%	1%	1%
Interest Rate on Fixed Deposits KHR	7%	7%	6%	6%	6%	6%
Interest Rate on Saving Deposit USD	1%	1%	1%	1%	1%	1%
Interest Rate on Fixed Deposits USD	5%	4%	4%	4%	4%	4%
Interest Rate on Loans in KHR	17%	16%	16%	16%	12%	19%
Interest Rate on Loans in USD	12%	12%	12%	11%	12%	15%

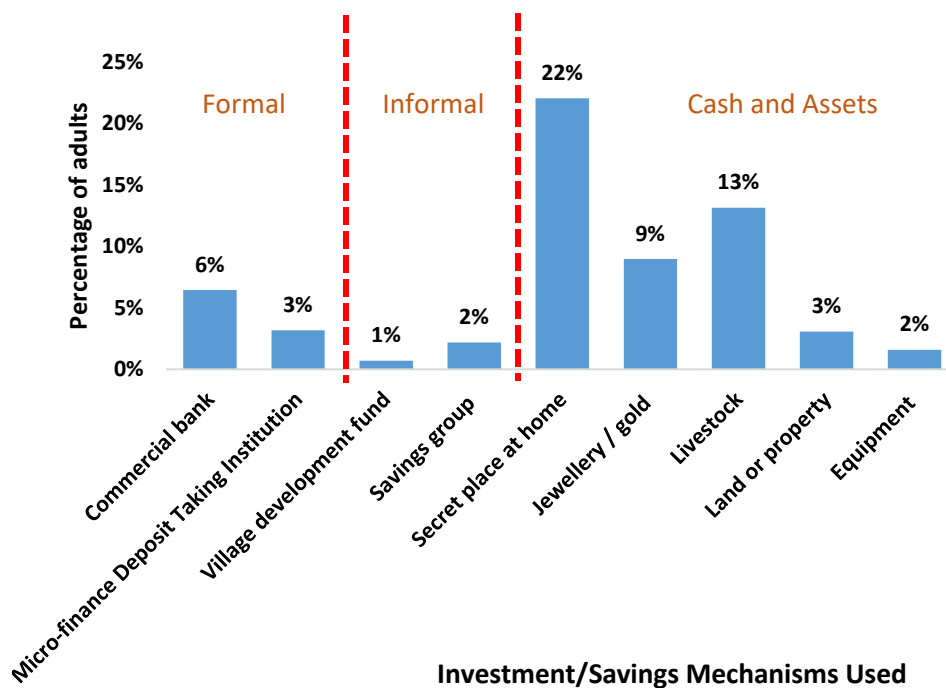
**Table 29: Comparison between yearly interest rates on Deposits and Loans provided by Banks and MDIs/MFIs**

Source: Author's own, Compiled from NBC Annual Reports (NBC)

431. **Banks are the most trusted provider but are the least used.** Banks were considered as the most trusted provider by the majority of the population but the uptake of services is low. Qualitative survey revealed that bank accounts were viewed as expensive and burdensome, in terms of requirements and convenience, and the interest rates offered were also considered too low to justify the use of accounts.
432. **Savings done at home and through other informal channels.** The formal sector provides very little opportunities/incentives for savings and investment. Therefore, Cambodians either store cash at home or route it through informal channels or invest offshore. Since the economy is dollarized with both the US dollar and the riel freely circulating and interchangeable, there is limited value erosion due to inflation. Cambodians were also found to store their savings in kind in the form of real estate, gold jewellery etc. which could be easily pawned whenever cash was required.
433. **Cash widely used for saving.** Although not strictly a product, cash is one of the most widely used savings instruments in Cambodia. In total, 22% of adults in Cambodia save at home in cash (FinScope, 2015). In particular, saving in the form of cash is convenient, has no entry barriers or no transactions costs, and is very liquid. However, it is also risky (vulnerable to loss and theft), earns no return, and the liquidity that is useful can also be a drawback. Due to dollarization of economy, people keep dollars which mitigate loss of real value due to inflation.
434. *"I receive my salary into my bank account. As soon as I get my salary, I withdraw some of it and keep it at home. Every month I do withdraw from the bank and keep the cash at home. When I have a good amount of cash at home I buy gold and jewelry for my wife."*

**Male, formally employed, 41 years old**

435. *Assets as alternative saving instrument.* As opposed to the official savings products from providers such as banks and Microfinance Deposit Taking Institutions (MDIs), savings in the form of assets, jewellery, gold, livestock etc. which are easily accessible is more popular with **Cambodian** adults as shown in Figure 73 (Refer What saving is done, and how?). The primary reason behind holding savings in these forms are high liquidity, convenience, low transaction costs and security of value.



**Figure 73 : Investment/ Savings Mechanisms Used**

Source: FinScope, 2015

436. *Mandatory savings required by Agriculture Cooperatives and savings groups.* Unlike banks, the agriculture co-operatives, credit unions, VSLA and savings groups require their members to regularly deposit certain amounts at set intervals as prescribed by the particular savings scheme. Failure to meet this requirement is met by some form of financial penalty and, in some cases, credit provision also depends upon the savings done by the member. Therefore, these institutions are developing the culture of savings through disciplining members to save more and at regular intervals, which perhaps would not have been possible if not for mandatory savings schemes.
437. *Savings in Mobile Money Accounts more popular than banks savings product.* Savings in mobile money accounts, with zero deposit or service fees and lower withdrawal fees, is widely accepted even though this form of saving does not pay interest or have non-expense benefits. 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. Furthermore, accessing mobile money has fewer barriers than bank accounts in terms of reduced Know Your Customer (KYC) requirements and no proof of employment or income requirement (Refer The Market for payments -What regulatory and policy issues need to be considered?).
438. *Homogeneous savings product offerings, with Financial Service Providers (FSPs) often targeting the same market.* Across the Financial Service Providers (FSPs), the product offering is relatively

homogeneous. This applies both to what can be counted as a 'standard' savings product type for providers, and to products that have been 'specialised' by targeting particular profiles of customers. With regard to the latter, most Banks and Financial Institutions (BFIs) offer special kinds of savings account for women, children, and senior citizens respectively. These differ from the general savings products with regard to marginal changes in the interest rates, fringe benefits, mobile/Internet banking, among other things.

439. *Incorrect formal product usage erodes saving value.* Savings are a unique product from general transactional products; as such, it will have different product features. Incorrect product usage for savings can erode the potential value due to higher transaction fees or the lack of interest. Additionally, this experience can create a negative perception of the cost of savings that is incorrect and yet reduces the likelihood the product will be used.
440. *"My son is working in Thailand and sends me money on monthly basis. I opened a bank account so that it would be easier to receive the money as advised by the remittance agent. Last month I realized that my son had sent USD 650 in the last six months, but I got only USD 630 in my account. So I went to the bank to clarify and I was told USD 20 was charged for current account maintenance charges and other charges. The officer told me saving account charges were lower. I did not know that there are different accounts that individuals can open and the lady at the front desk did not explain it to me. Not only did I loose USD 20 on charges, I also lost the interest.*

**Female, remittance receiver, 66 years old**

## Summary of the returns on the products:

441. The section below summarises the returns provided by different providers (formal and informal):

- Banks provide a range of savings products but are considered costly attributed to higher minimum balances, annual and operational charges and the lowest interest rates among the formal providers.
- MDIs offer low minimum deposits and higher interest rates +2-3% on their savings product and +4% higher on the fixed and long term saving products.
- Agricultural co-operatives do not have different savings products but provide higher interest rates in the range of 10-14% on the deposits. Also members can purchase share and get returns based on the profitability.
- Savings in Cash, Livestock, Jewellery and Assets is primarily because of high liquidity, convenience, low transaction costs and security of value.
- Savings in VSLAs, ROSCAs/Tong Tin which provide regular savings mechanisms backed by provision for loans provide highest returns that can range from 40-65%.

## Short-term savings products

442. 'Short term' savings means those with a term length of up to a year. Short term saving products offered by Banks and MDIs do not have many choices and are homogeneous. Following are the type of short term accounts widely available in Cambodia:

### Products offered by Banks

- **Savings deposit accounts:** Savings deposit account is a modest interest-bearing account with the requirement of average monthly balance in the account. The account can be accessed at any point and amount can be withdrawn using cheque or ATM/Debit card. It provides accessibility and convenience to those who have surplus funds and wish to surge their assets by investing in low risk products with a secured bank. Minimum amount of KHR 40,680 (USD 10) is required for initial deposit/minimum balance and the standard interest rate is depending on the selected currency. The average interest rate per annum for USD is 0.86% and KHR is 1.55%. Different banks offer this type of accounts with slight modifications targeting wide array of audience, but the key features remain the same.
- **Short term fixed deposit accounts:** It is a term deposit account, which is fixed for a certain period within one year of time. Group or individuals can open these accounts. It offers an average interest rate of 1.62% for 1 month, 2.31 % for 3 months and 3.29% for 6 months in USD. Withdrawal from such deposits is not permitted during the locked-in period.
- **Savings account notice withdrawal:** These are a special type of term deposit account for short-term investment with higher return than regular savings account. At any period, the customer is free to premature cash withdraw this term deposit. The majority of the banks offer only short term deposit at an average interest rate of 3%.

### Products offered by the MDIs

- **Savings account:** The easy saving account makes it convenient and easy for client to withdraw and deposit whenever they need cash. This account can be opened with the small amount USD 3 (average across institutions). This account is for those who require deposit and withdrawal flexibility. Interest rate usually varies (3%-5%) with the amount deposited. There are a wide variations of the savings accounts offered by different MDIs but the core product feature remains the same- with different MDIs naming it differently with few different/additional product features.
- **Fixed deposit accounts:** This is a term deposit fixed with a lock-in period of 1-2 years The clients are offered higher interest rate as compared to banks, as they offer an average interest rate of 3% for 1 month, 4% for 3 month and 5.5% for 6 month in USD.
- **Hybrid of Savings and Fixed Account:** These type of accounts have a mixed features of Savings and Fixed deposits and are introduced to encourage and mobilize savings. These accounts provide high interest rates while also providing easy access to a customer's savings. Initial deposit to set up this type of account is KHR 2,000,000, USD 500 or THB 20,000. Minimum balance of KHR 2,000,000, USD 500 or THB 20,000 needs to be maintained as well. Interest rates will increase as savings increase. Interest rates for an account in KHR ranges from 4.5% to 5.5% while interest rates for USD and THB accounts range from 3.5% to 4.25%.

### Products offered by Credit Unions, Agriculture Co-operatives

- **Compulsory Savings:** All members of these groups are required to make a minimum compulsory deposit of KHR 1,000 (USD 0.25) every month. This is mainly done to encourage savings behaviour among the members and help plan for the future. As an incentive to deposit, members receive competitive interest rate.
- **Voluntary Savings:** This savings account allows members to deposit their excess cash with the flexibility of withdrawing funds at any time. Unlike compulsory savings, there is no minimum balance for this product. There is small rate of return in this account. This is a good account for people who face uncertainty or have an uneven cash flow and want quick access to liquid funds.
- **Promissory Note:** It is a fixed term deposit product, where members can choose their term from 3 months, 6 months and 12 months. Minimum deposit is KHR 20,000 and higher interest rates are provided to mobilize more savings.

Products offered by Village Savings and Loan Associations (VSLAs), Rotating Savings and Credit Association (ROSCAs)/ Tong tin: These are a form of informal and easy local savings mechanism; where a group of individuals come together and make regular cyclical contributions to a common fund. It provides a means for the utilization of surplus funds and savings of low-income households- which is then given as a lump sum to one member in each cycle. The basic advantage of the ROSCA is



that it offers an opportunity for members to save, and at the same time keep such savings fairly liquid and maximizing return.

443. The returns offered by these informal savings products are very high (in comparison to formal providers), usually ranging between 20%- 35% but are not committed or fixed at the beginning. The key objective of these informal savings is to encourage saving discipline, mobilize savings and provide credit among the group members- these are self-help groups between the members. The income earned from extending the loans to the members is distributed amongst the group by making adjustments in proportion to the savings made by different individuals in the group.
444. *"I prefer saving in ting tong group because it is a very good tool for saving and the return is also very high. Banks are safe but the interest is too low and charges are high. Whenever I get my salary I withdraw most of it and save it in our office ting tong group. Last time I earned a little less than 60% of the savings. It is also very easy to get the money whenever I need by forfeiting a small amount.*

**Male, Formal worker, 54 years old.**

### Long-term savings products

445. 'Long term' savings means those with a term length of over a year. Again, Commercial banks and MDIs do not provide significant differentiation in long-term products and are mostly limited to fixed deposits. Following are the long term saving products widely available in Cambodia:

#### Products offered by banks

- **Long term fixed deposit accounts:** It is a deposit that usually gives you a choice of receiving interest every 3 months into your account while the principal is payable at maturity. Minimum amount of KHR 200,000 (USD 50) is required for initial deposit and deposit can be made in three different currencies including Khmer riel, US Dollar and Thai Bhat. The average interest rate varies for different time period and currencies i.e. average of 6.8% in KHR and 4.30% in USD. In case of MDIs, clients are offered higher interest rates and have a choice to withdraw amount every month or at the end of the term. It provides annual average interest of 10% in KHR, 7.25% in USD and 9% in THB.

#### Products offered by MDIs

- **Fixed Deposit Account:** A long term deposit with lock in period of more than 2 years where customers have the option to withdraw interest at the end of each month or at the end of the term. Customers need to deposit a minimum of KHR 200,000, THB 2,000 or USD 50) to open a fixed deposit account. Customers can earn annual interest of up to 10.5% for KHR and THB and up to 8.25% for USD.
- **Kid Account:** It is a long-term investment account, which provides a mechanism to accumulate savings for children to meet their future financial need such as education, wedding or business. It provides an average annual interest rate of 5% in USD and 6% in KHR. The withdrawal conditions for such accounts is a limit in the age of the child, mostly the age is 18.

- **Future Account:** This account is designed for clients who choose to set aside a pre-determined recurring amount for a fixed period of time. It is for individual and companies. The account earns interest as clients save for specific future goals including retirement, further education, purchase of new home or health care. Average interest rate for this Future Account is 8.50% in KHR and 7% in USD.

Products offered by Credit Unions, Agriculture Co-operatives

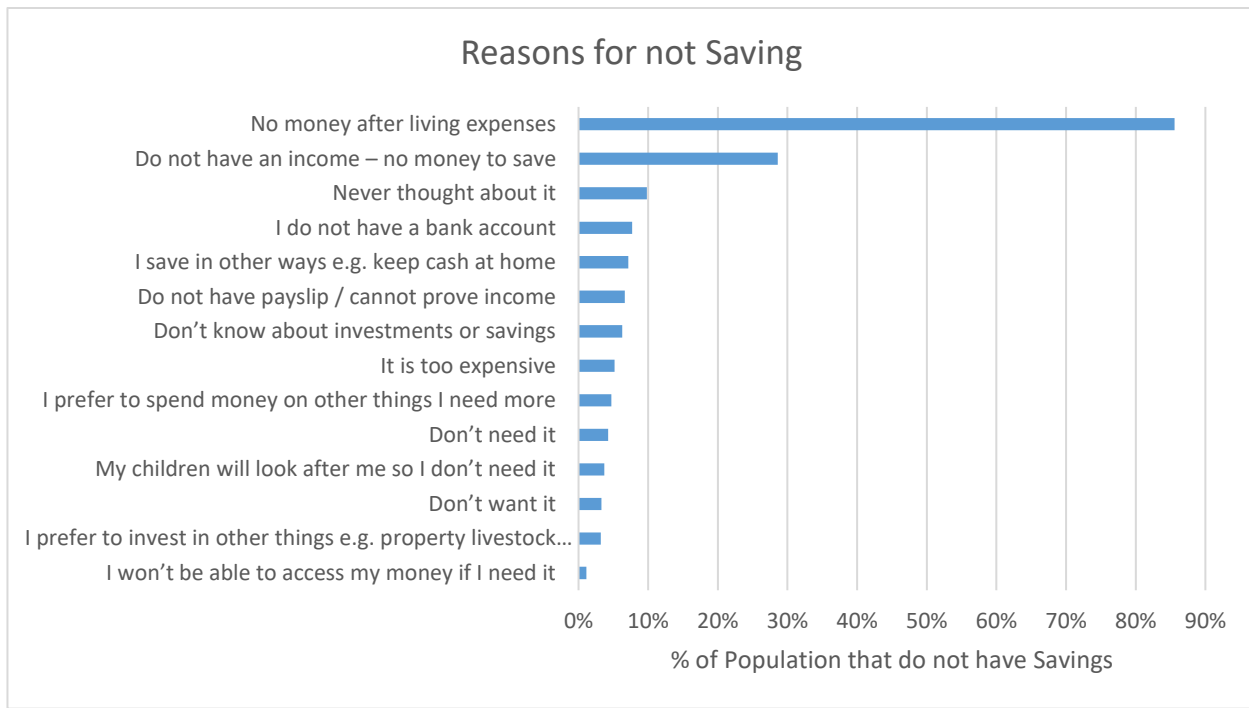
- **Institutional Share:** Members of the Credit Unions and Agricultural Co-operatives needs to buy a minimum unit of 10 institutional shares which is pooled to create the Capital Investment. People with higher savings can buy more shares. The returns received is in the form of dividend and depends on the performance of the co-operative.

Products offered by the Capital Market

- At present, there are limited opportunities for investment in the stock market with only three listed companies. Both the primary and the secondary market are in nascent stage and the public trust and awareness in the equity market is very low.

**What are the barriers to usage of savings services and products?**

446. There are many ways in which access to financial inclusion can be hindered. Two main groupings are – access and usage barriers. Barriers to initially accessing a product include, for example, issues of proximity, eligibility, affordability and appropriateness; while barriers to effective usage of the product include issues of financial capability, trust and hassle/inconvenience.



**Figure 74 : Reason for Not Saving**

Source: FinScope, 2015

## Access barriers

447. ***Maintaining minimum balance prime reason for not having bank accounts.*** 12% of Cambodian adults state that the reason they do not have a bank account is because they are not able to maintain the minimum balance. The minimum balance has ranged from KHR 20,000-40,000 (USD 5-10) KHR 4,000 (USD 1) by some of the banks now. Some banks now are also doing away with the minimum balance requirement for some specific account types.
448. ***High Service Charge.*** 8% of Cambodian adults feel that the service charges are too high which stops them from opening a bank account. Banks charge certain fees and commissions from the customers for different services and facilities provided to them (Beed, 2016). Consequently, maintaining or having a bank account has proved to be expensive and the same was reflected during the MAP qualitative research (2016).
449. “I’m currently working as a dishwasher and a night watchman. My salary is very low but I manage to save a little. I went to a bank few months back to open a bank account to save. After talking to the officer at the bank I learnt the banks are only for rich people. A person like me with low saving has no use of a bank account. I was told that I would have to keep minimum balance of USD 10 with interest of only 2% on my savings. Besides they would charge yearly bank account charge, cheque book charge, debit card charge. Instead of earning interest on my saving I would end up paying more than what I would save”.

**Male, Informal worker, 39 years old**

450. ***Proximity is a key barrier for Banks and Financial Institutions.*** Proximity to formal institutions, and particularly banks, has been highlighted in both FinScope (2015) and the qualitative research, as a major barrier to savings access. As per the FinScope 2015, for more than 52% of the population, the time taken to reach a formal provider was more than 30 minutes. The mainly urban/ market centre distribution touchpoints for these providers has served as a barrier for the majority of the population, who are concentrated in rural areas. MDIs are often obliged to bring services to the clients but neither the banks nor MDIs have been able to serve the clients in the commune or village level in the rural districts. The poor often cannot bear the cost and time involved in travelling long distances to access services in alien surroundings. This means that their customers will have to incur travel and opportunity costs to access their savings. This is particularly an issue when taking into account the fact that the highest demand for savings is for low value and frequent deposits, and therefore a profile that is likely to be sensitive to the cost trade-off of travelling to cash in and out of their savings.

## Usage barriers

451. ***Low income level confining Savings.*** The majority of the population have low disposable income to set aside for savings. One of the main reasons identified by the FinScope (2015) survey for low or no savings is that people have little to no money after meeting living expenses; of adults that do not save, as highlighted in Figure 11, 86% noted this as the reason. A further 29% of this group indicated no income or no money to save in the first place. The average household income of Cambodia was estimated at USD 1,040 (National Institute of Statistics, 2013). 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 sit below international poverty lines, yet manage to save small values towards prioritised needs.

452. ***Do not see the need for formal.*** 84% of the Cambodian adults do not see the need for having a bank account (FinScope, 2015). Cambodia remains a largely cash-based economy and a high degree of informal economy results in many people hoarding their money at home instead of using banks. Among the firms that have no firm registration with MoC or a provincial/municipal commerce division, the informal sector contributes about 27-30 percent of employment, capital and value added. (The World Bank and ADB, 2015). This is highlighted by the fact that of the total 47% of the adult population who save, 33% save informally and with family and friends.
453. ***Financial Literacy and Awareness.*** The ability to engage with information on financial services is an important precursor to effective usage of those services. Literacy levels, and importantly financial literacy levels, are low in Cambodia. This means that the general population has reduced ability to engage with financial services that can restrict their depth of access (Refer The Market for Savings What saving is done, and how?).
454. Only 18% of the population in Cambodia are financially literate based on the Global Financial Literacy Report placing the country in 135<sup>th</sup> position out of 144 countries surveyed (Leora Klapper, 2015). Various studies have shown that due to low financial literacy levels, majority of the population are less likely to save and plan for the future and more likely to have problems with borrowings. 47% of the Cambodian adults mentioned the following as the reasons for not using a bank account or financial services:
- Lack of understanding on how bank functions;
  - Lack of awareness about applying or availing the services;
  - Not aware about the benefits of the bank account;
  - Perception about banking service that it is only for rich;
  - Fear of embarrassment or refusals;
  - Unaware about the banking and financial services available.
455. ***Low real returns reducing the value proposition of saving with formal providers.*** Minimum balances and different charges and commission charged by the banks discourage the Cambodian adults to save with the banks. Also, the interest provided by the banks on the basic savings accounts is low. Hence the Cambodian adults (76% of who save) prefer to save at home or with the informal institutions or in the assets as they feel it is less hassles and expensive yet provide high returns.

## What regulatory and policy issues need to be considered?

456. ***No deposit insurance or guarantee schemes.*** Deposit insurance, which protects depositors against the loss of deposits placed with banks and formal institutions in the unlikely event of their failure, is not available. Deposit insurance to protect depositors from the risk of bank defaulting on their payments would increase public confidence in the banking system and mobilize more savings into the formal channel. Deposit guarantee/insurance is recognized globally as an important component of a country's financial safety net and has been implemented in more than 120 countries around the world. A deposit insurance system needs to be part of a well-designed financial safety net, supported by strong prudential regulation and supervision, effective laws that are enforced, and

sound accounting and disclosure regimes in order to strengthen the belief and confidence in the banking system. NBC acknowledges the importance of introducing the deposit insurance or guarantee scheme and is working on the legal and regulatory framework for the establishment of the scheme.

457. **Limited regulatory capacity to supervise vast numbers of agriculture co-operatives.** *Agricultural cooperatives are user-owned financial intermediaries, which operate on the base of small savings accounts of its members which is then used to provide members with small loans for business purposes or in times of financial stress. Agricultural co-operatives are usually governed by a volunteer board of directors elected by and from the membership. Often the lack of required management skills and conflicts of interests and government weaknesses makes these organisations vulnerable. As a result, the depositors remain highly vulnerable to loss of their savings. This is because there is no consumer protection and no recourse in the case of consumer abuses. Agriculture co-operatives are currently regulated by the Ministry of Agriculture, Forestry and Fisheries. However, the large number of cooperatives makes effective regulation and supervision of co-operatives a major issue of concern. This is an important consideration: while co-operatives provide a valuable lifeline for savings to often underserved customers in geographies often left out by banks and MFIs. The regulating body is severely constrained by a lack of capacity, which limits the ability of this regulator to efficiently oversee the activities of the co-operatives. Such agencies do not have the financial skills and political independence needed to oversee financial intermediaries effectively. Supervising savings and credit cooperatives requires understanding their unique risk profile and adapting supervision accordingly.*
458. **Mobile money accounts are not promoted as savings products.** *Mobile money accounts are currently treated primarily as payments products rather than savings products. Without providing interest on the mobile money float by mobile money providers, it limits the institution's incentive to promote and incentivize savings activity through mobile money. The mobile money products can play an essential role in extending financial inclusion and providing low cost options for savings products that will help fill the gap left by the banks and other formal institutions (Refer The market for payments).*
459. **Legal identity to informal savings groups.** *There are numerous informal savings groups, such as VSLAs, ROSCAs and community based savings associations present in rural and semi-urban areas alike. However, these savings groups lack formal identity or are not registered with any government institution. While they do not pose a systematic risk that would require prudential supervision, formalization through registration could assist these groups with connecting to formal financial services providers, and would provide an entity against which recourse is possible should consumer abuses occur. Registration with a government institution, such as the provincial and municipal administration, could offer some protection to the savings group members if member funds are mismanaged or misappropriated.*

## Where and what are the gaps and opportunities?

460. **Unmet savings need highlighted by saving at home and saving in assets.** *The high level of saving at home and in assets shows there is unmet demand for institutional saving. The FinScope, 2015, showed that 49.1% of the adult population who save (including overlaps), save in cash and assets. The primary reason being a combination of high liquidity, convenience and low transaction costs. The main reasons for saving at home are in order to have cash at hand for short-term needs and due to*

the hassle factor of accessing other savings touch points. It is an indication of proximity issues and inappropriate products, and the lack of electronic payments infrastructure that drives the need to keep cash to pay for day-to-day expenses. People mainly use assets as a means of savings as they can liquidate or pledge it as collateral it whenever required and use it to meet their needs. Saving in assets is inflation combatting and therefore highly valuable in the current macroeconomic context.

461. **Promote Savings Habit.** It is important to promote savings to help smoothen the irregularity or variation in income and consumption flows and allow for predictable access to capital for household needs. The FinScope, 2015, showed that 57% of the adult population do not save; although the major reason for not saving is not having money to save after living expenses; it could also be due to high levels of borrowings to mitigate risks, consumption smoothing etc. resulting in over-indebtedness (refer The market for credit). This would result in the trade-off of accessing capital through credit and then funds from a limited income being directed to repayment of credit rather than saving. Building upon the work that has been carried out by different stakeholders to promote savings instead of credit there lies ample scope for instilling a savings culture instead of credit for better financial management. This is currently being done by Co-operatives and informal savings groups by exclusively gathering compulsory savings and increasing the number of savings accounts for many low income individuals by leveraging their need for loans. Agriculture co-operatives and informal providers have created a relationship with this low income end of the market through loans, and as such present an opportunity to build that relationship into voluntary savings. This modality could be an opportunity for the formal providers to promote similar savings products.
462. **Need for formal, low-value saving products.** Most of the Cambodian population are unable to save because of low income. Furthermore, many (59% of adults) of them have no money left after meeting living expenses, and therefore, saving is rarely an option. For this part of the population, introduction of low-value savings products brings forth an opportunity of saving for their future. 57% of Cambodian adults who save are saving with informal providers and cooperatives as they provide low-value savings products to the customers, but there is no evidence of formal institutions active in this market. Banks could review the benefits they are able to offer savings customers, and also consider whether they could bundle benefits to provide savings depositors with better value or provide low-value products such as group savings products. However, related barriers such as lack of proximity and limited financial literacy should be overcome, with initiatives from the policy-level.
463. **Goal oriented savings products a powerful commitment device and driver of longer-term savings.** For majority of the Cambodian adults some of the key use cases of savings and credit is for education, retirement, emergencies and starting or expanding businesses, etc. (Refer Why are people saving? and What credit is used, and how?). There are opportunities to develop long-term savings products explicitly designed and marketed for these usages, creating a commitment device for savers. Committed savings accounts are useful for saving money for future use by guarding against the temptation to spend it before reaching the goal. For example, the retirement product may allow irregular deposits throughout the years but only permit withdrawals after retirement. The majority of the savings products offered by providers are short-term products with low levels of return; long-term savings products are limited to retirement funds. Long-term savings products explicitly targeted at specific goals represent a powerful commitment device for savers, potentially helping to induce greater usage and uptake of savings.
464. **FSPs to link to informal savings groups.** Informal providers, specifically savings groups, have been the most common provider of savings – one of the attribute being the fact that people have little or

no alternative in the remote areas without road access and where there is no footprint of banks and MFIs. But the popularity of these providers and usage has been seen in the urban areas too, where the footprint banks and MFIs are high. This is due to the perceived value that the informal savings groups provide and can be broadly looked at in terms of convenience, flexibility, simplicity, possibility of small value transactions, social capital, recourse and trust (Cenfri, 2016). FSPs should partner/collaborate to leverage informal savings groups by establishing relationships with them and by taking advantage of their unique selling propositions. FSPs can explore the role that these informal services can play in delivering financial services to rural and low-income communities. Connecting such informal savings groups FSPs increases the scope of financial inclusion, through policies to facilitate the continued existence and growth of local services rather than mandating the formal providers to move down to deliver services at local level.

465. ***Trust of the population highlighting opportunity for the formal FSPs to increase outreach.*** Most of the adult population trust formal institutions, especially banks, for saving. 67% of the adult population that save reported trusting banks for saving over other providers. But evidence indicates that banks are not the key providers for savings (Refer Product Market Savings Who are the providers?). This brings in opportunities for formal institutions to increase their outreach and market share by utilizing the trust factor. However, related barriers such as lack of proximity, low or negative returns on savings accounts and communication differences between formal institutions and the saving population should be overcome. The saving needs of the rural population is different from the urban. Standard products or Products that have been developed with the urban population in mind may not cater to the needs of the rural population making it unapproachable and restricting the take up of formal saving products.
466. ***Use of technological innovations to improve saving.*** As lack of proximity to financial institutions is one of the major barriers to formal saving in remote areas; introduction of technological innovations in the form of branchless banking, mobile banking and partnerships with digital channels can change the way individuals access financial services. Mobile money is an alternative low-cost, flexible savings account which allows savings at zero monthly and deposit fees, making it a cheaper and effective store of value account for low income consumers. The outreach area is relatively widened with a greater distribution network through its agents.
467. ***Effectively promote consumer education.*** The FinScope, 2015 showed that the reasons cited by 47% of the Cambodian adults for not using a bank account or financial services were related to financial literacy or awareness. Engaging in increased levels of consumer education or information sharing through planned financial literacy campaigns can make clients and potential clients aware of the benefits of using a bank account, thereby encouraging greater usage of the services. This can support the mobilization of savings (conversion of savers at home or with informal providers or through developed savings habits).

## The market for credit

Context: credit

What credit is used, and how?

Why are people borrowing?

Who are the providers?

What products are available and in use?

What are the barriers to usage of credit services and products?

Access barriers

Usage Barriers

What regulatory and policy issues need to be considered?

What and where are the gaps and opportunities?



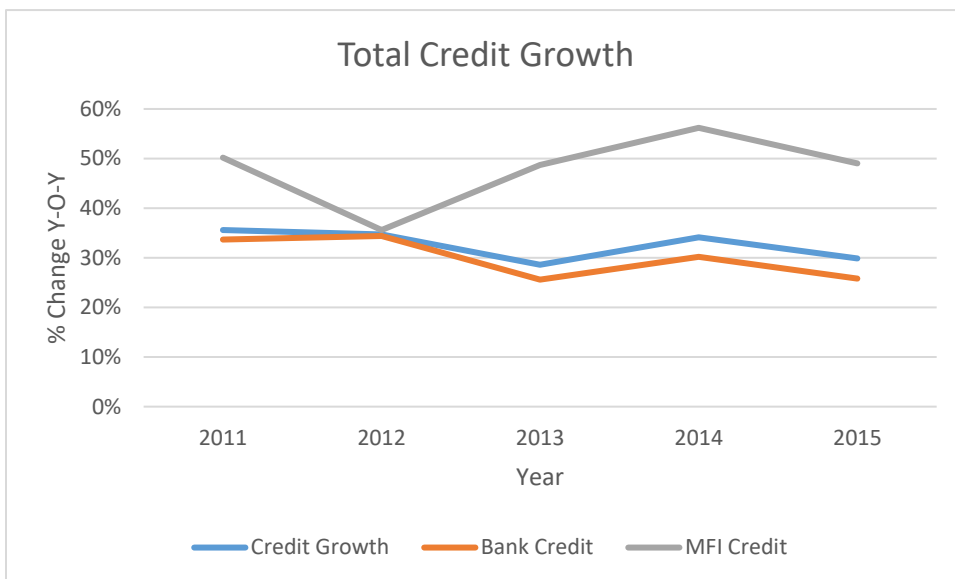
## Summary: the market for credit

- Rapid growth in domestic credit by 32-35% during the period 2010-2014
- Large number of formal providers yet overall access to credit low
- MFI's are playing a key role in credit expansion in Cambodia and growing in numbers
- The banks dominate the total credit market in terms of value, MFIs provide the highest number of loans
- Self Employed have better access to Credit from Banks and Formally Employed have low usage of bank credit
- Farming expenses a key use case of credit for either input financing or asset investment for Cambodian adults
- Low evidence of usage and access barriers to credit with only 4% of the Cambodian adults refused loan
- Loans and advances from banks and MFIs backed by immovable assets as collateral
- People not accessing credit due to fear of debts and social stigma of borrowing
- Informal providers still playing a major role in the overall provision of credit in Cambodia
- Some degree of multiple borrowings and over indebtedness prevalent in the credit market
- Regulation and effective monitoring of the MFIs are required with prudent reporting practices
- Credit Bureau Cambodia playing an important role in improving Credit Market but need to strengthen the credit reporting and credit risk assessment by BFIs

## Context: credit

468. Credit, when allocated efficiently, can be a core driver of economic growth and development. The disbursal of credit allows the intermediation of otherwise unproductive deposits, thereby earning a return on those deposits as well as supplying capital to projects and enterprises. Credit is supplied on both a personal and business basis and is used for purposes such as building businesses, funding education, funding larger assets and preventing people from falling into poverty after a shock. However, it can also trap people in a cycle of debt that causes severe hardship. Therefore, the balance between enhancing access to credit and consumer protection is fundamental to the development of a credit market, and requires a comprehensive view of the market from both the consumer and provider's perspectives.
469. **Rapid credit growth:** As per the Figure 75 below the amount of domestic credit provided by the financial sector (banks and other formal providers) had grown annually by 32-35% during the period 2010-2015 (NBC, 2015) In terms of economic growth in 2015, Laos grew the most among ASEAN members with a GDP growth rate of 7.35%, followed by Myanmar at 7.3% and Cambodia at 7.03%. The domestic credit growth in these economies were 24%, 30.2% and 50% respectively (IMF, 2015). Owing to consistent high growth of the economy, the current growth in domestic credit to private sector had fueled concerns over the loan quality and financial stability. A string of measures like

introduction of increased capital requirement for banks and MFIs, regulation on liquidity coverage ratio in line with Basel III on liquidity, and reserve requirements of 12.5% on bank's foreign borrowing (IMF, 2015) to cut down dependence on foreign borrowing was implemented by NBC which helped in moderating the credit growth to 30% in 2015. There are rising concerns over faster credit growth prompted by rising bank deposits, declining lending rates, and growing risks from the lower credit underwriting standards that arise from the constraints on bank management capacity (IMF, 2015). At present the total credit as a percentage of GDP stood at 68.8% (NBC, 2016). Other measures like regulation on capital buffer, credit risk grading and impairment provision, credit risk valuation for solvency ratio and prompt corrective action are being planned.



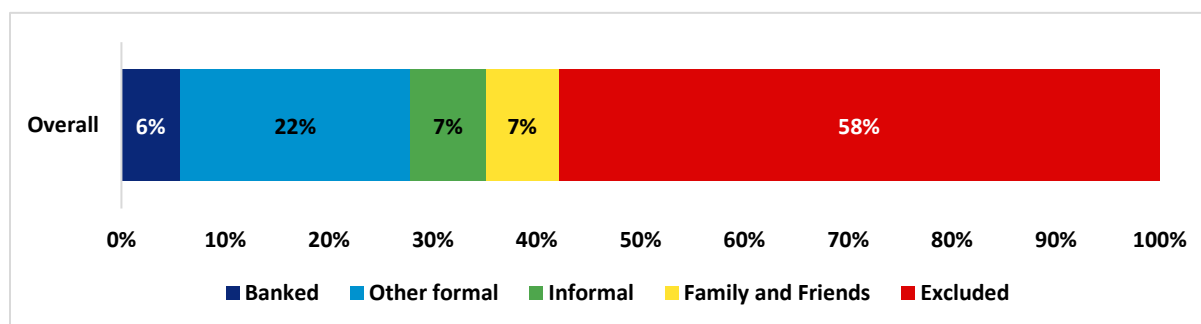
**Figure 75: Credit Growth**

Source: National Bank of Cambodia, 2015

470. **MFI's are playing a key role in credit expansion.** The number of microfinance institutions (MFI's) in Cambodia is also rapidly increasing, with MFI's becoming more and more interconnected with the rest of the financial sector. The sector's growth was reflected by the increase in the number of institutions, assets, loan portfolio, network and new financial products and services. By the end of 2016, there were 71 microfinance institutions as compared to 58 microfinance institutions in 2015, of which 7 are microfinance deposit-taking institutions. The microfinance institutions had a strong branch network of 4,154 branches (NBC, 2016). MFI's, though are funded primarily through foreign borrowings which in turn is used for financing loans to their clients, their over reliance on this form of external funding can make them susceptible to external shocks. A sudden stop in foreign funding can lead to a credit crunch for the financial system and put the health of financial institutions at risk. A sudden stop in foreign funding can lead to a credit crunch for the financial system and put the health of financial institutions at risk.
471. **Credit Bureau Cambodia playing an important role in improving Credit Market.** To address the rising concerns over the rampant credit growth, one of the measures taken by NBC is through the

establishment of the Credit Bureau Cambodia. Through its Prakas on Credit Reporting<sup>22</sup> all banks and MFIs are required to provide data on their credit clients and to obtain credit report on any loan applicant as part of the loan approval process. The CBC plays an important role through its credit information sharing system with the BFIs by providing the information on borrowers that would help in mitigating credit risk and minimizing over-indebtedness risks. This has enabled banks and microfinance institutions improve risk management and credit allocation practices by sharing and using the credit information. As of 2016, 138 FSPs (38 banks, 14 specialized bank, 70 MFIs, 11 leasing companies and 5 registered credit operators) were affiliated with CBC (CBC, 2016). In the last 4 years of its operation, CBC has managed to maintain record on approximately 4 million Cambodians.

## What credit is used, and how?



**Figure 76: Credit access strand**

Source: FinScope, 2015.

472. **Limited access of credit from banks in comparison to MFIs.** Figure 76 above shows that of the 28% (2,767,295) of Cambodian adults having access to formal credit, only 6% (563,511) of Cambodian adults take up credit from banks, and 22% (2,203,784) access credit from micro finance institutes. Other formal channels are becoming popular because their loan application/approval process is easier and more lenient than that of banks. 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. When we consider the overlaps in the credit usage from different providers, borrowing from banks remained constant, whereas borrowing from other formal, informal and family and friends increased to 23% (2,255,685), 10% (1,026,343) and 9% (915,422) respectively, indicating less access of credit from the banks. Of the 28% of the Cambodian adults across all the target segments having access to formal credit, MFIs are the key providers. Access of credit MFIs is popular with Cambodian adults and validates the Map qualitative finding that people (who qualify) are borrowing from MFIs despite higher interest in comparison to the banks, because of its more lenient terms, conditions and flexibility for credit and due to the comparative advantage in comparison to the informal providers. This is supported by evidence from the qualitative study as seen below:

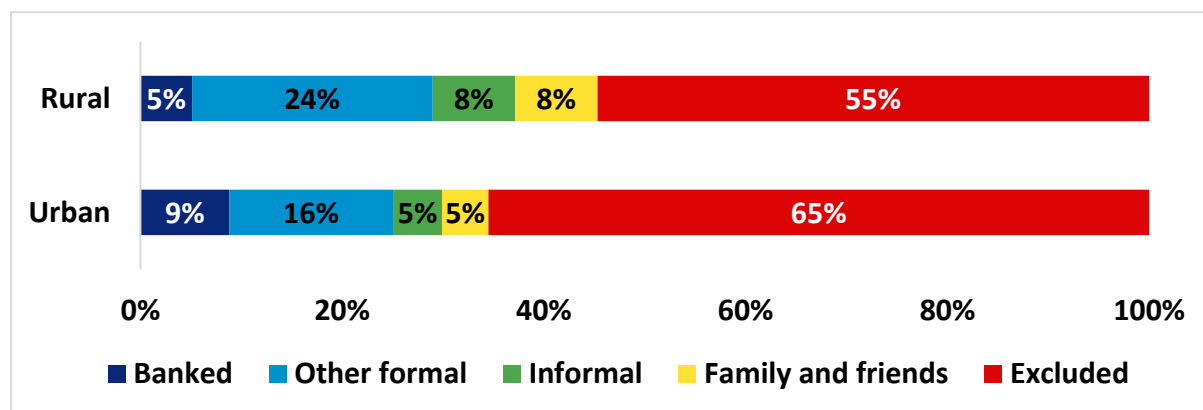
473. *"I am well aware that banks offer a better interest rate on loans. I remember meeting with Canadia Bank PLC to get working capital loan to run my car spare parts business. They asked me so many documents which I was unable to provide because a major chunk of my business happen in cash and*

<sup>22</sup> Prakas- A proclamation is a ministerial or inter-ministerial decision signed by the relevant Minister(s) No.B-7-011-145 on Credit Reporting

*I do not have proper book of accounts. The loan officer told to apply to a micro finance where documentation process is lot less and easier. I applied to a micro-finance where I had to only provide my house as collateral, audit report and the loan got dispersed in 1 week. I had to pay 4% extra but it was very convenient.”*

**Male, Self-Employed, 35 years old**

474. **The banks dominate the total credit market in terms of value and is skewed in the urban centres.** Of the total loan of USD 16.93 billion disbursed by banks and MFIs, the ratio of the loan was 82:18. When the total number of borrowers (2,636,844) are considered, the ratio was 28:72 (NBC, 2016). For this reason, it is evident that the banks have been able to serve only the corporate clients and the larger population in the urban areas<sup>23</sup> as well as those in the market centres of the rural areas. Of the total loan portfolio of the banks in 2016, 81.2% was in the urban centres (NBC, 2016). Phnom Penh city alone holds up to 46% of the total loan disbursed by banks (Credit Bureau of Cambodia, 2016). This indicates not only that the predominant focus by banks is on higher net-worth individuals and corporates, both groups more likely to be located in urban areas.



**Figure 77: Credit Access in Rural and Urban Areas**

Source: FinScope, 2015

475. **Borrowing from MFIs increasing.** Post 2006, the loans extended by MFIs grew by 18 times, backed by access to sufficient foreign funds for expansion and outreach. By the end of 2016, there were 64 MFIs, with 2,698 branches in all districts across the 25 provinces with a total loan portfolio of USD 3.12 billion. MFIs became a source of credit for majority of the population- 72% of the total 2,636,844 of the total borrowing accounts (NBC, 2016) . Majority of the clientele of the MFIs were people who could not access loans from banks or were borrowing at very high interest rates from the informal providers. The process for getting loans from MFIs was less complex and with very few barriers. Though there was need for collateral, loan decisions were based on the business plan and perceived repayment capacity of the borrower (in contrast to banks which required a definite cash flow to validate the repayment capacity). Also, MFIs have deeper penetration, regular interactions and small value loans that appealed to the larger population.
476. **MFIs credit extension predominantly in rural areas.** Borrowing from MFIs was higher in the rural areas due to better penetration of micro finance institutes who are more lenient in terms of the

<sup>23</sup> Those who reside in all khans in Phnom Penh and all provincial towns (Krong) (all khans and Sangkarts in the Krong) has been classified as per urban by NBC.

loan approvals. As per FinScope2015, 24% of the rural adults accessed credit from the MFIs (Figure 77). Of the total 1,889,914 borrowers from MFIs, 86.4% of the borrowers were from the rural area (NBC, 2016). The share of microfinance in the total loan portfolio has been increasing at a CAGR of 11.95% in the last five years (NBC, 2016). In the year 2016, the total loan portfolio of MFIs stood at USD 3.12 billion of which 78.4% was in the rural areas (NBC, 2016).

477. **Proximity not a major determinant of credit uptake.** FinScope shows that credit uptake from formal providers for adults who live in rural and urban areas is at 29% (banked 5% and other formal 24%) and 25% (banked 9% and other formal 16%) respectively. Although bank credit penetration is higher in urban areas than rural areas, the number of users from other formal providers is higher in the rural areas. This is due to better penetration of the MFIs and presence of cooperatives and credit union in the rural areas. As per the FinScope2015 time taken to reach banks and MFIs for approximately 80% of the population was less than one hour.
478. **Female Adults seems to have a slightly better access to credit.** FinScope (2015) shows that 44% of the females and 41% male adults have access to some form of credit. The access to credit from formal providers is similar across both categories. Female adults have better access to informal credit mainly because of their active participation in VSLAs and informal savings and credit groups.

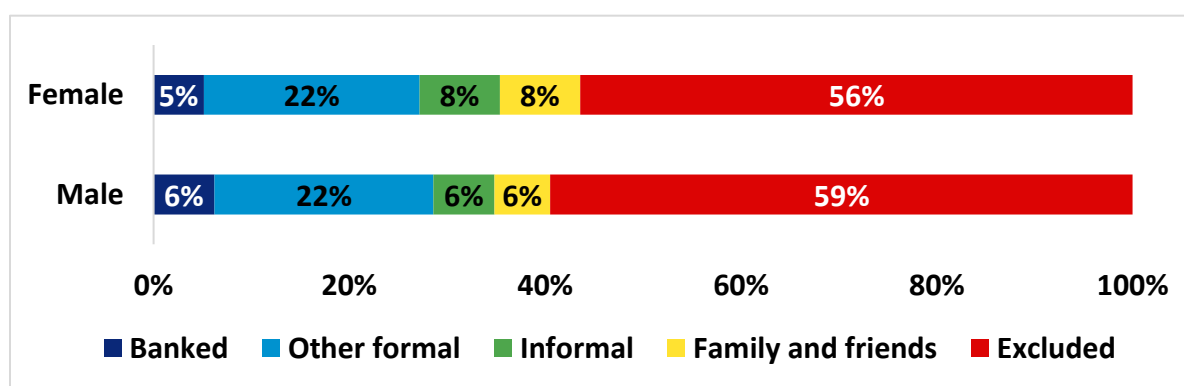


Figure 78: Access to Credit for Male and Female Adults

Source: FinScope, 2015

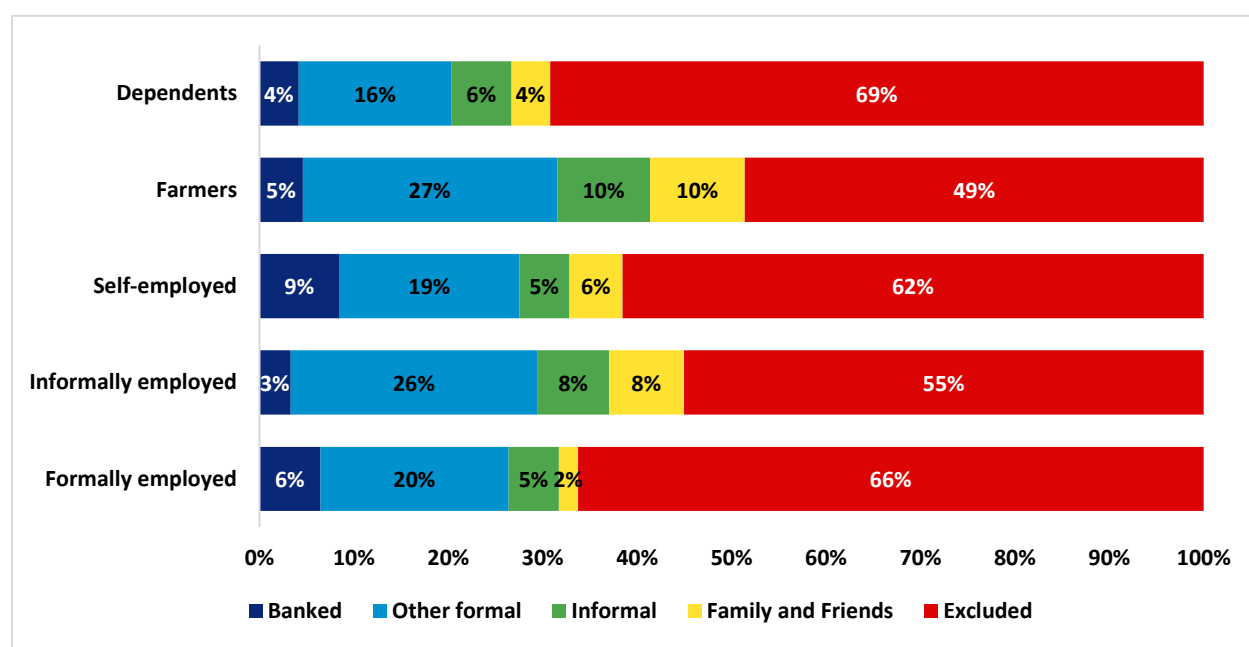
479. **Borrowing done in the name of Females.** Of the total borrowing accounts 2,468,327, 72% of the borrowing accounts belonged to women (NBC, 2016). Qualitative research indicated that though there seems to be a better access to credit for females, it may not necessarily translate into females having the decision over usage of the credit. In Cambodian culture, it is common to borrow in the name of the females (usually wives) though the name of the husband is kept as the secondary borrower. This could be because the property is usually in the name of the females. This is supported by evidence from the qualitative study as seen below:

*“My husband and I are currently upgrading our 5 table restaurant to a 20 table restaurant. Since we did not have enough savings we took a loan. Initially we approached micro-finance companies and commercial banks for the loan and learnt that to take loans from banks or micro-finance we had to keep our home as collateral. We decided to take loan from a commercial bank because the interest is lower. Since the house is in my name we took the loan in my name but my husband is the guarantor. On receipt of the money I gave it to my husband to start the upgrading work because I*

*have to take care of my two children and don't have the time to run around. My husband makes all the necessary purchases and gives me the bills. I keep record of all the expenses."*

**Female, Self-Employed, 48 years old**

480. **Women clients are associated with lower portfolio-at-risk by MFIs.** Women represent 79.6% (1,504,372) among MFIs borrowers, of which 88% (1,323,847) are from the rural areas (NBC, 2016). Of the USD 3.12 billion total loan portfolio of MFIs, 70% was held by women (CBC, 2016). During the supply side interviews, most of the MFIs shared the common view that “women clients have higher repayment rates and contribute larger portions of their income to household consumption, education of their children, health care including nutrition for the family. The benefit of focusing on women in this regard is enormous, on which sustainable development largely depends.”
481. As reported in the policy research report of the World Bank, “experience has shown that repayment is higher among female borrowers, mostly due to more conservative investments and lower moral hazard risk” (World Bank, 2007).



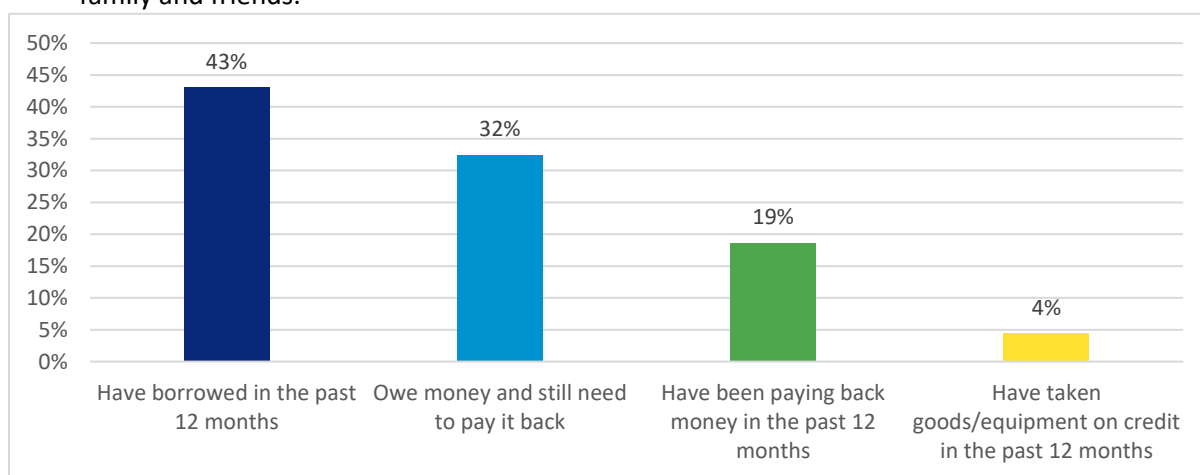
**Figure 79: Credit access strand by target segment**

Source: FinScope, 2015

482. **Self Employed have better access to Credit from Banks.** As evident from Figure 79 above, 9% of the target segment Self-employed access credit from banks, which is the highest among the target market. Majority of the self-employed are engaged in MSMEs and these loans provided by the banks are to manage the short-term working capital for receivables and inventory and not for medium- and long-term financing. During the MAP Supply side interviews with the banks (except the specialized banks) majority of the banks reflected strong preference to finance borrower’s working capital needs rather than the fixed capital financing needs. As per FinScope, 24% of the self-employed adults borrowed for starting or expanding their businesses.

“We lend to both individuals and companies, but normally to individuals or company representatives. The individual comes to apply and collateral is in the individual’s name, not the company’s. Financial statements of companies are not reliable or [not] available.” Extract (Mekong Project Development Facility, 2003)

483. **Low Usage of bank credit by Formally Employed.** Only 6% (71,922) of the target segment formally employed access credit from banks and 20% (221,629) from the MFIs. Despite having better access and eligibilities to avail loan facilities from the formal providers, usage of credit was low at 44% (375,236) (FinScope, 2015). As per FinScope, 53% (334,380) of the formally employed adults that have not taken credit, mentioned that it was not required and 65% and 45% of the formally employed adults mentioned borrowing from family and community respectively. Due to their financial status and social standing in the community, these adults were not borrowing due to the social stigma like fear of debts (54%), not being able to pay back (34%), not wanting to become or known as a defaulter (12%) and family restrictions (9%) as evidenced by the FinScope data.
484. **Farmers target market has a moderate uptake of credit.** About 51% of farmers have access to some form of credit. In the agricultural sector, most of the farmers have small-scale operations or practice subsistence farming. Due to the seasonality and irregularity of income, they have limited access to credit from the banks (only 5%). Though agriculture sector falls under the priority sector of the government there are no subsidies or supportive lending policy of the government. 27% of the farmers access credit through other formal providers due to easy and less stringent processes to get loans, small flexible payments, easy disbursement and familiarity due to regular contact. MFIs have prioritized the agricultural sector with 35.24% of the total loan distributed in this sector (NBC, 2016). MFIs make credit available to farmers through group guarantee schemes which mitigates the limitation of not having collateral. About 25% of farmer credit is from the informal providers and family and friends.



**Figure 80: Borrowing in the last 12 months**

Source: FinScope 2015

485. **Multiple Borrowing and over indebtedness.** With expansion of MFIs (Number of microfinance operator have seen a 56% increase in 2016 as per NBC) there has been greater availability of credit in Cambodia (Refer Context: credit). Figure 80 above shows that 43% of adults have borrowed cash and 4% of adults have taken goods/equipment on credit in the past 12 months. 32% of adults owe

money and still need to pay while 19% have been servicing their debt. This does indicate towards the usage of credit by Cambodian adults. Loan balance within the loan category in the range of USD 10,000- USD 30,000 saw the highest growth rate of 59% in 2015 and 46% of the new loan disbursement were in loan size above USD 30,000, which indicates the growth in the size of the loans that is being provided (Credit Bureau Cambodia, 2016). As per the CBC data, 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. The MAP qualitative interviews found that people borrow money from both formal and informal sources; the fact that consumers access credit from multiple sources means that a portion of these individuals may be over-indebted and accessing one form of credit to repay another. This was evident during the qualitative interviews mainly within the target market segments of farmers, self-employed and informally employed who borrowed from the MFIs and informal providers. This is supported by evidence from the qualitative study as seen below:

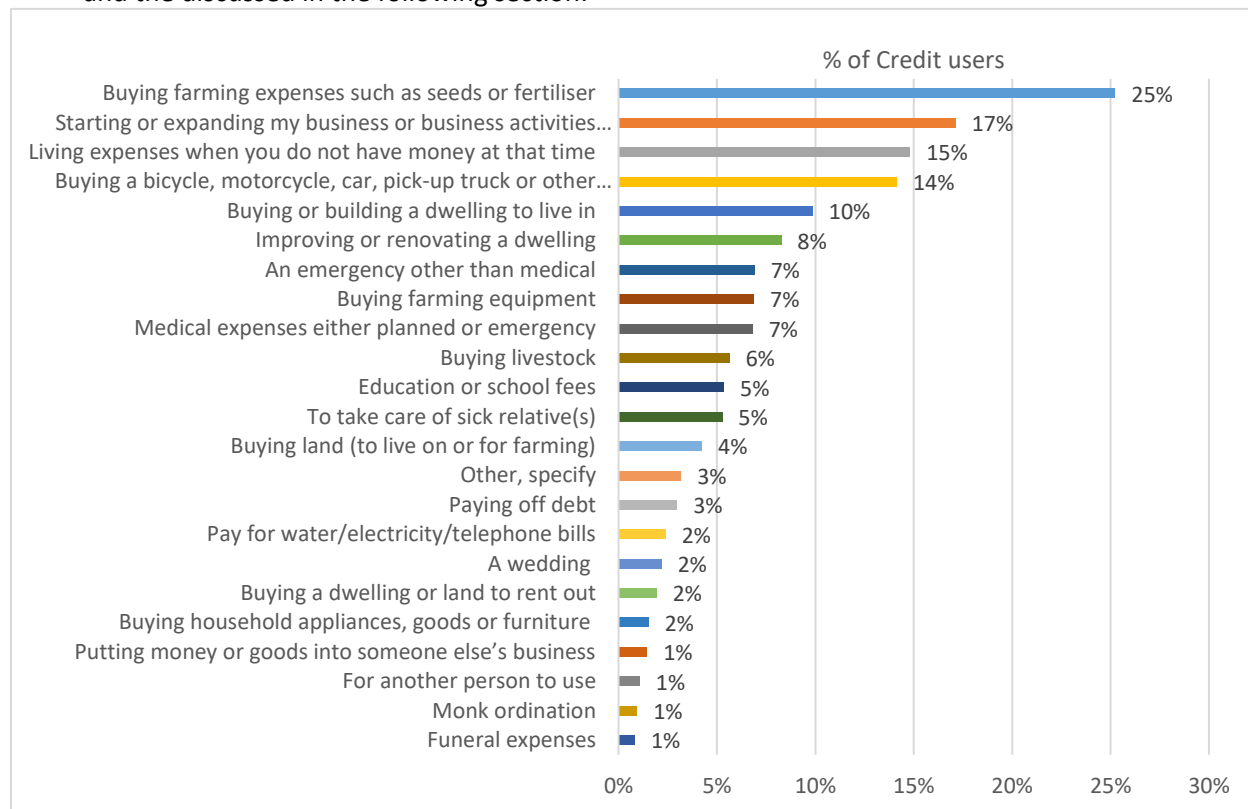
*“I had taken loan for the first time from a MFI to expand my business wherein I have kept my family home as collateral. I managed to service my loan for the first few months but I started having a hard time in collecting money from my debtors. As a result I was not able to service my loan on time. My loan officer told me about refinancing my existing loan with another MFI wherein I could get a higher loan to sustain and expand my business as well pay off the loan. I opted for refinancing my existing loan with another MFI wherein I got a higher loan amount due to increasing property value. I paid back my old loan with the refinanced loan. However one of my close family members passed away and I had to take the burden of the funeral expenses myself. I used a portion of the new loan to pay for the funeral expenses. Now I am having problem with servicing the new loan. I am now planning to refinance my loan from another MFI”.*

**Male, Self-Employed, 41 years old**



## Why are people borrowing?

486. This section outlines the use cases for credit, as identified through the MAP qualitative and quantitative demand-side research. Six main use cases are apparent when individual use cases are analysed and grouped into a relevant category. The usage of credit is detailed in the figure below and the discussed in the following section:



**Figure 81: Main reasons for borrowing money**

Source: FinScope, 2015

487. **Farming expenses a key use case of credit for either input financing or asset investment.** FinScope shows that 33% of the Cambodian adults derive their main income from farming activities. Further, break-down of the data shows that 58% of Cambodian households are involved in farming as their economic activities, with 16% of the households involved in farming only while 42% engaged in farming in addition to other economic activity. The irregular nature of farming incomes and the high capital investment required up front for seeds, fertilizer, livestock or farming equipment means that these households require credit in advance to fund this initial capital investment. Figure 81 shows, 25% of credit users borrowed to buy farming inputs and 7% borrowed to buy farming equipment and a further 6% borrow to buy livestock. Usage of credit for farming expenses and buying farming equipment was seen across all target markets and was the highest with the target segment farmers. 27% of the farmers cited main usage of credit for buying farming expenses such as seeds or fertilizer and 7% for buying farming equipment.

488. **Use of credit for consumption smoothing.** Figure 81 shows 15% of the Cambodia adult population use credit for 'living expenses when you do not have money at that time'. Target segments

informally employed (12%), farmers (9%) and dependents (7%) seem to be borrowing more for consumption smoothing as at times there are gaps created through their income source fluctuation. These target segments rely on credit to cover living expenses during periods of poor income and/or when there is a long period of time between income payments. In addition, qualitative respondents further suggest that productive loans are fully or partially used to smooth consumption. This is supported by evidence from the qualitative study as seen below-

*I work as a daily labourer in the rice field during the planting and harvesting season. I get paid in cash and i get three meals and few local drinks from the farmer. Once the planting season is over, life is very difficult because it is very difficult to find work. I don't have money but I need to manage my family expenses and school fees for my 10 years old daughter. Usually I try and find work with the village overseer and help in small construction work such as maintenance of roads and pavements. When I cannot find work and have run out of my savings, I am forced to borrow from friends or family. At times I have to borrow from money lenders and I have to work for him to repay the money borrowed. I have heard of microfinance providing loans but it is not for people like us as we have nothing to mortgage.*

**Female, Informally Employed 32 year old**

489. **Using credit for purchase of assets.** FinScope shows that 14% credit users borrowed to buy vehicles, 4% used to buy land and 2% used to buy household appliances. The use of credit for purchasing assets was in the range of 22% to 26% across the target segments except for dependents where the use case for purchasing asset was only 16%. The purchase of big ticket items such as motor vehicles, land and houses are typically too large in value for most individuals to buy outright, and hence credit plays an important role in funding the purchase. As in any emerging economy with a growing middle class there is a growing aspiration for better lifestyle and status in the society. Owning a house and/or vehicle is a matter of social prestige and these are the first items to be aspired by most consumers. This is supported by evidence from the qualitative study as seen below –

*"I recently got promoted from trainee to officer level. The promotion has increased my salary level and I have applied for a 3 year vehicle loan. It would be awkward to travel to office in public vehicles when all my colleagues travel in cars."*

**Male, formally employed, 27 years old**

490. **Credit for Risk Management.** Using credit to address risks that arise for individuals is common in Cambodia. Figure 81 shows that 7% of credit users borrow for medical expenses and emergencies, 7% credit users use credit for non-medical emergencies and 5% borrow for taking care of sick relatives. Moreover, 7% credit users borrow when faced with emergencies other than medical; FinScope shows that 22% Cambodian adults borrowed to mitigate risk events. Credit is key tool for informally employed (27%) and farmers (27%) to mitigate the financial impacts or risk events and emergencies.
491. **Use of credit for education.** FinScope shows that 5% of the credit users, use credit to pay for education. The MAP demand-side and qualitative research indicated that education is seen as a key enabler to the future success of individuals' children and is a priority for people across target markets. This proportion remains similar across the target segments formally employed, informally employed and self- employed which stood at 4% but was low in the target segment farmers and dependents at 2%.

## Who are the providers?

492. *Categories of credit providers.* Table 30 below summarises the categories of providers of credit, showing the number of providers within each category (Formal and Informal), the number of clients, the loan book, average loan size and the interest rate charged by each category of credit provider during the year 2015.

Type of Provider	Number of Institutions	Number of Clients	Loan Book (in USD)	Average Loan Size (in USD)	Interest (per annum)
<b>Formal Providers</b>					
Banks <sup>1</sup>	52	413,480	6,975,744,743	16,452	10%- 24%
MFIs	71	1,468,117	2,942,605,114	2,034	20%-40%
Other Covered Institutions <sup>2</sup>	23	33,076	61,742,938	1,748	6%-30%
Agriculture Co-operatives	816	85,239	9,400,000		20%-36%
Licensed Pawn Shops	112				24%-36%
<b>Informal Providers</b>					
VSLAs				50-100	24%-48%
Unlicensed Pawn Shops	800+				36%- 48%
Tong Tin					48%-72%
Money Lenders					60% -100%

<sup>1</sup> Banks: 37 Commercial Banks and 15 Specialized Banks, MFIs: 7 MDIs and 64 MFIs

<sup>2</sup> Other Covered Institutions: 8 Foreign Bank Representative office; 9 Financial Lease Companies; 6 Third Party Processors

**Table 30: Summary of Credit Providers in Cambodia**

493. *Large number of formal providers yet overall access to credit low.* Despite the large number of formal credit providers (mainly the banks-52, MFIs-71, Leasing Companies-12 and Agriculture Co-operatives-816) the credit market is still underdeveloped. From the credit access strand, it is evident that the reach of banks is very low in comparison to MFIs and Agriculture Co-operatives. Despite exponential and diverse growth in the financial sector over the past decade, access to credit in most of the remote districts of the country is very limited and a sizeable number of people are excluded. MFIs and Cooperatives have been able to increase the provision for credit to the excluded – but in the more remote areas, formal financial credit services are still outside the reach of many.

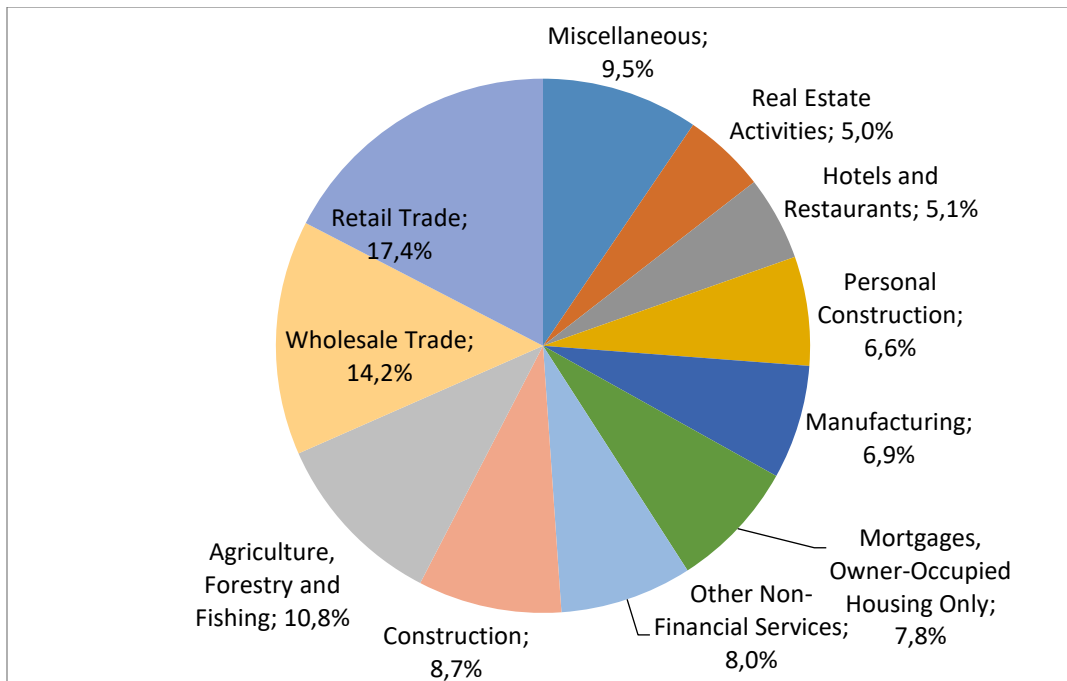
Target Segment/Providers	Banked	Other Formal	Informal	Family and Friends	Not served	Total
<b>Formally Employed</b>	71,922	221,629	82,151	28,797	737,139	1,112,375
<b>Informally Employed</b>	49,604	393,249	131,640	150,882	827,327	1,503,306
<b>Self Employed</b>	172,454	389,242	171,739	144,004	1,249,562	2,029,851

<b>Farmers</b>	150,646	911,671	486,905	437,303	1,594,914	3,282,829
<b>Dependents</b>	43,021	168,188	65,771	42,566	718,601	1,038,147
<b>Total</b>	563,511	2,255,685	1,026,343	915,422	5,755,025	9,941,058
<b>Percentage</b>						

**Table 31: Total number of clients, by type of provider and by target market segment**

Source: FinScope, 2015.

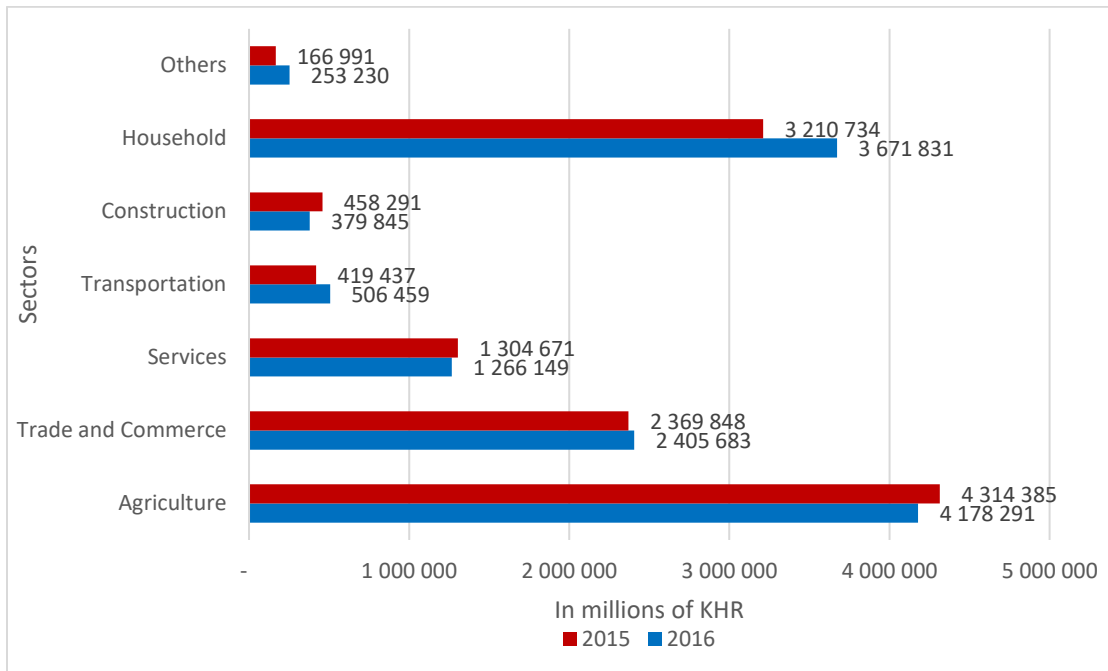
494. **Other Informal providers are the largest credit providers.** Table 31 shows the different financial service providers' customer groups by target market segment. Despite the fact that the country has a large number of banks, it can be seen that the penetration of other formal providers are the largest financial service providers in terms of number of clients. Also 58% (5,755,025) of the population does not have any access to credit, 10% are accessing credit from the informal providers and 9% from family and friends. This reflects challenges on the part of consumers in accessing credit from the banks.
495. **Banks provide largest amount of credit, other formal provide highest number of loans.** Table 31 shows that, in terms of client numbers, the overall credit market is dominated by other formal providers. More than 23% of the adult population – 54% of total credit users – access credit from other formal providers. When it comes to the total loan book, banks completely dominate, accounting for 80% of total credit. However, this includes credit extended to corporates and individuals. Therefore, banks play a central role in the credit market in Cambodia as the largest providers by value, but only play a peripheral role in the provision of credit to individuals. The other formal providers account for 20% of the formal credit market (Refer What credit is used, and how?).
496. **Growth in credit provision by commercial banks.** Loans and advances by commercial banks increased by 18.18% to USD 13.81 billion as of 2016, compared to a total of USD 11.69 billion in the previous year. The total assets stood at USD 237.2 billion, an increment of 20.90%. This was 98% of the total assets in the financial system equivalent to 118.2% of the GDP. The number of bank borrowers (include corporates) increased by 45% from 512,582 to 746,930. The share of lending to wholesale trade, retail trade, agriculture, forestry and fisheries, and non-financial services was 14.2%, 17.4%, 10.8%, and 8.0 respectively. The gross non-performing loans of the banking sector stood at 2.4%.



**Figure 82: Total Credit of Commercial Banks- Classified by Sector**

Source: NBC, 2016

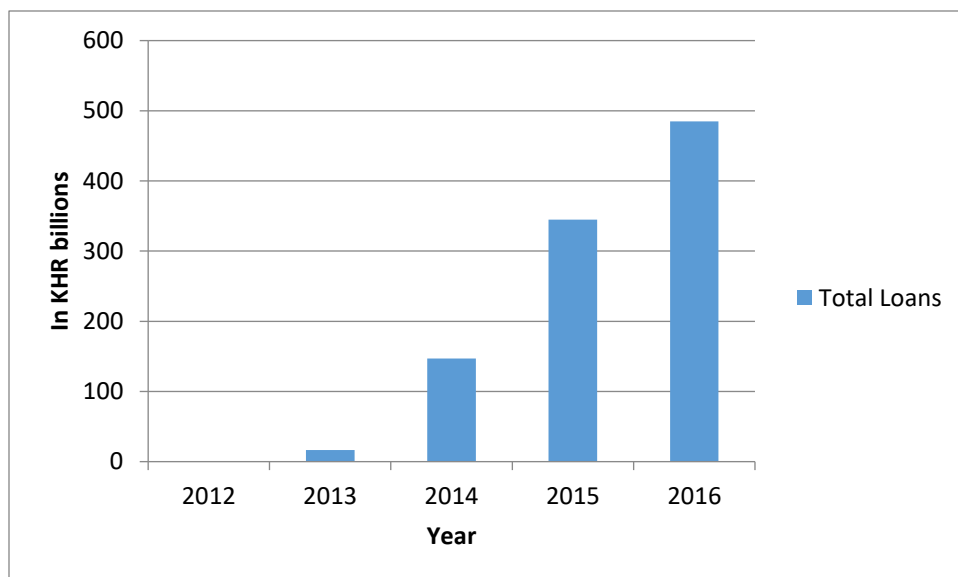
497. **Growth in credit provision by Micro finance institutions.** For micro finance institutes, in the year 2016, the growth in loan was nominal at 4.7% to KHR 12,661.5 billion (USD 3.12 billion). Total assets and credit to GDP of microfinance institutions increased to 19.1% and 15.6%, respectively. The share of lending to agriculture, household, trade and commerce, services, construction and transportation and others stood at 33.3%, 28.4%, 18.5%, 9.9%, 7.5% and 2.4% respectively as shown in Figure 83: Total Credit by MFIs - Classified by Sector below. The total assets of MFIs increased by 5% and stood at USD 3.83 billion the gross non-performing loans of the MFIs sector increased from 0.8% in 2015 to 1.4% in 2016.



**Figure 83: Total Credit by MFIs - Classified by Sector**

Source: NBC, 2016

498. **Growth in Financial Leasing Sector.** Financial leasing companies commenced operations since 2012 and at the end of 2016 there were 12 companies. At present they serve 61,372 clients. The sector has seen rapid growth of 40% increment in credit from USD 84.80 in 2015 to USD 119.23 million in 2016 and change in assets from USD 101million in 2015 to USD 153 million in 2016 (NBC, 2016).



**Figure 84: Growth in Loan size of Financial Leasing Companies**

Source: NBC, 2016

499. **Loans and advances from banks and MFIs backed by security.** Lending on collateral is the general practice of bank financing in Cambodia. Almost all of the loans and advances disbursed from banks and MFIs are found to be backed by securities. The collateral is typically immovable property such as land or building and Banks and MFIs have their own independent policy on valuing the collateral. Though there is no regulatory requirement that prevents banks and MFIs from providing non-collateralized loans, they seek collaterals to minimise the risk through the registration of a security interest in immovable property (National Bank of Cambodia, 2008). This is supported by evidence from the qualitative study as seen below:

500. *Our bank needs a land title, if you don't have it, we cannot provide a loan and it's the same with all the banks. It comes down to the risk that if the borrower defaults, the bank won't get its money back and there are very limited recourse, as Cambodia's laws are weak and fighting a legal case takes years. In Cambodia, if you default on the loan and run away banks cannot find you.*

**Female, Bank Manager, 45 years old**

501. **Agricultural Co-operatives serving in the rural areas.** Owned by the members who come together for a purpose to help each other, these cooperatives do not have a profit motive, which allows for smaller interest spreads. Agriculture co-operatives provide an annual average interest rate of 14% on deposits and charge 20% on loans to the members and up to 36% to the non-members. This also creates a greater incentive for members to repay their loans as all members benefit from any profits made by the cooperative. The cooperative structure also entails societal benefits as members value belonging to a community organization from which they can get advice and support. This is supported by evidence from the qualitative study as seen below:

*I currently grow only rice in my 1.5 hectare land. I estimate I sell 25-30% of what I harvest in a year. Most of the rice I grow is self-consumed. In order to facilitate finance and sale of rice we had initially have formed a cooperative with 14 members, today there are about 32 members. The cooperative helps in collection and packing of rice including negotiating with traders for fair price. The*

*cooperative also provides facility for savings and credit to its members. Most of the members save in the cooperative because the interest on saving is higher than micro-finance. One can also borrow against the saving which is usually 5-6% higher than the saving interest. Borrowing from the cooperative is very easy because there is only one document a borrower has to sign and no need for collateral. The cooperative also makes available quality seeds, fertilizers, and farm equipment at price which is lower than the agro vets.*

**Male, Farmer 43 year old**

502. ***Village Saving and Loan Associations (VSLA)***. These groups consist of friends, families and neighbours, who know one another. A VSLA group consists of around 15-20 members (usually women). Because of this, and because group members are likely aware of the problems faced by any particular member, the village savings groups – unlike formal institutions – are often flexible in terms of loan repayment. The groups make it possible to be fiscally disciplined and save at regular intervals, and they also unlock access to credit and insurance offerings, which are often available without the strict eligibility requirements of other providers, thereby removing a barrier that could hinder access from other providers.

*“I have been a member of a women saving group for the last 10 years. Every member knows each other well. I think everyone in our saving group knows that my son is currently working in Bangkok and sends me money regularly. I save regularly with the saving group from the money my son sends. Sometimes when I need immediate cash for medical reason or buy seeds and fertilizers I can always borrow from the village saving group with a verbal request and cash is made available the next day.”*

**Female, Dependent, 68 years old**

503. ***Tong Tin still popular among the masses as a source of credit***. Tong tin is an informal savings group of individuals that informally form a society to which they each make regular contributions as a form of savings. Tong tins which have been around for decades are still popular and a large number of Cambodian adults are members of these clubs. They operate by taking fixed monthly savings contributions from all the members and then disbursing all these contributions to one member each month who bids for the highest interest rate. The major difference between Tong Tin and VSLAs is that in Tong Tin, unlike in VSLAs where there is no restriction on the number of times or the amount of savings one can do-in Tong Tin you cannot save as and when you want or avail credit twice during the cycle even if you have paid the loan.
504. ***Pawn Shops- provider of immediate credit based on the value of items pawned***. There are both Licensed and Unlicensed pawn shops operating in the Cambodian market. The licensed pawn shops are governed by the laws of Ministry of Economy and Finance and one key factor being adequate documentation of ownership for the collateral and security of the same. The pawn shops that have no license will extend loan on any collateral, even without proper documentation. The main client of the pawn shops are people who may not have access to bank or other kinds of credit or people who are in urgent need of money. These people trade valuable goods for temporary credit and later reclaim their possessions when they've paid the initial loan amount along with the interest.
505. ***Money lenders- lenders of last resort***. As per FinScope, 6% of Cambodian adults avail credit from moneylenders. The money lenders are generally people belonging to higher economic class as an outcome of their higher financial endowments. Cambodian adults often rely on these providers due to a lack of sufficient financial resources or collateral to qualify for formal financial services. Subsequently, the borrowers are forced to acquire credit from money lenders at very high interest



rates ranging from 5 to 10 percent interest per month. People in rural areas continue to borrow from money lenders at a very high rate, because of the fear that the moneylenders will cease giving credit when they need it, if they are found to be accessing credit from other channels. Therefore, even though money lenders are unregulated, they play a key role in extending financial services to many low income adults (MAP Supply Side Interviews).

## What products are available and in use?

506. The section below discusses the different credit products available in the Cambodian market offered by different providers. The nature/intended use of some of these product categories (for instance agricultural credit) also coincide with the nature of the different target groups (like farmers).

### Products provided by banks to businesses:

#### Business Loans

507. *Business loans are the largest product of the credit portfolio.* Of total lending, business lending represents more than 80% of the formal credit portfolio of banks and MFIs. However, there is no clear distinction made between a corporate loan and a SME loan. Thus, SMEs that meet the requirements are eligible for a business loan. For the most part, what distinguishes a SME loan from other business loans would be the smaller size of the loan disbursed to the organisations.

- **Business Loan/Term Loan:** Business loans are the most utilized product type. It has a maximum period of 5 to 7 years and are provided for any investment or commercial purpose. This loan has a variable interest rate, average of 17.35% per annum in KHR and 11.65% per annum in USD.
- **Overdraft Loan:** This is the best choice for clients to borrow money for short term or in an emergency. It helps the client to control their business cash flow and to cover any unforeseen expenses that lessen the working capital. It can be used to buy raw materials and increasing stocks and inventories. The average interest rate charged is 24% per annum irrespective of the currency.

#### Personal Loans

508. *Majority of the bank loans extended to individuals are in the form of personal loans.* Personal loans are extended to individuals for no specific predetermined purpose i.e. the individual accessing the loan can use the funds for any purpose for which they deem fit. Therefore, personal loans may be used for a variety of reasons, most commonly for consumption smoothing, but also for medical expenses, purchase of big-ticket household items, to fund education, for business or farming credit, to mitigate risk, to finance a house purchase, to finance foreign employment or to cover special social events.

- **Personal Loan:** These loans are the second most utilized product type after business loans. It is seen that loans for personal consumption stood at 3,791,233KHR millions in 2016 (only 6.6% of total loan portfolio) (NBC, 2016).

- **Medical loans:** Most banks provide medical loans under personal loans. These loans are extended to individuals in need of credit to support personal/family members suffering from major illnesses.
- **Home Loan:** This is a long term loan. In this scheme, clients/individuals can borrow up to 60-70% of the home value with up to a maximum of 20 years repayment term at a low and competitive rate. Average interest rate of 10% per annum is charged in this scheme.
- **Vehicle Loan:** This kind of loan is provided to individuals to finance the purchase of a vehicle (car, bike etc). The terms and conditions for vehicle loan for cars and bikes vary such as:
  - **Loan for Car:** The loan period is for 6 years and there is need of collaterals. For loans not more than 80% of the car price, house/land is kept aside as collateral. For loans not more than 60% of the car price, the car itself is needed to be kept as collateral.
  - **Loan for Motorbike: The loan period of 5 years. Similar to loans given for cars, if loan is up to 100% of the car price, house/land is kept as collateral. For loans not more than 80% of the car price, car itself is taken as collateral.**
- **Education Loan:** This helps fulfil a shortage of funds for studying period of the client's children or someone in their responsibility. The loan size does not exceed a total of study fee. Loan term of this type of loan varies among the type of degrees for tertiary education. Average yearly interest rate charged is 15.6% to 22.8%.
- **Credit Cards:** Since The average growth in the number of credit card users has been at a steady rate of 47% per annum. Number of commercial banks offering credit card service has expanded by an encouraging 83% since 2012. At present, number of credit card users is over 5% (28,000) of the banked credit users and the credit cards outstanding value stands at 130,961 KHR millions in 2016 (only 0.2% of total loan portfolio) as per the Annual Bank Supervision Report 2016 of NBC (Refer Payments).

509. *Limited access to credit from banks.* 2016 NBC reports that 10.19% of credit from banks is directed to the agriculture, forestry, fishing sector. These are almost exclusively directed towards the larger commercial enterprises. Most of the farmers target segment is served by the MFIs or informal providers (Refer What credit is used, and how?). As per NBC 35.24% of the MFIs lending is in the agriculture sector. However, it is likely that a proportion of these are not agriculture - specific loans but rather personal loans backed by assets which may be used to fund farming activities or for something else. The banks and financial Institution classify the loan based on the objective of the loan mentioned in the application; though there is monitoring the banks and financials do not track the usage of the loan and hence could be used for other activities. This inaccuracy in loan heads and usage can sometime effect the evaluation done to assess financial inclusion. This is supported by evidence from the qualitative study as seen below:

*"I am a farmer and I have a big family to take care of. Income from farming is barely enough to cover my household expenses. I have recently taken loan from a micro-finance by keeping my farm as collateral. I used the money to buy few farm equipment but I also used the loan to cover my*

daughter's wedding expenses. Some part of the money has also gone into sending my son to college in the city."

**Male, Farmer, 45 years old**

**Agricultural Loans:** Agriculture sector constitute a fair portion of the credit; 10.8% of total loan portfolio as per Annual Bank Supervision Report 2016 of the NBC accounting to 6,134,077 KHR millions in 2016. The credit extended is for businesses, groups and individuals engaged in the agriculture sector under varying interest rates for a period of 3- 18 months. For group loan (5 to 10 members), monthly interest rate charged is 2.75% to 3.00% and for individual loan, monthly interest rate between 2.20% to 2.95 % is charged, as it is backed by collateral.

### Products provided by MFIs/MDIs

- **Individual Loan:** This type of loan aims to support any individual who will use the loan to start up or expand business, invest in agricultural products, purchase household, goods or personal items or improve accommodation. These are loan products recently introduced by MFIs and the loan term can be from 1 to 8 months with loan sizes ranging from \$100 to \$1000 and is given based on the cash flow/income of the borrower.
- **SME Loan:** It is a type of micro loan offered to customer who has a small-scale business in a market or public gathering place to expand business or to buy materials for business need. The loan period for such loan is up to 48 months and offered in KHR, USD and THB. The average monthly interest rate for this type of loan in 1.2% to 1.4%. These loans require immovable assets as collateral.
- **Agricultural Loan:** Loans disbursed to this sector by MFIs accounted for 4,210,614 KHR millions in 2016, i.e. only 33.3% of total loan portfolio as per the Annual Bank Supervision Report of the NBC. The yearly interest rate charged by the MFIs on such loans are 24% - 40% for a period of one year. These loans are backed by collateral.

### Products provided by leasing companies:

510. **Hire purchase loans important for productive sector.** Hire purchase loan are loans taken for the purpose of buying vehicles, machinery, tools, equipment etc. in instalments. Under a hire purchase agreement, ownership gets transferred once all the instalments have been paid by the borrowers. The mission of leasing companies in Cambodia is to enable Cambodian people to access credit solution in order to bring about sustained improvements to their living standards. With the financing of the leasing companies, the asset being financed serves as the collateral.

- **Motorbike Leasing:** The maximum loan amount is 5000 USD and the range of term lease is from 3 to 48 months. No personal collateral is required for this lease; however, minimum monthly salary should be USD 100.
- **Electronic Equipment Leasing:** The maximum loan amount is 3000 USD and the range of term lease is from 3 to 24 months. The client availing this facility should have minimum monthly salary of USD 100 and a permanent address in Phnom Penh as this service is limited to borrowers in Phnom Penh.

- **Car Leasing:** The maximum loan amount in this case is up to USD 50,000 or above 50% of the car value. No personal collateral is required but the client must have a minimum salary of USD 500. The client must make a down payment of 30% of the car. The registration of documents is kept as collateral.

### **Informal Credit:**

511. **Informal loans charged at a premium.** All informal loans would be classified as personal loans, no matter the purpose of the borrower in taking the loan. The majority of informal loans are charged in excess of 36% interest per year on average, although these can vary substantially in individual cases. Informal, personal loans are generally short term in nature. FinScope shows that 9% of adults get credit from relatives and friends; only 6% from money lenders; 0.5% from savings groups.

**Pawn Shops:** There are both Licensed and Unlicensed pawn shops operating in the Cambodian market.

- In case of jewelry, these shops give around 70% to 85% of the property value, which has been evaluated and in case of cars or motorcycles they offer only 60 to 65%. Licensed pawn shops charge from 2-3% per month, whereas unlicensed pawn shops can charge from 4-5% per month.

512. **Village Savings & Loans Associations (VSLAs):** These are community-based savings groups, where members purchase shares in the group and do regular savings are also able to take out loans with lower interest rates than other middlemen and easy to access loan than MFI. The money loaned is generally small usually in the range of USD 100-250. The interest rates charged are 2-4% per month for members and 4-8% for non-members ( Emerging Markets Consulting, 2012) and usually the loan are provided for a period of one year.

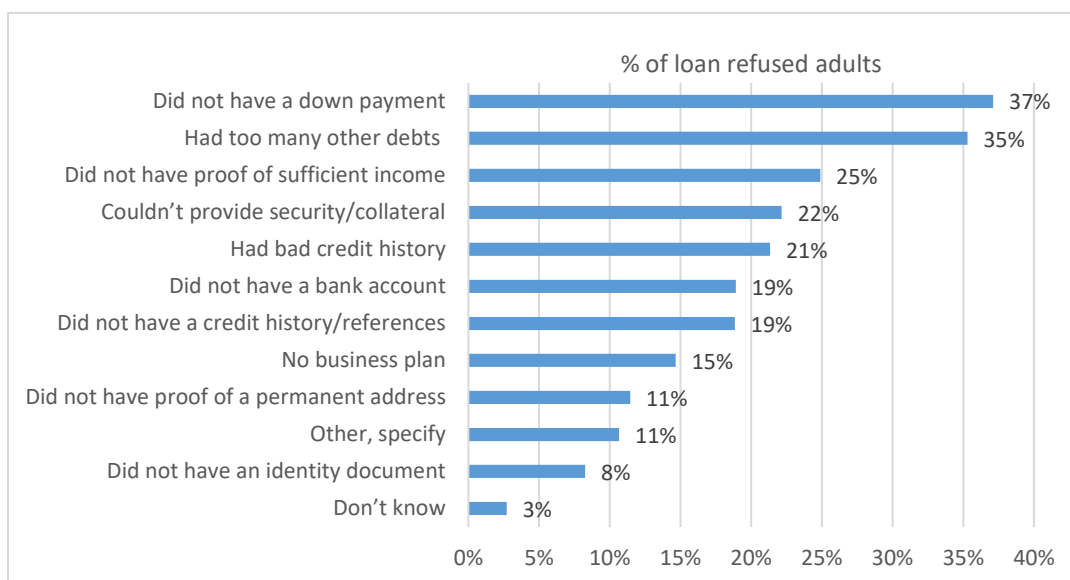
513. **Moneylenders:** These are individuals with high net-worth who provide loans based on the relationship with the borrower. In terms of access, borrowing from moneylenders is the easiest. They lend based on the need of the borrower and are seen as the lenders of the last resort. The interest charged by the moneylenders are in the range of 40-100% per year.

514. **Tong Tin:** Tong Tin is a very traditional and common form of arranging credit within the group. Deposits, loans, and interest payments are made in cycles, usually once or twice a month. The interest rate on borrowing is based on the bids made and usually fluctuates from 4-6% per month.

## What are the barriers to usage of credit services and products?

515. *Low evidence of usage and access barriers to credit.* FinScope (2015) shows that only 4% (388,817) of Cambodian adults were refused a loan in the past 12 months, indicating fairly easy access to credit facilitated by lower access and usage barriers. However, barriers such as the issue of proximity, eligibility, affordability and financial capability, among others, restricts the access to or usage of credit services and products.

### Access barriers



**Figure 85: Reasons for being refused a loan**

Source: FinScope, 2015.

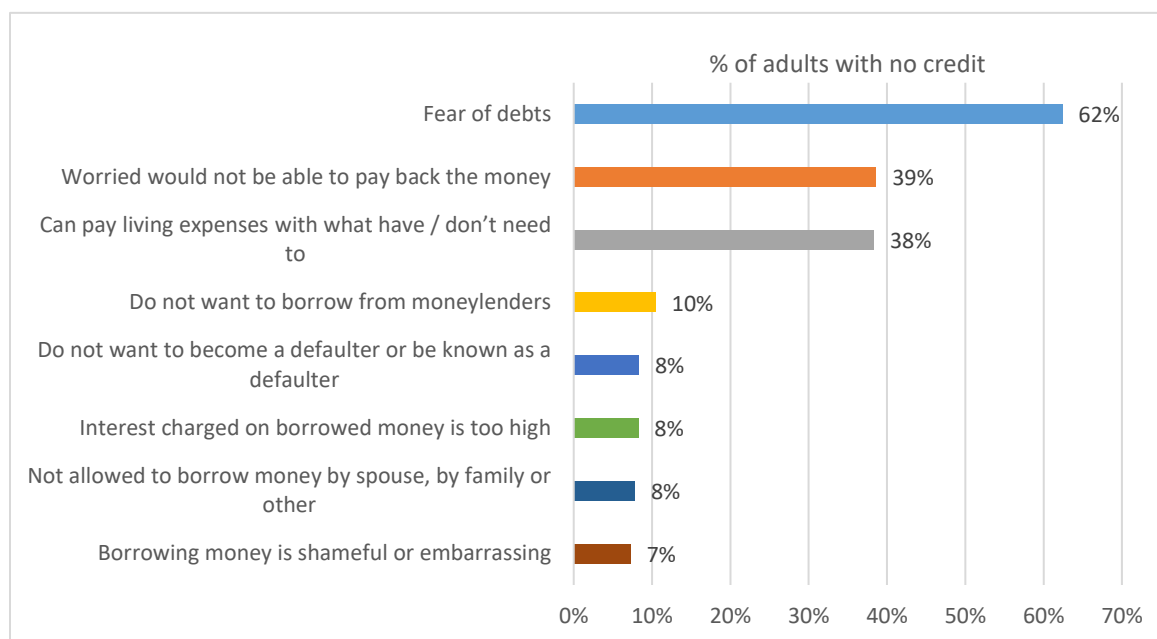
516. *Loan-seekers do not have down payments owing to low and irregular income.* 38% (144,331) of the Cambodian adults whose loan was refused, stated that they were barred from getting credit facility because they could not put forth the down payment required for loans. Although in absolute numbers this only comprises of 1.5% of the total population, this still is the key issue for those unable to access credit. Most of the loans such as vehicle loans, home loans and lease financing require upfront down payments. Many Cambodian adults do not have a regular source of income, and even if they do, low-income earners find it difficult to save after paying for their living expenses. Without enough savings and reliance on irregular disposable income that only pays for living expenses, it becomes a key barrier for credit seekers to access loan from formal institutions.

517. *Informal employed and unemployed cannot furnish proof of income:* Accessing credit from formal institutions requires the borrower to furnish proof of income documentation. The informally employed and unemployed population seldom have a pay-slip or bank account to validate their income. Moreover, banks also consider applicants' income levels to determine their eligibility for credit products. 25% of adults whose loans were refused was refused because they did not have

proof of sufficient income. This gives a negative perception to low- and irregular-income earning Cambodians that they do not qualify for loans.

518. ***No loans without collaterals or security.*** 22% (82,971) of the adults who were refused loans, stated that they were refused credit because they could not furnish collateral or security against loans. Formal financial institutions require collaterals against loans while non-collateralized loan provisions have not been introduced yet. 38% (1,878,871) of those who accessed credit use the land they lived on as the collateral while 19% (955,183) accessed credit against the collateral of the dwelling they were living in. In most cases, loan-seekers tend to apply for loans with collaterals that are already pledged in previous borrowings. It limits the borrowing capacity, and in most of the cases, request for loans are rejected.
519. ***Loan-seekers denied loans because of a lack of credit history.*** FinScope shows that 19% (73,275) of adults who were refused a loan were denied because they could not provide credit history. Although this is not a significant number in terms of absolute population, it is notable that there is no provision of individual credit rating system in Cambodia. Of those who were refused a loan, 15% (569,994) stated that they were denied loans because they could not furnish any business plans towards the purpose of the loan requested. Given that a large segment of Cambodian adults have irregular income and exposure to shocks, the lack of credit history to an extent discourages individuals from accessing credit from formal sources during time of emergencies.
520. ***Multiple debts limit capacity to borrow.*** 35% (133,385) of the adults, whose loans were refused despite having fulfilled the credit appraisal requirements on (collateral, cash flow and credit history), stated that they were denied loans because they had too many other debts. While refinancing, many people switch from one microfinance institution to another, and in such cases, they need to repay and then borrow, thereby incurring extra charges. Multiple borrowings require the backing of sufficient income to service the debt. In addition, most of the formal loans require adequate collateral backing.

## Usage barriers



**Figure 86: Reasons for not borrowing**

Source: FinScope, 2015.

521. **Fear of debts.** The fear of taking debt is the main usage barrier for Cambodian adults. FinScope shows that 62% (3,144,026) of adults without credit cite that they are fearful of taking debts, while 39% of adults without credit think that they will not be able to pay back the money. This can be partly attributed to the dislike of being indebted and partly to the high interest rates charged on credit.
522. **Social stigma of borrowing.** Many people are also discouraged from taking up loans because they find it shameful and embarrassing – even more so, if they cannot pay it back, while some are restricted to take up loans by their families or spouses. FinScope shows that 8% (394,537) of adults without credit claim that they do not want to be known as a defaulter, while 7% perceive borrowing to be shameful or embarrassing. In some cases (8%), people are not allowed/encouraged to borrow money by the spouse, family or others due to negative connotations applied to taking loan. The social stigma attached with borrowing acts as a barrier for those in need to access credit to manage their financial lives.

## What regulatory and policy issues need to be considered?

523. **Monitoring of MFIs should be prioritised.** Currently, MFIs are regulated by the NBC, but the monitoring is not as stringent as for commercial banks. As the MFIs are expanding in number and size, NBC will have a challenging task of bringing these MFIs under the regulatory and monetary purview within its limited capacity and resources. Given the significance of MFIs in Cambodia, should these institutions fail, it would have a direct, negative impact on the poorest segments of society, which makes it crucial that these institutions be monitored effectively and on an ongoing

basis. In some countries where microfinance services have rapidly expanded, the problem has shifted from the poor having too little access to finance, to having too much access, with the option of even borrowing from several MFIs. Aggressive growth of microfinance, even if driven by the desire to reach out to those with limited access to capital, could have a negative impact when borrowers take too much debt. Implementing prudential regulations, each of which is designed with a specific purpose and includes requirements for minimum capital, capital adequacy requirement, liquidity requirements, risk concentrations, limits on loan to related parties and legal reserve requirement and SMART certifications. All actors of the Cambodian microfinance industry (MFIs, Lenders, NBC, Credit Bureau) must work together to regularly monitor market penetration and multiple borrowing at the most local (i.e. village) level in Cambodia and engage in a dialogue to define precise guidelines on maximum level multiple borrowing in order to prevent over-indebtedness. The priority is to develop the prudential and supervisory framework of the financial sector to ensure financial stability in a context of fast credit growth.

524. *Agriculture Cooperatives requires effective supervision.* Agriculture Cooperatives, currently under the supervision of Ministry of Agriculture Forestry and Fisheries, has not been able to monitor and oversee the functioning of the cooperatives and have left them to be governed under their own by-laws. They serve the needs of lower-value loans to the larger population and hence are seen to be politically and economically sensitive. It is not mandatory for these providers to provide the details to the credit bureau and hence it is difficult to assess the credit capacity and history of the clients of these institutions. Also, the adoption of corporate governance practices of these institution is low.
525. *Expedite the implementation of secured transaction registry.* The government is reviewing the law on Secured transactions which will then facilitate on the operation of the secured transaction registry. This central database will contain the details of all claims made on assets of a particular corporate or individual debtor. This will ensure the elimination of multiple borrowing and also open up the provision of loans against the collateral of movable assets. The Act requires movable assets to be registered with the registry office, while pledging the asset (ownership documents) as collateral in a financial institute, prohibiting transfer or sale before the loan settlement. The implementation of this Act will allow movable assets such as gold, silver, grain and cattle to be put up as collateral. The delayed operation of the registry is barring Cambodian adults, especially those without proof of salary or fixed assets, from accessing credit against movable assets, and thus the implementation and operation of the registry should be prioritised.
526. *Mandating MFIs to access the Credit Information Bureau.* Registered MFIs need to report to the Credit Bureau Cambodia but this has been marred by issues in implementation. MAP supply side interview showed that MFIs update credit history with the Credit Bureau only once a month, whereby leaving an information gap that would allow individuals to seek loans from multiple institutions during this time. MFIs should be required to provide data on their credit clients more frequently so as to minimize risk of individual borrowing from multiple institutions within the one-month credit reporting period as of now. This should help in improving MFIs' lending practices in terms of defining and systematically implementing precise rules on maximum number of loans per client.



527. *Inefficiency of court system makes it difficult to realize security of collateral.* The inefficiency of the court system in Cambodia means that realizing security on loans is both time consuming and costly for the banks and MFIs (Refer Regulatory section). Most legal matters involving collateral take 2-3 years before the matter is heard by a court, but can take as long as five years to be resolved. Most of the Banks and MFIs interviewed during the MAP supply side interviews preferred out of court settlements, refinancing or working with the client to dispose the asset and pay the loan.
528. *Speeding up the process of issuing National ID. At present people are using multiple identity (national ID cards, passport, family residence books, voters card, license etc.).* (Refer: Regulatory Section) This makes it difficult for credit providers to confidently ascertain the identity of loan applicants or to evaluate their risk exposure. The distribution of national identity cards began in 2012, and to date, more than 6.6 million IDs have been issued (FSDS). Speeding up the process will ensure that all borrowers have national identity cards and this should be the key document used for identification. If an individual defaults on a loan registered with one identification card, it becomes difficult to track if the same individual uses another ID with separate number.

## What and where are the gaps and opportunities?

529. *Regulation and Strong monitoring required.* In the context of the rapid credit growth due to the entry of foreign banks, increased foreign funding of domestic banks and buoyant domestic activity, it has become very important to develop the prudential and supervisory framework of the financial sector to ensure financial stability. IMF in its 2015 Article IV Consultation, has highlighted that credit lending is developing into a risk given its prolonged and rapid growth; aided by low levels of regulation, it exposes the financial system to systemic risks. Furthermore, the loan-deposit ratio of the financial system still remains very high, indicating a need for efficient monitoring and supervision of financial institutions. Regulation and monitoring of MFIs is urgently required as current regulations are considered to be weaker than those governing the banking sector. IMF has recently cautioned that some of the MFIs are now larger than mid-sized commercial banks and compete with the latter while being subject to looser regulation. Such regulatory and supervisory arbitrage exposes the financial sector to hidden systemic risks (IMF, 2015).
530. *Strengthening the Credit Reporting.* One of many ways to bring about reform in the financial sector in order to improve access to credit, is to increase information on potential borrower's creditworthiness through the Credit Bureau. CBC aims to provide data to help manage credit risk, prevent fraud and provide real time data to consumers. Once this is done, it will facilitate in tracking the loans and also prevent cases of multiple borrowings. The use of this information should have been made mandatory during credit appraisals and be one of the key criteria for lending by BFIs. CBC has been mandated to collect and collate the credit information of the borrowers who borrow from formal lending institutions. These institutions are required to send the information every month. The current provision on the failure to provide information would result in first warning and then monetary fine by the NBC. However, if the member financial institutions do not provide data to the CBC, they are barred from accessing credit information from CBC (Refer Regulatory Section). This on one hand creates an information gap and the resultant under-valuation of credit risk, while on the other provides an unfair advantage for the selective few (individuals and institutions) benefiting from the information gap. Although data sharing is mandatory and provisions are in place to penalize institutions not complying with this requirement, the penalty should be stringent enough to discourage willful non-compliance. NBC has initiated issuing strict warnings already to selected institutions. At present, CBC does not have a comprehensive data on

all borrowers; collection of information on the borrowers, especially from MFIs have seen some hurdles.

531. ***Commercial banks serving insignificant proportion of retail credit market despite accounting for largest proportion of credit market by loan volume.*** 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. This is the result of commercial banks' focus on corporate clients and high net worth individuals as well as the regulatory requirement for high quality collateral. Banks have been operating in urban areas as a result of low real returns in rural areas versus the higher returns in urban areas due to lower transaction, administration and monitoring costs for providers. Due to the high concentration of FIs operating in the urban areas, some incentives to move down market could be advantageous for the currently underserved markets. The excluded population and uptake of credit from informal sector is high in Cambodia, indicates significant absorption capacity for regulated credit. Entry level, customized credit products focusing on the needs of the target segments will have wide acceptance. At present, MFIs are the primary players providing formal credit to a large population.
532. ***Implementation of the Secured Transactions Laws and Collateral Registries.*** The current credit environment in Cambodia is heavily dependent on non-movable assets as collateral. 23% of Cambodian adults stated that they were refused credit because they could not furnish collateral or security against loans. While land and buildings are widely accepted as collateral for loans, the use of movable collateral (such as inventory, accounts receivables, crops and equipment) will increase the availability of credit and reduce the cost of credit. Moreover, in an agri-based economy like Cambodia, the agri-value chain actors have varying credit needs requiring the exploring of the feasibility of value chain financing and warehouse receipts. Ensuring the implementation of secured transaction laws and operation of collateral registries enabling pledging of movable collateral, will allow farmers and MSMEs among others to leverage their movable assets for sourcing capital for investment and growth.
533. ***Partnership with banks and MFIs to avail wholesale credit.*** The commercial banks have the greatest ability to move into this low segment market, but the lowest incentive. MAP supply-side qualitative interviews with the banks highlighted the following barriers to expanding credit services in rural areas: low value and volume of loans, poor quality of assets to secure loans, and high administrative costs in loan delivery, management and recovery. Whilst these banks may consider entering this market as too risky and beyond their core focus, there may be an opportunity for these banks to provide wholesale lending to MFIs who then have the expertise and infrastructure to administer small value loans. The commercial banks are currently struggling to compete for a limited urban market with a number of competitors. One avenue for growth therefore may be to start extending credit further down market (in the rural areas or in the remote provinces where the bank penetration is absent) than they currently do through new partnerships with the MFIs. This will help both the MFIs who are at present heavily reliant on the foreign funds and high ROE to tap into domestic funds and banks to explore new markets. Also, MFIs can recommend their mature clients to the banks for bigger loans.
534. ***Consumer awareness and protection.*** In the current credit environment of Cambodia, which has seen a significant growth in number of FIs providing credit, resulting in explosive credit growth- it becomes prudential to look into the awareness and protection of borrowers (Refer Context: credit). Although no indication of widespread consumer abuse was found, there have been indications of over indebtedness (Refer What credit is used, and how?) and loan defaults. In order to confirm this,

a further evaluation of their capacity to take on more debt should be conducted as part of the financial inclusion strategy and may require a more detailed exercise to understand the use of credit and particularly the interaction with both regulated and unregulated credit. Also, exploring rules on prescription of debt (Refer Regulatory section) to provide for protection of debtors is important.

## The market for insurance

[Context: insurance](#)

[What insurance is used, and how?](#)

[What products are available and in use?](#)

[Who are the providers?](#)

[Distribution](#)

[What are the barriers to usage of insurance services and products?](#)

[Access barriers](#)

[Usage barriers](#)

[What regulatory and policy issues need to be considered?](#)

[What and where are the gaps and opportunities?](#)

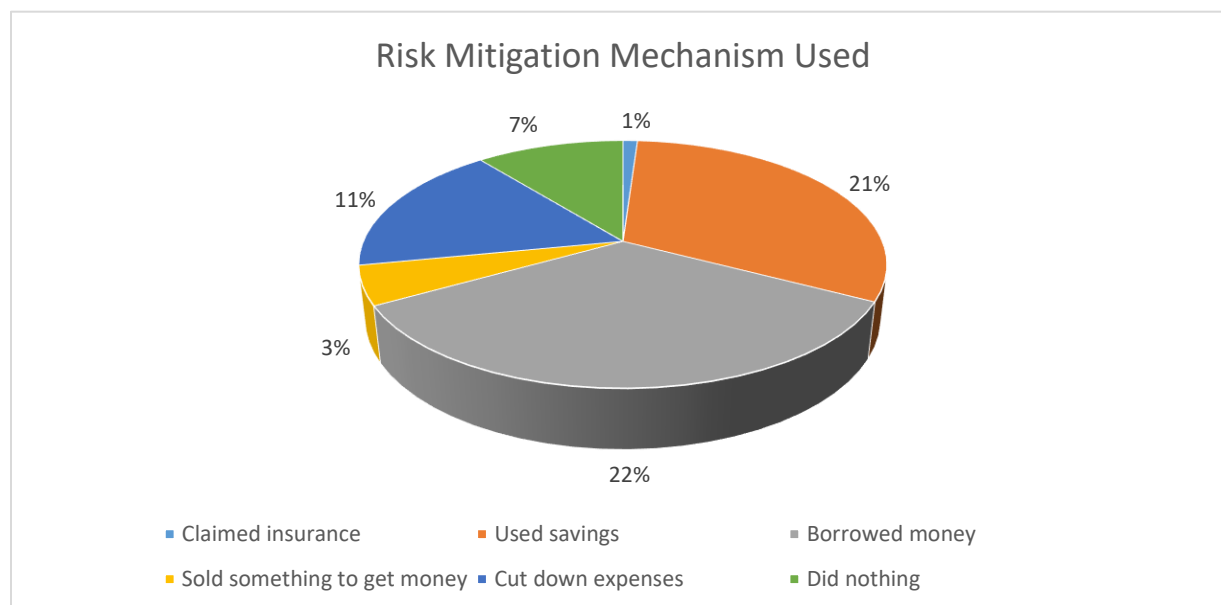
## Summary: the market for insurance

- Nascent insurance sector with few players
- Lack of skilled human resource including actuaries
- Low uptake of insurance with 95% exclusion
- Level of uptake of formal insurance low irrespective of gender or geographic location
- Formally employed is the best served target segment
- Medical expenses, the key risk experienced by 18% of adult population
- Agriculture insurance a key need for agrarian economy with 11% facing the risk associated with drought, poor rainfall or loss of access to water
- Government's social protection driving uptake for insurance
- Narrow range of life insurance products with potential for growth
- Micro-insurance products covering health, term life and personal accidents insurance, driving uptake
- There are seven non-life insurance companies but the sub-sector is dominated by a single player – Forte Insurance.
- Limited life insurance companies – currently one state owned and three private investment life insurance companies are in operation.
- There are five licensed micro-insurance companies providing low cost insurance for low income individuals and families.
- Telco based distribution model providing convenient access to insurance especially in rural areas
- Affordability a key barrier for irregular income earning population
- Double taxation on premiums dis-incentivizing providers and customers
- Difficulty in agent based model due to high capital requirements
- Limited investment opportunity for insurance companies

535. In case of risk events or emergencies, individuals tend to borrow or use savings to mitigate the financial needs arising out of such situations resulting in depletion of savings and incurring of debt. This impacts the ability of individuals to progress up the welfare ladder. Insurance intermediation is a means to aggregate small value savings in the economy and leverage it for investment purposes positively impacting economic growth. This section will explore the current usage and use cases for Insurance in Cambodia.

## Context: insurance

536. **Cambodians face mitigatable risks.** The Royal government has identified four key risks faced by Cambodians – i) emergencies and crises, ii) human development constraints, ii) seasonal unemployment and income insecurity and iv) health shocks (Royal Government of Cambodia, 2011). FinScope (2015) shows that 94% adults agree that having insurance protects them when they face a problem. However, when faced with a risk event, as shown in Figure 87, only 1% of adult population claimed insurance while the majority i.e. 22% borrowed money and 21% used savings. Majority of Cambodian adults are using their savings and borrowing to mitigate risks. Risk events can lead to large financial shocks that can push families out of the financial net used to secure their financial position.



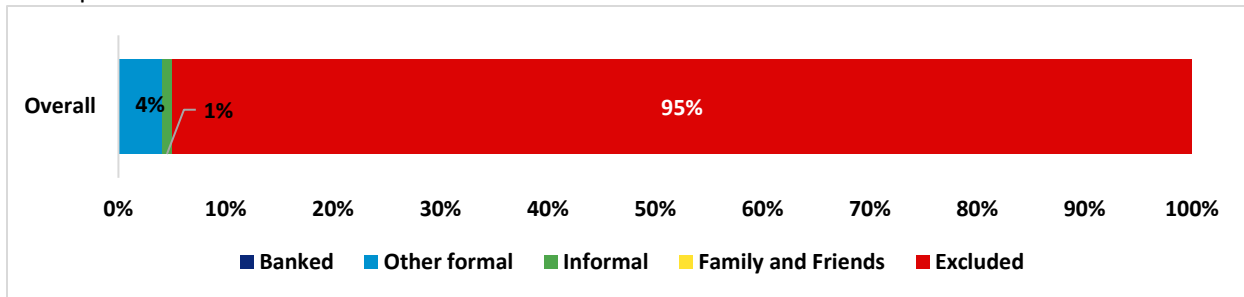
**Figure 87 Risk Mitigation Mechanism Used**

Source: FinScope 2015

537. **Nascent insurance sector with few players.** Unlike the banking sector, the Cambodian insurance sector is still at a nascent stage, with a total of 12 companies currently operational, including seven non-life insurance companies, four life insurance companies and one re-insurance company (Refer

## What insurance is used, and how?

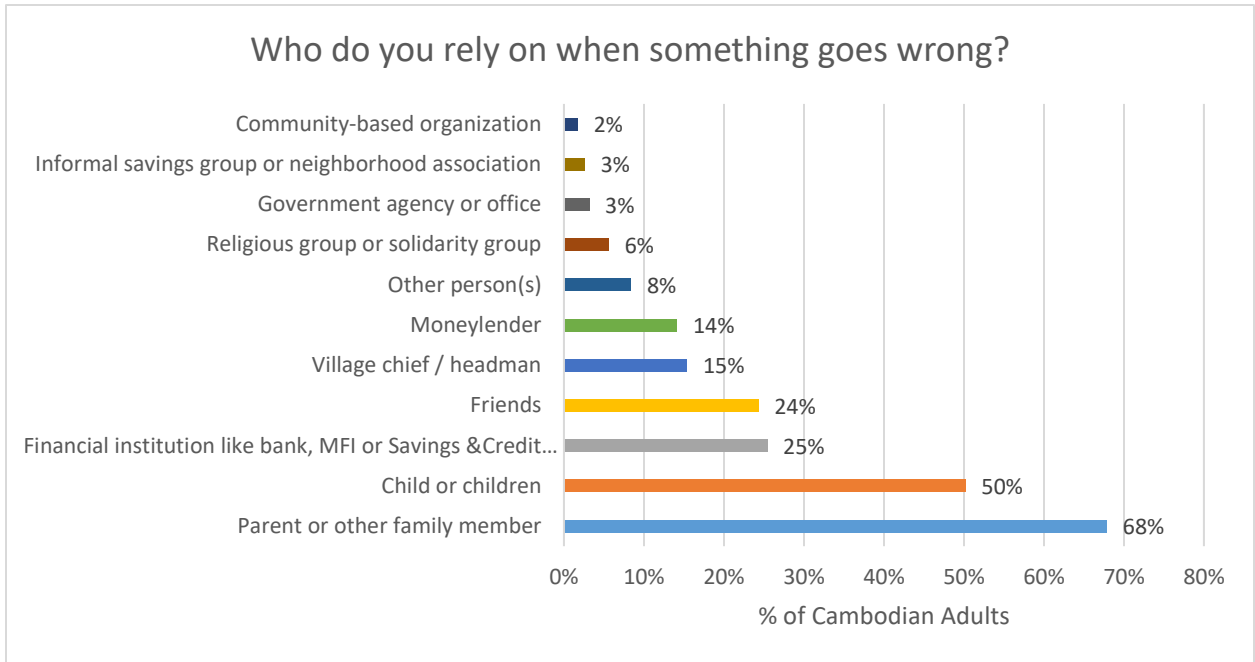
538. **Low insurance uptake.** The overall uptake of insurance is comparatively lower than the uptake of other products- savings, credit, payments. As shown in Figure 88, 95% (9,402,040) of Cambodian adults are excluded from any form of insurance coverage. Only 4% (402,833) Cambodian adults have insurance coverage from formal channels while 1% (136,185) have only an informal insurance product mostly in the form of insurance coverage through community savings group. Considering the usage of formal along with informal products, 2% (144,886) adults have informal insurance products.



**Figure 88 Insurance access strand**

Source: FinScope 2015

539. **High reliance on family and social network support; vulnerable to risk events affecting the whole community.** In order to cope with events when something goes wrong, 68% (6,745,910) of Cambodian adults rely on a parent or family member, a further 50% (4,989,738) rely on their children while 25% (2,525,476) use financial institutions to cover the expenses as illustrated in Figure 89. However, these are not mutually exclusive categories, with individuals receiving support from parents while also accessing financial institutions, the same is true for other categories. Given that 33.2% (3,299,140) of Cambodian adults receive remittance, there appears to be high reliance on family members to mitigate risk events. Cambodians have access to alternative risk mitigation instruments in the form of family, children, friends and moneylenders among others, this provides an option to substitute formal risk mitigation instruments.



**Figure 89 Points of access during risk events**

Source: FinScope 2015

540. **Minimal usage of insurance for risk mitigation across target markets.** As shown in Figure 90, only 1% (68,766) of the total population have claimed insurance as a risk mitigation mechanism. The low usage of insurance holds true across the target markets with formally employed target market being the highest users of insurance with 3% (37,433) claiming insurance during risk events. Borrowing money and using savings is the top two mechanism used to mitigate risk. It is also notable that 3% (330,709) adult population sold something to tackle risk event while 7% (702,059) were not able to do anything. The high usage of other risk-mitigation mechanisms reflects a large market that insurance can cater to.



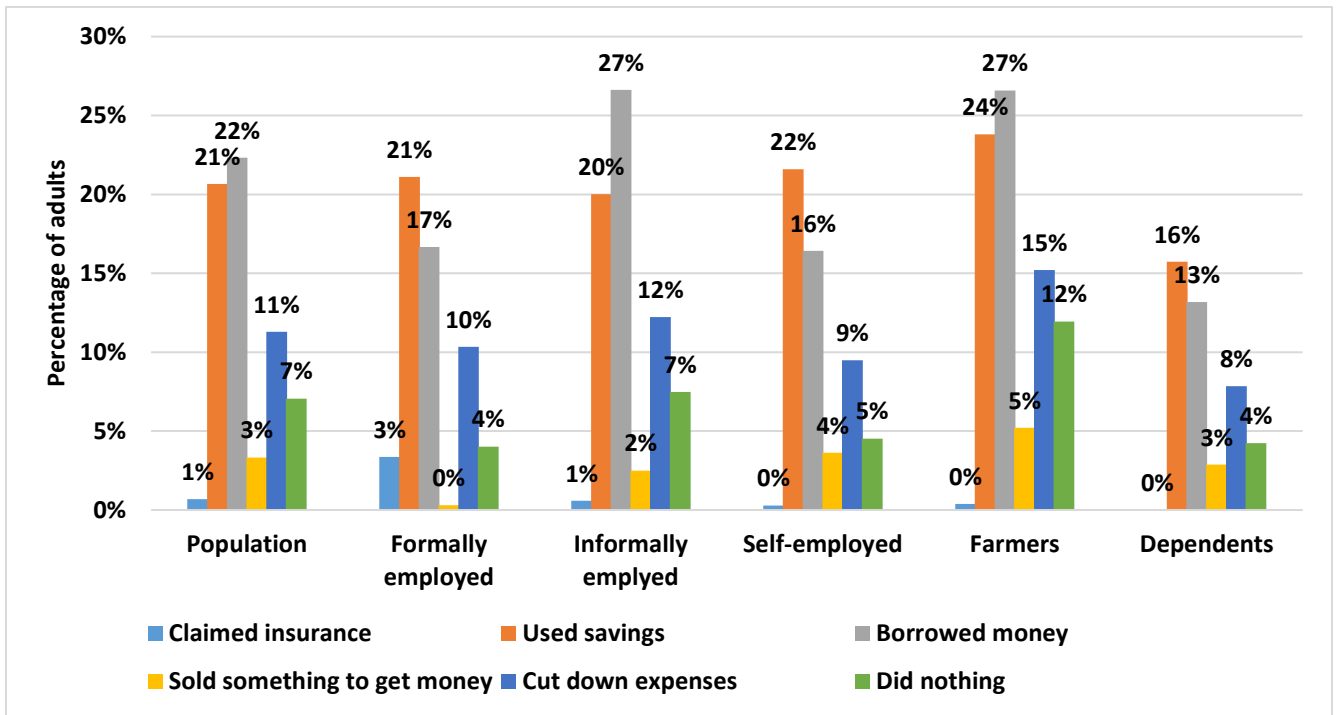
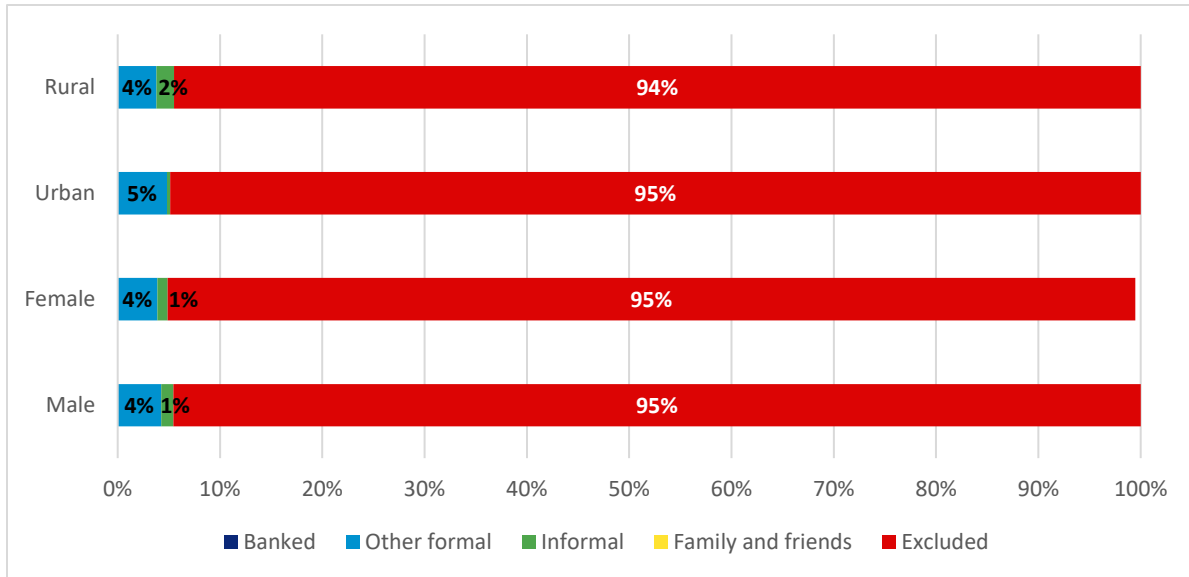


Figure 90 Risk mitigation mechanism used by target market

Source: FinScope 2015

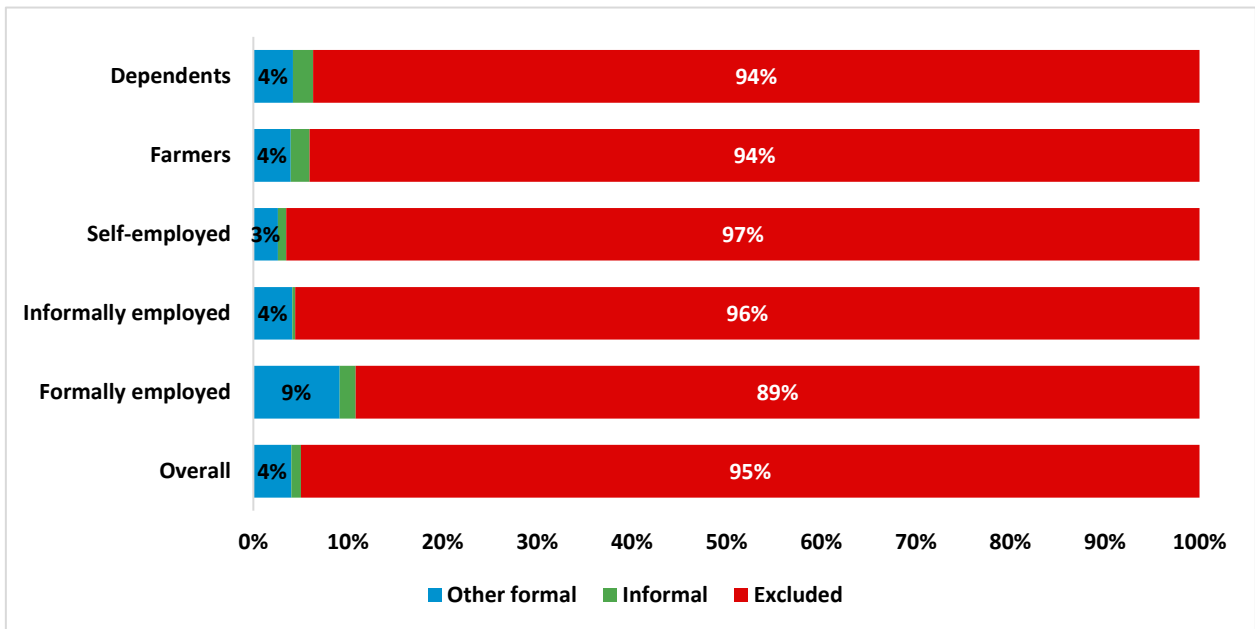
541. **Low level of uptake of formal insurance.** Cambodian adults residing in rural areas have an exclusion of 94% compared to urban exclusion of 95%. It is interesting to note that rural uptake of formal insurance (4%) is as high as urban uptake (5%). Higher level of inclusion in rural areas is mostly driven by low cost of micro insurance and group based insurance products as evident during the MAP supply side research. In terms of gender, exclusion stands at 95% for both gender as shown in Figure 91.



**Figure 91 Insurance uptake by gender and locations**

Source: FinScope 2015

542. **Formally employed is the best served target market segment.** The formally employed target segment is the best served with 11% having insurance coverage. It has to be noted that this group is the most educated group with 12.8% have tertiary education and above. Generally, higher level of education and higher income is correlated with higher uptake of insurance. But in Cambodia, insurance uptake of self-employed target is also not significant, with only 4% having insurance coverage. MAP qualitative study showed that there are no tax incentives for income earning population to take up insurance. The Labor Law of Cambodia requires mandatory employment injury insurance and social protection benefits (CIB, 2016), this has been the key driver for higher insurance uptake of formally employed.

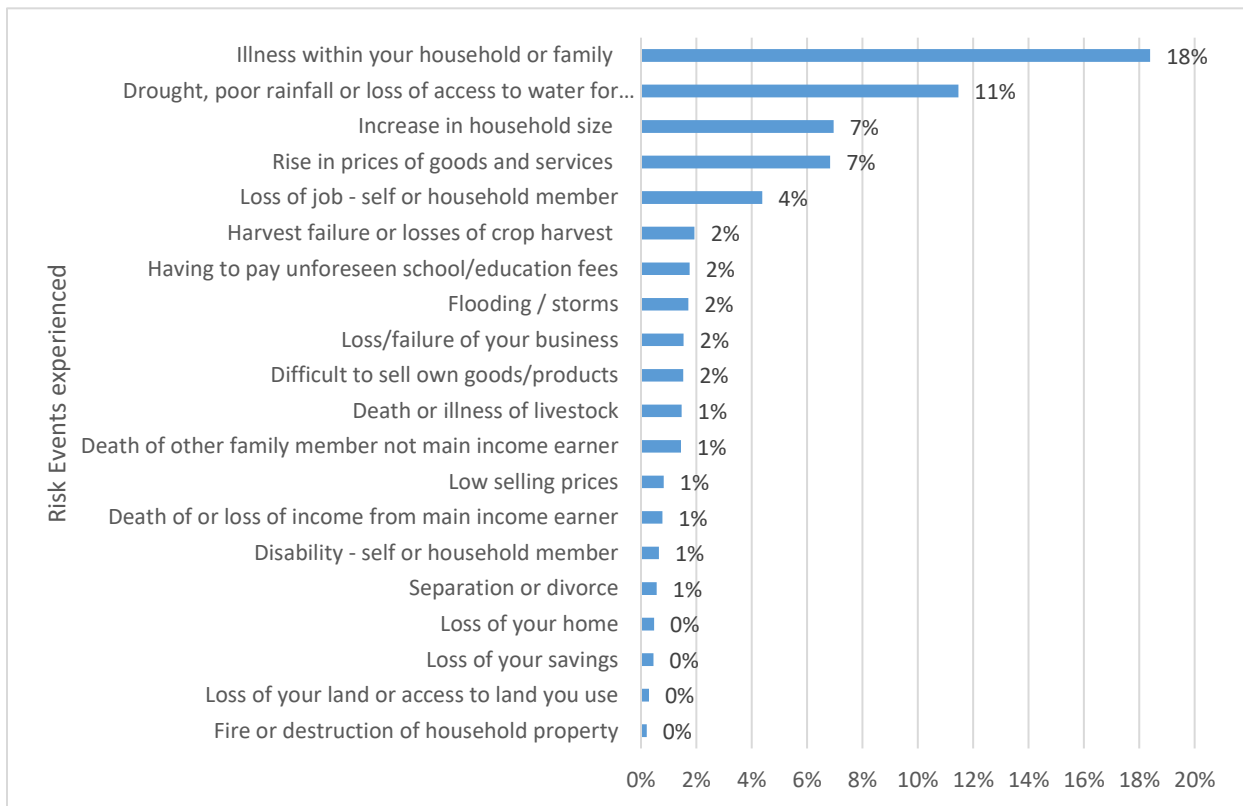


**Figure 92 Insurance uptake by target segments**

Source: FinScope 2015

## How are insurance services and products currently being used?

543. This section outlines the use cases for insurance as identified through qualitative and quantitative demand-side research. This is done through examining insurable risk needs. While these use cases reflect uptake according to need in the market, these should not necessarily be constructed as feasible market opportunities in all cases.
544. **Medical-related risks a key insurance need.** Illness within the household requiring medical expenses is the major risk for Cambodian adults with 18% of the adult population experiencing illness in the household. Since 29% adults used savings to meet planned or emergency medical needs and 7% borrowed money for the same, this provides a business case for health and medical insurance.
545. **Mitigating the loss of asset or property not a key need.** It is interesting to note that mitigating loss of asset/property is not a key need with only 2% facing the risk of harvest failure, 0.3% losing land or access to land being used and 0.2% facing risk of fire or destruction of household property as shown in Figure 93. Since insurance of property is one of the key usage of insurance, the low need for the same will hinder the growth of general insurance in the Cambodia.



**Figure 93 Risks events experience by adult population in the previous 12 months**

Source: FinScope 2015

546. **Agriculture insurance a key need for an agrarian economy.** As illustrated in Figure 93, natural disaster risk including insufficient access to water is key risk impacting 11% adults. In an agriculture based economy, risk events such as harvest failure or losses of crop harvest, flooding or storms, difficulty in selling goods or products, death or illness of livestock among others impact a larger section of the population, as 58% (5,749,834) of the households are engaged in farming. Drought or natural disaster is seen as a key farming challenge by 61% (3,484,846) of farming households as per FinScope (2015). These are mitigatable risks that can be addressed through the adoption of agri or crop insurance. However, only 1% (43,243) farming households perceive the lack of insurance as an issue for farming, this highlights the low penetration and awareness of insurance as a risk mitigation tool. Besides micro-insurance, larger general insurance company such as Forte Insurance has ventured into agri-insurance but are facing the issue of low uptake as the level of awareness among farmers is still low.

### Who are the providers?

547. **Non-life insurance market dominated by a single player.** Forte Insurance, one of the first insurance companies controls 45% market share in terms of total gross premium. The remaining six players control 55% of the market share as shown in Table 32. In a nascent insurance market, a big player

can lead insurance development as they have the necessary capital to develop the market. The industry leader, however will have significant monopolistic influence in the market. MAP supply side research showed that 92% of Forte’s premium is collected from Phnom Penh area while only 8% is collected from branch offices with 75% corporate clients and 25% individual clients.

Company	2014		2015	
	Total Gross Premium	Market Share %	Total Gross Premium	Market Share %
Forte Insurance	23,868,605	45.1%	27,894,139	45.3%
Infinity Insurance	8,032,010	15.2%	9,039,087	14.7%
Campu Lonpac Insurance	6,813,312	12.9%	7,562,225	12.3%
Asia Insurance	6,235,967	11.8%	7,343,504	11.9%
Cambodia –Vietnam Insurance	4,564,833	8.6%	5,372,719	8.7%
Caminco Insurance	3,461,014	6.5%	4,294,467	7.0%
People & Partner Insurance	-	-	139,795	0.2%

**Table 32 Market share by company in 2014/2015**

Source: Market Statistic for General Insurance, 2015

548. **Limited life insurance companies.** The first life insurance company of Cambodia, Cambodian Life Insurance Company, was established through a joint venture between Ministry of Economy and Finance and four private insurers (PT Asuransi Central Asia, Asian Insurance Co Ltd, Bangkok Life Assurance Plc and Bangkok Insurance Co. Ltd, as recently as 2012. In the current scenario, three more life insurance companies have started operation in the country – Manulife (Cambodia), Prudential (Cambodia) and Sovannaphum Life (Cambodia). However, in 2015, the life insurance sector registered a loss of USD 16.55 million although the average payout ratio stood at 1%.
549. **Large foreign investment in insurance companies.** More than 50% of the insurance companies in Cambodia are foreign controlled companies. In Cambodia, foreign insurers similar to other corporates in general, are allowed to own 100% of their businesses, making the country an attractive option for foreign insurance companies to expand business in Asia. Moreover, given that the insurance sector is still at a nascent stage, it presents an opportunity for regional and international player to move into Cambodia and is made further attractive with lenient provisions for repatriation of capital or profit. Foreign investment will facilitate the sector to grow through investment in human capital and insurance infrastructures.
550. **Cambodia Re the only reinsurance service provider.** Cambodia Re is the only reinsurance provider in the nation, established as a joint venture between the state-owned National Reinsurance Company and the Asia Insurance Group of Companies. All general insurance companies are required to pay 20% of gross premium of insurance policies issued to Cambodia Re. The company provides re-insurance of property, health and auto insurance policies. Currently, there are no deposit insurance schemes currently being offered in Cambodia (Refer Product Market Savings – What are the barriers to usage of savings services and products?). However, NBC is exploring the modality for implementing deposit insurance and is consulting with Association of Banks in Cambodia (ABC) in

order to tackle resistance from the BFIs. The deposit insurance scheme is expected to increase public confidence in KHR deposits (NBC, 2015).

551. ***Milvik AB (Bima) and Prévoir Kampuchea Micro Life Insurance Plc (PKMI) providing micro-insurance.*** Although there are five licensed micro insurance companies in Cambodia, Milvik (Cambodia) Plc a subsidiary company of Sweden's Milvik AB (Bima) and Prévoir Holdings' PKMI are the two key players. These companies provide low cost insurance for low-income individuals and families offering health, life and personal accident insurance coverage. Micro-insurance companies can only cover risk up to USD 5,000 for a maximum period of 12 months. Compared to the 80,650 policies issued by general insurance and 48, 607 polices issued by life insurance companies, the micro insurance sector issued a total of 1.1 million policies as of 2015.
552. ***National Social Security Fund (NSSF) provider of government led voluntary and mandatory social protection schemes.*** The NSSF is an autonomous body under Ministry of Labour and Ministry of Economy and Finance. Currently, separate units provide social protection to civil servants, veterans and private employees. However, MAP stakeholder interviews indicated that efforts are underway to establish a single umbrella unit by the year 2020. NSSF for Civil Servants (NSSF-C) offers social protection to civil servants and their dependents with coverage for retirement, invalidity, sickness benefits, maternity leave, sick leave, employment injury benefits and health care. National Fund for Veterans (NFV) provides coverage to the members of Armed Force and War Veterans for sickness benefits, maternity allowance, marriage allowance, employment injury benefits, retirement benefits, invalidity and death benefits. Similarly NSSF provides voluntary and mandatory coverage to formally employed individuals at private companies offering medical care coverage, nursing allowance, disability allowance, death benefits, survival benefits and rehabilitation benefits. By 2015, NSSF had a total fund of USD 50 million with a 27% payout ratio (Map supply-side interviews).

## Distribution

553. Insurance companies in Cambodia can only distribute products through a licensed insurance agent or through a broker.
554. ***Banks and MFIs act as agents.*** Insurance companies are partnering with banks and MFIs to distribute their products since sanction of property loans, vehicle loans, commercial loans and individual loans generally entails insurance of the property or the individual, banks and financial institutions partnering with insurance companies. At the same time, insurance companies are leveraging the vast rural network of MFIs to market micro-insurance products. The Bancassurance model has recently taken off in Cambodia with insurance companies expecting a growth of 25-30% through bancassurance (Management Insider, 2016).
555. ***Teleco based model providing convenient access in rural areas.*** Smart Axiata and BIMA, forged the first partnership between a telecom provider and insurance provider to deliver micro insurance products in Cambodia branded as the Smart Life Insurance. The mobile-delivered product is underwritten by BIMA where premiums are deducted from the air-time of the mobile subscriber. Users can dial a short code on their phone to subscribe, pay or opt out of the insurance programs. It is estimated that Smart Life Insurance marketed and sold through the SMART telecom network covers 45% of total individual life insurance policies in Cambodia (Runcie, 2015).

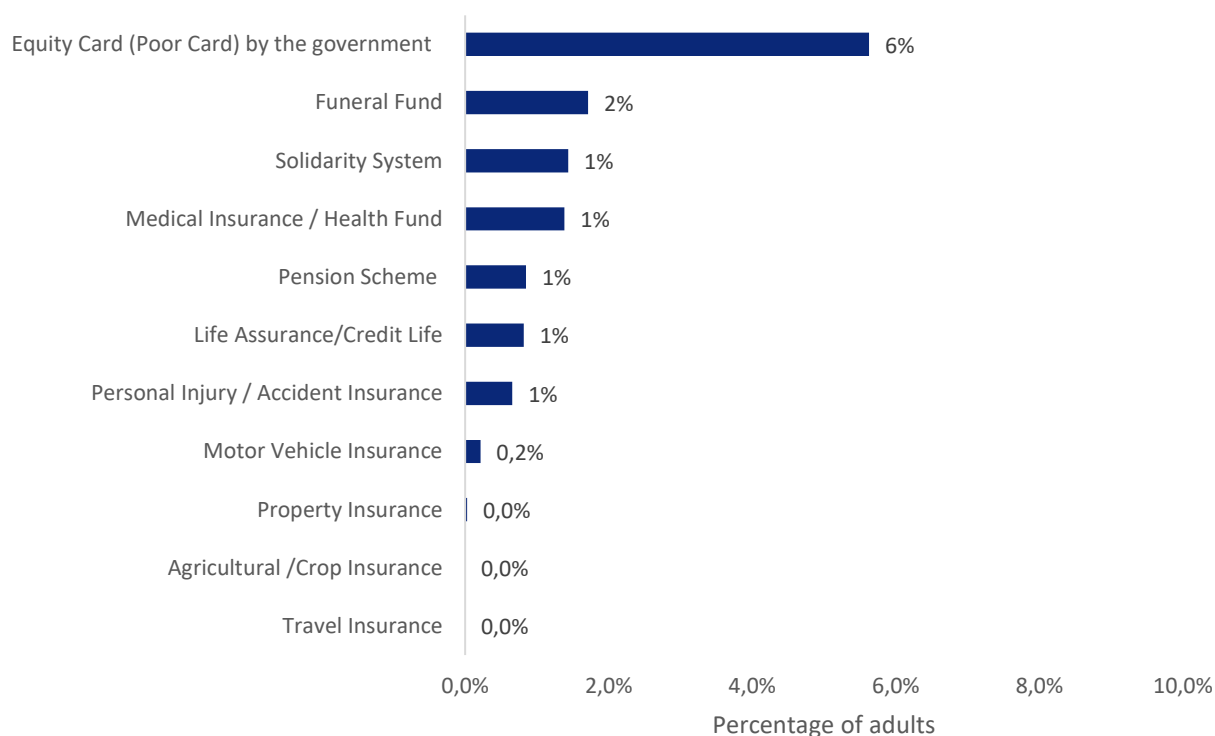
556. *Difficulty in agent based model due to high investment requirements.* Insurance companies work with individual and corporate agents on a commission basis. The agents are trained and have to enter into a formal contract to be eligible agents. Furthermore, the agent needs to get a license from Ministry of Economics and Finance and in case of BFIs seeking to be agent, they also need to get an approval from NBC. Due to stringent control in becoming licensed agents, insurance companies have adopted the model of hiring insurance consultants, who are technically not an agent but a marketer. This allows the individual agents to forgo the need of depositing funds with the national treasury, while allowing them to sell insurance products. While an insurance broker needs to have a minimum capital of KHR 200 million (USD 49,164), a registered insurance agent requires minimum capital of KHR 20 million (USD 4916).

Name	Type	Operation Year
Poe-Ma Cambodia	Broker	2009
AG Cambodia	Broker	2010
MGA Asia Insurance	Broker	2014
Gras Savoye Cambodia Insurance Brokers Plc		
IBS Cambodia	Broker	
Prasac Insurance Agent	Agent	2011
Campu Lonpac Insurance	Agent	2012

**Table 33 Non-bank insurance agents and broker in Cambodia**

*Source: Authors' own*

## What products are available and in use?



**Figure 94 Insurance uptake among adults**

Source: FinScope 2015

557. **Government led programs providing safety nets.** The Royal Government's effort to ensure social protection to the poor is reflected in the high uptake of equity cards (poor card). Government led ID Poor program- a part of the National Social Protection Strategy 2011-2015, is the key driver of insurance uptake in Cambodia. 6% (559,564) of adults have an equity card (poor card) which is also the highest uptake of any product. This is followed by 2% (170,459) adults having funeral fund and 1% (142,585) adults having solidarity system. It is estimated that an adult funeral in Cambodia would cost around \$7,775 (Cambodia Funeral Costs Guide, n.d.) which is one of the costliest expenses for Cambodian adults.
558. The availability of safety nets from family and community either through communal support or lending, undermines the need for a formal insurance coverage despite Cambodian adults being vulnerable to a number of risks.



### **Cambodia's ID Poor Program**

In an effort to identify the poor households in rural areas, Cambodia's Ministry of Planning developed the ID-Poor Program, which is a standardized questionnaire and procedure to identify the poor. The process relies on villagers to assess who is living in poverty in their community. After the identification of poor households, they receive an Equity Card. These cards include a photograph of the household members, a household code, poverty level, validity period of the card and general information on how to use the card. (GIZ, 2013). Currently, the ID Poor programs cover the rural areas with data being updated every three years. The program is also being developed for implementation in urban areas.

Through the card, the poor households can access a range of services including welfare transfers from the government and other partner organizations. Some of the services are as follows:

- Health Equity Funds: The Ministry of Health's Health Equity Funds for the poor provides free health care for poor people. In cases where the members of the household are hospitalized, the transportation cost is reimbursed and food allowance of USD 1.25 per day is provided for the patient's caretaker.
- Social Land Concessions
- Scholarships and other support for poor children
- Food-for Work and Cash for Work Programs
- Cash transfers

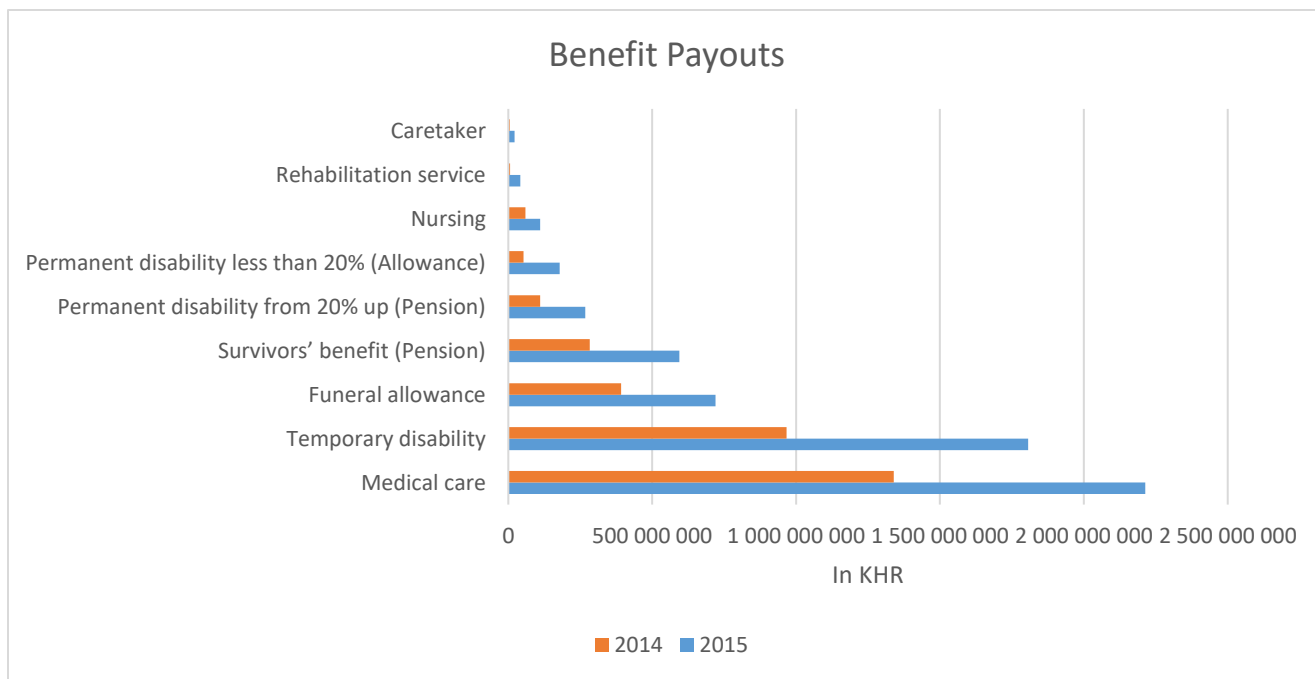
#### **Box 4 Cambodia's ID Poor Program**

559. ***Narrow range of entry-level life insurance products with potential for growth.*** With only 4 players in the market, Cambodia's life insurance market is still at a very nascent stage. In a largely uninsured market with low awareness, insurance companies are currently only offering basic products with the most common ones being credit life, endowment, family, children, education and pension products. Product innovation is low and is mostly targeted to cover personal catastrophes such as disease or loss of a family member. Life insurance in Cambodia remains untapped, providing substantial potential for growth owing to a young population and robust economic development.
560. ***Growing non-life insurance market driven by homogenous products.*** Non-life insurance companies provide similar products to cater to the Cambodian market. Property insurance, motor insurance, personal accident insurance, medical insurance, Marine, Aviation and Transport and Engineering insurance are some of the common products provided by the seven non-life insurance companies operating in Cambodia.
561. ***Uptake of medical insurance growing.*** Although medical expenses are a key risk, only 1% Cambodian adults have a medical insurance/ health fund. However, medical insurance has recorded 26% year-on-year growth followed by 18.8% growth of personal accident insurance, reflecting the potential trend the market will take in the future as medical expenses is one of the prime risk faced by Cambodian adults (IAC, 2015).
562. ***Limited mandatory insurance provision.*** Mandatory insurance 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, to a

greater degree, increased the adoption of vehicle insurance wherein the sub-sector registered a 14.5% growth in 2015 (IAC, 2015).

563. ***Fire insurance most popular in the non-life segment.*** General insurance companies in Cambodia mostly focus on business clients mainly comprising foreign investment projects. According to the Insurance Association of Cambodia, the non-life insurance market in Cambodia is primarily driven by fire insurance with the largest premium amount since 2009. In 2015, property and fire insurance premium stood at USD 24.5 million (IAC, 2015). This is mainly driven by commercial property development. Foreign investment in real estate of Cambodia has been driving the uptake of property and fire insurance. However, property and fire insurance also provide coverage to homes, factories, offices and other commercial properties. Moreover, properties bought with bank financing mandates a property and fire insurance.
564. ***Micro-insurance products expanding reach.*** The Ministry of Economy and Finance has defined micro- insurance as the provision of insurance contract to low-income group of population. This includes micro general insurance and micro life insurance. The maximum value of benefits provided under one insurance contract or sum-insured cannot exceed KHR 20 million (USD 4916), while the maximum term cannot exceed one year (MEF, 2011). Currently, the micro insurance companies in Cambodia are offering health, term life, credit life and personal health insurance. Moreover, the micro-insurance health product offers claims payment or cashless medical care at approved hospital. As per the legal limit, the micro-insurance products offered are only of short term, ranging from three-month to 12-month packages. Since micro-insurance companies are not offering endowment products, these are seen mostly as expenses than savings. Banks have also started offering micro insurance products that are underwritten by Insurance companies or micro-insurance companies.
565. ***Potential for agriculture micro-insurance.*** In 2015, Cambodian Agriculture Cooperative Insurance Company (CACIC) launched Cambodia's first agricultural micro-insurance product to help rice farmers tackle the impacts of climate change. The initiative was undertaken in five provinces including Takeo, Kampot, Kampong Chhnang, Prey Veng and Kampong Speu, with plans of expansion nationwide (Asia Foundation, 2015). The farm micro-insurance scheme aims to help farmers hit by natural disasters. Although there is high potential demand for crop insurance with farmers willing to pay up to USD 15 per year broken down into monthly payments (UNDP, 2013). However, the challenges of identifying risk associated with agriculture insurance has been a key hindrance for companies to venture into agri-insurance.

566. **Government’s insurance programs for employees and dependents.** The National Social Security Fund (NSSF) provides social security provision for private-sector workers, which covers provision of employment injury benefits, pensions, and other benefits stipulated by the Labor Law (ILO). NSSF also offers social health insurance for private businesses under which the organization is planning to provide coverage to family dependent including spouse and children as well. By 2015, NSSF provided coverage to a total of 6,470 enterprises employing 1,109,890 workers including 779,998 women. Out of this, 6,144 enterprises have signed up for contributory payment scheme<sup>24</sup>. As shown in Figure 95, medical care is the most utilized benefit followed by temporary disability payouts.



**Figure 95 Benefit pay-out by NSSF**

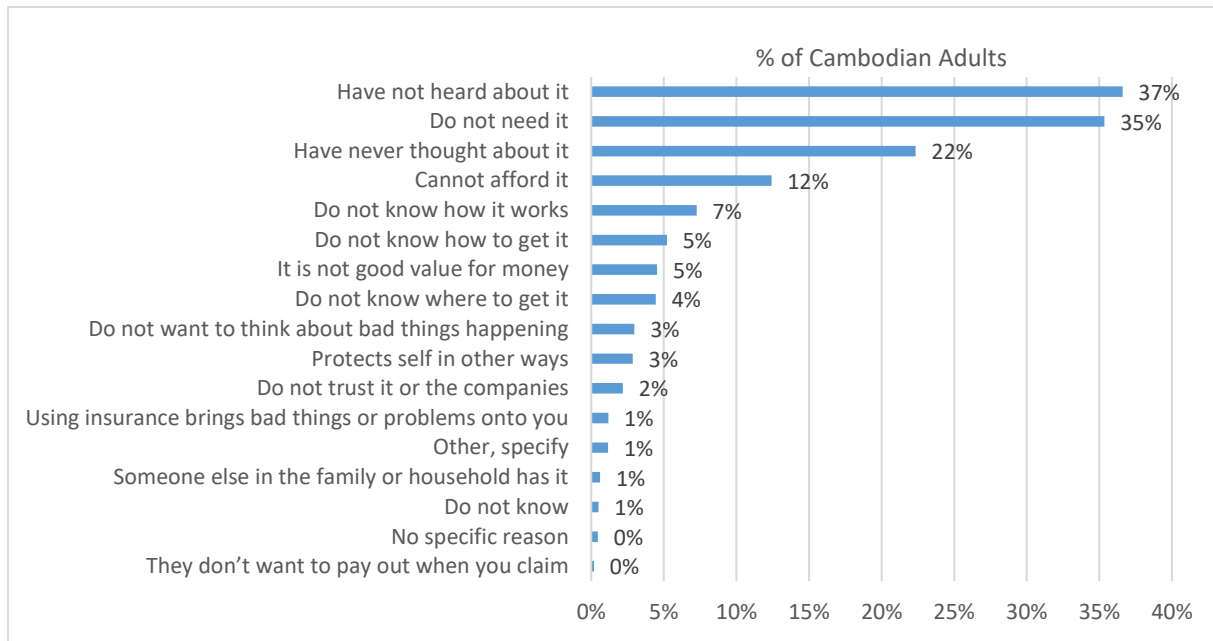
Source: National Social Security Fund, Annual Report, 2015

567. **Development partner assisted social protection programs.** International and national development agencies are supporting insurance initiatives such as the community based health insurance product. Generally, these products are subsidized by donor funding (Community Based Health Insurance, n.d.). In 2011, the government launched National Social Protection Strategy for the Poor (NSPS), which is a non-contributory social protection provision targeted for rural poor. One of the main elements of the NSPS is the Social Safety Net (SSN) programme, which includes public work programmes (PWP), social transfers and targeted subsidies. Currently, social protection mechanisms are being implemented by the government and a broad range of international organizations and local NGOs.

### What are the barriers to usage of insurance services and products?

568. A number of barriers inhibit access to, or usage of insurance in Cambodia resulting in low uptake.

<sup>24</sup> The discrepancy between FinScope figures and NSSF figures is driven by the fact that many adults that are included in these schemes may not be unaware of the coverage.



**Figure 96 Reasons why Cambodians do not have insurance**

Source: FinScope, 2015

## Access barriers

569. **Affordability a barrier.** FinScope shows that 75% of Cambodia adults earn less than 1,000,000 Cambodian riel (USD 245) per month. The relatively low level of income can make it financially difficult for individuals to afford any insurance products. While micro-insurance (life and health) charge premiums in the range of USD 1.60 – USD 12 per month, a regular insurance product premium ranges from USD 14-USD 24 for basic product. While micro-insurance premiums are affordable to an extent, the coverage provided is limited. The premium for regular insurance products require the individuals to shell out 6%- 10% if they earn USD 245 per month or more. Only 25% Cambodian adults will be able to afford this. At a time when world gross national income per capita-(GNI-PPP) stood at USD 15,421, Cambodia’s GNI per capita stood at USD 3,290 (The World Bank, 2015). The formally employed target segment have the highest income, and are also the highest user of insurance with 11% having insurance coverage. Dependents target segment have the lowest income with 6% having insurance coverage. The level and regularity of income to an extent appears to be impacting insurance take up. FinScope showed that 15% (1,234,308) adults are not able to afford insurance.
570. **Irregular income makes commitment to insurance premium difficult.** Moreover, larger section of the population have irregular income. Only 14% of Cambodian adults have regular monthly income, while the larger 86% do not have regular income. Irregular income pattern largely stems from 31% of the population deriving their main income from farming activities and 18% adults being self-employed. The irregularity of incomes makes it difficult for individuals to commit to regular premium payments for risk events that generally entails community support.
571. **Concentration in urban areas creating proximity barrier for rural residents.** MAP supply side study shows that larger insurance companies are focused on serving commercial and corporate clients,

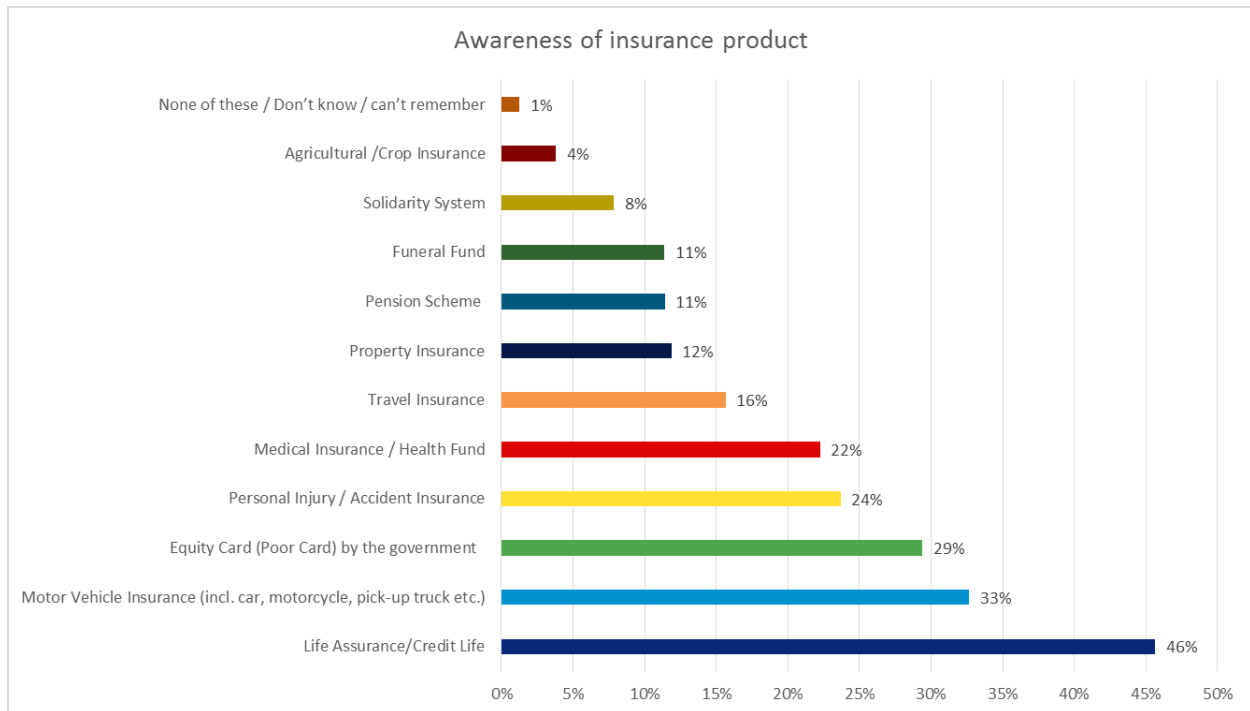
majority of whom are based in urban areas. Insurance companies have started venturing into serving retail individual clients and are expanding their distribution footprints through agents. Moreover, micro-insurance companies leveraging telecom networks are venturing into the rural area.

572. However, studies have shown that inequalities of coverage in rural and urban areas is prevalent. In 2015, health coverage at a national level was 26% of the total population while that of urban area was 34% and rural was 24% (ILO, 2015). Operating in distant rural areas entails high cost of operation. FinScope (2015) shows that 52% of the adult population need to travel more than 30 minutes to reach a bank while 51% need to travel more than 30 minutes to reach a microfinance institution. Given that insurance is a grudge purchase, the issue of proximity acts as a key hindrance. Since awareness of insurance is a key issue in rural areas and a large portion of urban population still do not have insurance coverage, insurance companies do not see the business case for expanding out of the core city areas.
573. **Low need for formal insurance product.** FinScope shows that 35% (3,513,463) Cambodian adults do not see the need for having an insurance product. The lack of need for insurance also arises from the lack of ownership of insurable assets. FinScope shows that 60% adults own the house they live in, 13% own an agriculture vehicle, while only 9% own a car. Moreover, there is strong community support in Cambodia, which is seen as the back-up resort to rescue from financial distress arising out of risk events. 3% Cambodian adults claimed to protect themselves using alternative mechanisms to formal insurance.
574. *“When my son fractured his leg, I did not have enough money for his treatment. But since I live in the same community as my three elder brothers, they came together to pitch the required sum. I do not necessarily need to pay them back because if they face similar situation in the future I will help them.”*

- 42, male, farmer

## Usage barriers

575. **Awareness and financial literacy a key usage barrier.** FinScope shows that 37% (3,637,904) of Cambodian adults have not heard about insurance as shown in Figure 96. Moreover, 38% (3,789,934) adults agree that there are other ways to protect against future problems than insurance, while 22% (2,196,506) believe that insurance is for the rich people. As shown in Figure 97, life insurance/credit life has the highest level of awareness with 46% (3,248,225) adults claiming to be aware of life assurance / credit life. Although medical expenses are the key risk faced by Cambodian adults, only 22% (2,211,489) are aware of medical insurance/ health fund while 24% (2,354,441) are aware of personal injury/accident insurance. In addition to awareness, 7% (721,311) adults do not know how insurance works while 5% (517,597) do not know how to get and 4% (441,980) do not know where to get it. This lack of awareness on how insurance works and the low level of financial literacy in Cambodia (Refer [Context drivers of market development](#)) has been a key barrier for uptake of insurance in the country.



**Figure 97 Awareness of insurance products**

Source: FinScope 2015

576. **Lack of suitable products.** Medical expenses and cost of lack of irrigation water are the key risks faced by Cambodian adults. Majority of the insurance providers offer health insurance product with hospitalization coverage. Micro-insurance companies have also started offering these products, which is slowly driving uptake. However, affordable and appropriate agriculture based insurance products are still lacking. Although agricultural micro-insurance has been introduced to cover rice crop loss, this is not available throughout the country. Similarly, pilot projects in the form of weather index insurance is being introduced, but is yet to be commercially viable. In this sense, there is a need for government and donor incentives to encourage private players to develop appropriate products for the largely agriculture based economy.

### What regulatory and policy issues need to be considered?

577. **Overlapping regulatory authority with unclear provisions.** The insurance sector is regulated by the Ministry of Economy and Finance along with the National Bank of Cambodia. There is a lack of a single supervising authority without which bringing clear regulation to govern the sector will be a challenge. The Insurance Sector Strategic Plan 2011-2020 includes a strategy for MEF to work with NBC so as to formulate policy and guidelines on cross-sector insurance operations.

578. In order to help the insurance sector grow, the industry needs to have clear regulation on brokers and agents. Insurance products can only be distributed through a licensed insurance agent of a broker. The Insurance Law is not clear on insurance company staff selling insurance, however a ministerial order was issued allowing staff of insurance companies to sell life insurance products.

579. Furthermore, brokers and insurance agents' relation with the insurance company is governed by the Civil Code, thereby not having any specific regulation. Moreover, also in terms of claim resolution, the Law on Insurance has laid down basic rules, whereby the procedure de facto follows the general Civil Procedure Code (Law Business Research, 2015).

580. *Reduce requirement for insurance brokers and agents.* As shown in Box 5, the capital requirement and solvency requirement for brokers and agents does not facilitate the registration of individual agents due to high financial commitment required. Given that the insurance market is still nascent and needs investment in terms of establishing agent network and building awareness, the high capital requirement acts as a major deterrent. Compared to the investment, the returns from the currently low volume market is bound to be low for individual agents and institutional agents. This acts as a barrier for recruiting new agents and even at a later time, can force agents out of business. Insurers depending on agents to distribute products will be impacted due to lack of agents. Moreover, there is also a need for gender diversity within the agent workforce to support the distribution of insurance products to women as well as men (IFC, 2017).

#### **Requirements for Insurance agents, brokers and loss adjuster**

Insurers, insurance brokers, insurance agents and loss adjusters must be licensed by the Insurance and Pension division of the General Department of Financial Industry under Ministry of Economy and Finance. The validity of the licenses varies based on the type of license.

- Insurance Company – 5 years at the first instance and 3 years for each renewal
- Micro Insurance – 1 year
- Insurance Agent – 3 years
- Insurance Broker – 1 year
- Loss Adjuster – 3 years

The validity of the insurance license is for a short period of time, posing significant risk for the operators. This will make the company risk averse due to uncertainty regarding the period till which they can operate in the country.

In terms of capital, the minimum requirement is as follows:

- Micro-Insurance Company –  $\frac{1}{4}$  of the total underwritten premium with minimum KHR 600 million.
- Insurance Brokers – KHR 200 million
- Insurance Agents and Loss Adjusters: KHR 20 million

Moreover, the following solvency requirements should also be met:

- Insurance agent and loss adjuster should put a deposit equivalent to USD 10,000 at the National Treasury
- Insurance brokers should make a deposit equivalent to USD 50,000 at the National Treasury.
- Prior to the commencement of its business, the insurance broker shall have a professional liability insurance with a sum equivalent to USD 500,000.
- Insurance company should maintain a deposit of 10% of the registered capital

**Box 5 Requirements for insurance agents, brokers and loss adjusters**

581. ***Tax issue and lack of incentives:*** The tax law of Cambodia specifies that tax on profit of insurance companies and reinsurance companies of life, property or other risks, will be computed at 5% of the gross premiums received and 20% on non-insurance income (MEF, n.d.). Moreover, insurance intermediaries charge non-deductible VAT of 5% 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. This entails double taxation on premium. Corporate tax on life and non-life insurance is imposed in all ASEAN countries with only Cambodia, Malaysia and Singapore having a special income tax rate provision on life insurance. However, Cambodia along with Brunei, Indonesia and Lao PDR exempts non-life insurance from VAT taxation (Comparative Taxation of Life and Non-Life Insurance in ASEAN Countries, 2015).
582. At an individual level, certain insurance support is termed as fringe benefits and is levied a 20% tax (Deloitte, 2016). Moreover, there are no tax incentive on the uptake of insurance. Generally the insured pays 5.5% tax in addition to administrative fee and fronting fee (AEGIS, 2011). Given that insurance is a grudge purchase, there is a need for incentive structure to increase voluntary uptake of insurance.
583. ***Claim processing and pay out takes long time.*** Vehicle insurance is one of the most used insurance products in the country. Section 8 of the Prakas on Compulsory Motor Vehicle Third Party Liability Insurance dictates the claim process once an accident occurs. In case the beneficiary and the insurer do not agree on the cause of the accident, the traffic police needs to investigate the case and submit the report within 48 hours from the date of accident (MEF, 2002). MAP qualitative research revealed that during the process of investigation, the investigating authorities have the ownership of the vehicle as evidence. The process of releasing the vehicle is generally lengthy which builds a negative perception towards insurance and claim settlement.
584. *"I had bought a small lorry to transport the wrought iron materials from my factory to the installation site. Last month the lorry hit a parked car at the main junction, since then the vehicle is at the police station. I am not sure when they will be releasing my vehicle. Till then I will have to rent a lorry which will increase my cost of transportation."*
- 37, male, entrepreneur**
585. ***Limited investment opportunity.*** Insurance companies operating in Cambodia need to invest 75% of their reserve funds in the local market itself. However, with a very nascent stock exchange, Cambodia has very limited investment avenues, which will affect the value creation ability of the company and will also restrict its growth.
586. ***Strengthen management and supervision of the sector.*** Currently, the Pensions and Insurance department under the Ministry of Economy and Finance regulates and supervises the insurance sector. As per the Insurance Strategic Plan 2011-2020, the government needs to expedite the establishment of an Insurance Commission removing the overlapping jurisdiction of NBC and MEF in the industry.

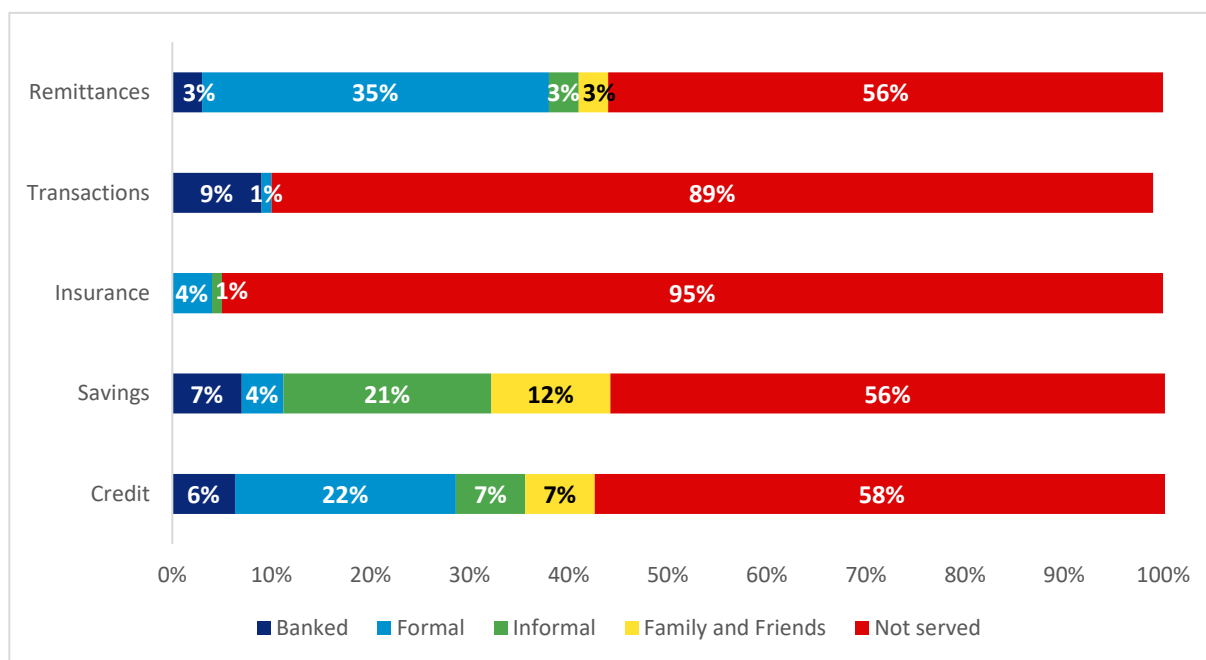


## What and where are the gaps and opportunities?

587. ***Young population and fast growing economy.*** In Cambodia, over 63% of the population is below the age of 40 while at the same time, it also has the fastest growing middle class in the ASEAN region. This combined with a steadily growing economy presents a virgin market for insurance companies. The self-employed and formally employed target market with relative higher income and education level can be a feasible market segment for insurance companies to cater to. Within the target market also, 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. The insurance 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.
588. ***Mandatory insurance can drive insurance awareness and uptake.*** Currently, very few businesses take insurance policies besides the one mandated by the government. In this scenario, insurance companies can provide products to support its commercial clients and their employees by bundling product offering. This can act as an opportunity to introduce death or funeral benefits, unemployment benefits and family allowances to cover dependants. These can be bundled with credit life, property insurance and vehicle insurance that is mandated while availing credit from formal institutions. Mandating insurance in areas such as health, motor vehicle among others can drive uptake and exposure to insurance.
589. ***Subsidize and support innovation and capacity building.*** MEF has established Insurance Industry Development Fund with the aim of promoting, supporting and encouraging dissemination of interest in insurance to the public. This fund can be leveraged to subsidize innovative product development from the private sector, such as the Weather Index based Insurance and low cost insurance products. Moreover, in order to build local skill sets and improve the current capacity of the industry players, the regulator can introduce mandatory or voluntary training requirements for the agents, brokers and insurance company staff. The Royal University of Law and Economics currently offers a Master's degree in Risk Management, this can be the key in building skilled manpower for the sector. As per the Insurance Sector Strategic Plan, the government is planning to offer specialized training on insurance and also develop an insurance research and development centre. This initiative should be prioritized to ensure its implementation by 2020 as per the target.
590. ***Prioritize medical /health insurance.*** Currently, funeral fund has higher uptake than medical/health insurance despite illness being the major risk event faced by adults in Cambodia, there is a significant potential to market health insurance products across the target segment. Insurance companies have increased their network of authorized hospitals and clinics across the country. This entails lower cost for insurance companies to push health insurance products to the larger market. The higher uptake of funeral fund depicts the perceived financial risk entailing from a funeral event. Life insurance products can be packaged with funeral fund benefits to increase the uptake of life insurance products.
591. ***Revise double taxation provision on insurance premium.*** The current double taxation on insurance premium acts as a disincentive for insurance companies at one end and at the user's end, the premiums charged will be high. Moreover, there is no tax set-off system to identify when the payment to an insurance intermediary originates from a pre-payment, which is already subject to

tax such as the tax on telecommunication (Law Business Research, 2015). The tax regulation needs to be revised, such that tax provision provide tax breaks to individuals for the premium payment done for life insurance, thereby encouraging uptake while making the premium affordable.

## Summary: financial service usage across the four product markets



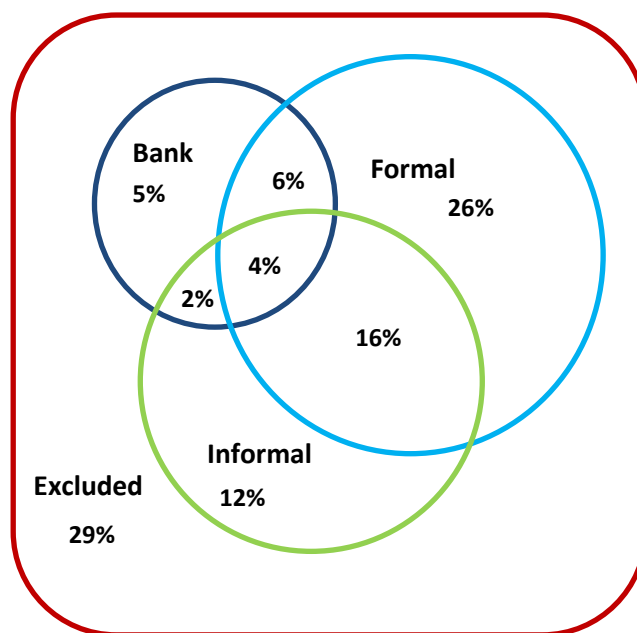
**Figure 98 Financial service usage across the four product markets (savings, payments, credit, and insurance)**

Source: FinScope, 2015

592. **Remittance and savings the most commonly used financial services:** Remittance products are the most commonly used financial products by Cambodian adults; with 44% adults either sending or receiving remittances through these channels. Similarly, 43% of adults indicated that they have taken-up a savings product. The proportion of adults using bank accounts for these services are quite low, with 7% of adults saving in banks and 3% using banks for remittances. The third most popular product type is credit; with 42% adults indicating that they have access to credit in the last 12 months. Only 10% of adults accessed transactional services. The uptake of insurance is low at 8% of adults.
593. **Banks are the most used channel for digital transactions.** Cambodia has a high usage of cash with digital transactions slowly picking up. Of those who use payment services, 19% use banks to carry out their transactions. There is a high uptake of other formal channels (mostly mobile money) to send and receive remittances. Of those who use remittance, 35% adults use formal channels, which is led by mobile money. Comparatively, only 3% adults use banks for remittance and 3% still use informal channels and another 3% take the assistance of family and friends to remit money.
594. **Savings mostly done in informal channels.** Savings is the second most accessed financial service, with the majority 21% using informal savings products. However, when overlap data is taken into consideration 22% of adults save at home.

595. **Credit is accessed through formal channels.** Most borrowers access credit through other formal channel with only 6% using banks to access credit. While 22% rely on formal channels comprising of MFIs, 7% still use informal channel and a further 7% rely on family and friends to avail credit.
596. **Insurance has very low uptake.** Only 8% of the adult population have insurance, the split of which is 6% formal and 2% informal. There is a very high exclusion of 92% adults without access to any form of insurance.
597. **High usage of informal financial services across target markets.** There is a relatively high usage of informal financial services across all target market segments. 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.

## Depth of usage



**Figure 99 Overlaps between the product categories**

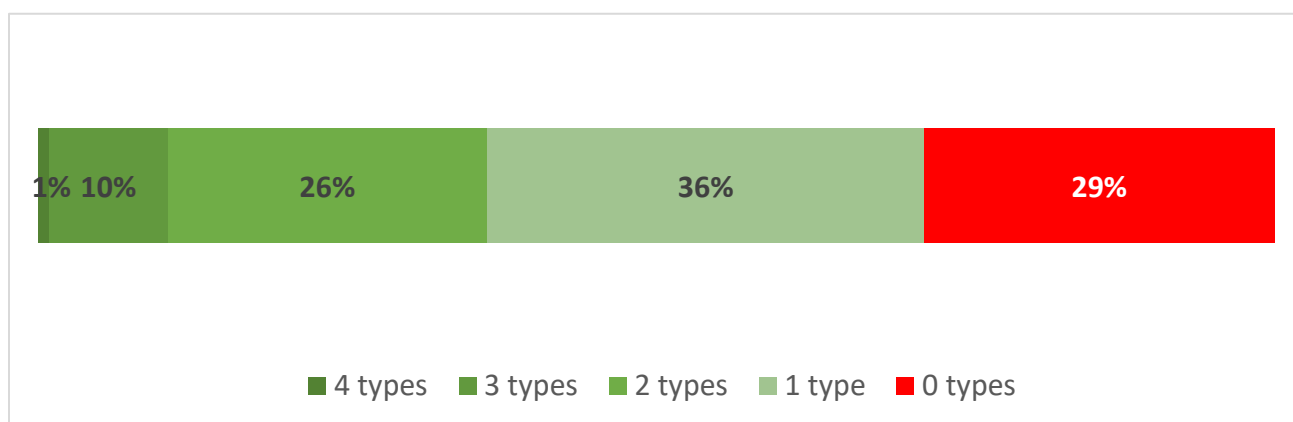
Source: FinScope 2015

598. Figure 99 illustrates the overlaps of financial service usage. Each circle is proportional to the number of adults that use that category of financial service. The percentage in each segment indicates the percentage of the total adult population that falls into that category. The diagram allows a closer inspection at the usage of multiple financial service types.
599. **Significant overlap between formal and informal.** The overlap between formal and informal channel is the highest at 16%, implying that 16% of the population use financial services provided

by other formal and informal providers. The high usage of formal channels is also seen in Figure 99, 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. It is also to be noted that banks have the lowest overlap with formal (6%) and informal (2%) services. Most of the financial inclusion is driven by uptake of other formal products such as MFI credit and mobile money for remittances.

600. **High usage of only one type of formal financial service.** The depth strand illustrates how the population is distributed according to how many product categories adults have in their financial portfolio. Figure 100 below shows the depth strand for Cambodia. The figure includes formally and informally included adults. The usage of portfolio of financial services<sup>25</sup> in Cambodia is as below:

- 36% adults use only one type of financial service; further breakdown of usage shows that 18% of adults only have a payment instrument in their financial portfolio, making it the most popular product to use first.
- 37% adults use more than one type of financial services. Of those who use a combination of two types of services, payments in combination with either credit product or savings product is the most popular combination.



**Figure 100: Multiple financial product usage by Cambodia adult**

Source: FinScope 2015

601. **Low uptake of all four product categories.** Only 1% of the total population uses all four- payments, credit, savings and insurance, this primarily indicates a shallow retail financial sector in which the uptake of different product categories is not pervasive. The value proposition of the products offered in the market is not necessarily sufficient for many Cambodian adults to take-up these products. A larger segment of the population does not have excess income or the income is irregular and is mostly spent on basic needs with 97% of adult population not maintaining a budget.

602. FinScope data has shown the following in terms of use of formal and informal channels:

- 14.5% of financially included adults use formal channels for borrowing only; majority of these adults who borrow from formal providers access credit from micro finance institutions as their loan application and approval process is easier and more lenient than that of banks.

<sup>25</sup> The four categories are payments, savings, credit and insurance

- 8.9% use for savings only; formal sector provides very few incentives for savings and investment, hence the financially included adults either store cash at home or route it through informal channels or invest offshore.
- 1.4% use for insurance only; Cambodian adults have access to alternative risk mitigation instruments in the form of family, children, friends and moneylenders among others, this provides an option to substitute formal risk mitigation instruments.
- 24.5% use for payments only; the vast majority (32%) of financially included adults use other formal channels to make their payments, this includes the usage of mobile money for transaction and remittance, which is gaining increasing traction in the market.

## Financial Inclusion Priorities

603. Based on the analysis done in previous sections, this section identifies the key financial inclusion priorities that will have the greatest potential impact on the majority of Cambodian adults, while also benefitting the economy. The six priority opportunities for increasing financial inclusion in Cambodia are:

- Promote savings in formal financial institutions
- Improve the functioning of the credit market
- Increase the usability of digital payment systems
- Prioritize the development of a well-functioning insurance market
- Build institutional capacity of the regulators
- Improve financial literacy, awareness and consumer empowerment

### 1. Promote savings in formal financial institutions

604. Savings enables capital formation that promotes growth and development of the economy through investments facilitated through the financial sector. However, due to the low rate of savings in the formal channels, domestic capital formation has hindered and dependence on off-shore funding and foreign investment in Cambodia increased.

605. *Preference to save in informal channels due to ease of access and usage.* Savings with the formal channels are considered expensive because of 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, better real returns on assets and security of value. This is indicative of savings outside the financial sector, forming an important part of the consumer's financial lives.

606. *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 long term (more than five years) 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 and lower withdrawal 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.

607. *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>26</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 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 saving for consumption smoothing and risk mitigation.

608. ***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.
609. ***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

610. 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.
611. ***Rapidly growing credit sector without long-term sustainability.*** The economy of Cambodia has seen a rapid growth in credit, mainly brought about by 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 majority of adults who borrow do so from micro finance institutions MFIs (53% borrowers in total - 30% from MDIs and 23% from MFIs), money lenders (14% of borrowers), and family or friends (22% of borrowers). MFIs, in particular, are a source of credit for majority of the

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<sup>26</sup> Of adults that do not save, 86% state the reason as no income after settling living expenses and 29% state no income stream at the time.



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.

612. ***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 realizing 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.
613. ***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% investing 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 smoothing 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 is potential to extend further inclusion for this target market. For example, supporting their understanding of how to build a good credit profile.
614. ***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. The multiple institution relationship and increasing 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.
615. ***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, but the reporting to the bureau are still too limited. 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. In contrast to the current practice of discretionary use of CBC data to determine the credit worthiness of the borrower, the use of this information should be made mandatory during credit appraisals and be one of the key criteria for

lending by the BFIs. Once this is effectively done, it will facilitate the tracking of loans and also prevent cases of multiple borrowings and rolling over of loans between credit reporting cycles.

### 3. Increase usability of digital payment systems

616. Access to affordable and enhanced payment systems 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.
617. *Digital payment channels hold the potential to support cash and cheque transactions.* Cambodia is a highly cash based economy with 89% adults using cash for transactions. There has been a slow but steady increase in the usage of cheques. In the short term, digital payment channels 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. The 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 governments and private employees will provide a key push. 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>27</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.
618. *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

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<sup>27</sup> The king is (not) dead; <http://map.uncdf.org/sites/default/files/Documents/note05.pdf>

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.

619. *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 channeled through banks and money transfer operators. 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 males (3%) and females (3%) have equal level of uptake of bank to send and receive remittance. However, females (37%) have a slightly higher uptake of other formal channels compared to males (32%). Females appear to be more comfortable using mobile money and other formal providers. However, it is notable that more men (59%) are excluded than women (54%). Given the high level of informal migration, the easy documentation requirement of mobile money transfers is a key element in redirecting informal remittance transfers into the formal channel and additionally 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.
620. *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.

621. *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.

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

622. 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. Establishing a well-functioning insurance market will improve individuals' ability to tackle the financial implications of risk events.
623. *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 the insurance sector.
624. *Mandatory insurance provisions 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 insurance, which can limit use or uptake of that asset where costs are prohibitive.
625. *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.

626. ***Micro-insurance supported by regulation.*** 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 area is mostly driven by low cost micro insurance and group based insurance products. There are two micro-insurance companies in the Cambodian market that offer health, term life, credit life and personal accident coverage. Smart Axiata (an MNO) and BIMA, forged the first partnership between a telecom provider and insurance provider to deliver micro insurance in the form a simple life insurance product. Banks have also started offering micro insurance products underwritten by Insurance companies or micro-insurance companies. 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
627. ***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 impact 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 hold the potential to expand into agri-insurance products. Secondly, a large section (18%) of the population experience illness in the household that require assistance 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.
628. ***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

629. ***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.
630. ***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 integrated 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.

631. ***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 by 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

632. 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.
633. ***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 (Klapper), 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.
634. ***Expand current financial literacy programs.*** In order to promote financial inclusion and help vulnerable consumers, NBC 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. Recently, NBC has launched campaigns to promote financial awareness and consumer empowerment. For example, the Enhancement of Consumer Protection and Financial Literacy Campaign aimed to promote financial inclusion and help vulnerable groups. Moreover, The Let's Talk Money Campaign, launched in 2016, was designed to empower consumers to use, choose, negotiate and communicate in order to make well-informed financial decisions and to integrate financial literacy into school curriculum from grade 1-12. 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.

635. ***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 not only facilitates a healthy competitive environment but also empowers individuals to take informed decisions. 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. At present NBC is working with IFC to create a complaint handling mechanism and the Prakas for the same is being developed.

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## Annex 1: List of regulation in the pipeline or undergoing amendment

Regulation	Status
Revised Prakas on Licensing Issuance on Pawn Business and Pawnshops as Securities	A public consultation workshop was held in 2016, the government plans to issue the Prakas in 2017
National Microfinance Strategy 2015	On Hold
IFRS Audit for banks and financial institutions	Implementation delay until 2019
Cambodia Consumer Protection Act	Draft is ready
Sub decree on Insurance	Drafting new regulation to replace regulation under the Insurance Law 2000
Sub decree on Micro-insurance	Public consultation workshop completed in 2016, expected to issue by 2017
Prakas on Claim Policy and Procedure	Drafted in 2016; public consultation workshop completed in 2016. Plan to issue in 2017
Prakas on Marketing and Sales	Drafted in 2016; public consultation workshop completed in 2016. Plan to issue in 2017

Prakas on Code of Conduct for Directors, Officers and Employees of Insurance Company	Drafted in 2016; public consultation workshop completed in 2016. Plan to issue in 2017
Prakas on Code of Conduct for Insurance Agent and Brokers	Drafted in 2016; public consultation workshop completed in 2016. Plan to issue in 2017
Prakas on Capitalization and Solvency Standards for Insurance	Supervision Department completed draft in 2016; public consultation to be held in early 2017. Final Prakas committed to be issued by 2017
Prakas on External Auditor	Drafting process started in 2015; currently research being carried out on regulation in other ASEAN countries. Final Prakas planned to be issued by 2017 under the technical assistance of ADB.
Prakas on re-insurance	Drafting process started in 2015; currently research being carried out on regulation in other ASEAN countries. Final Prakas committed to be issued by 2017 with the budget from MEF and technical consultant from US treasury
Prakas on investment for life insurance	Drafting process started in 2015; currently research being carried out on regulation in other ASEAN countries. Final Prakas planned to be issued by 2017 with the budget from MEF and technical consultant from US treasury.
Prakas on Technical Reserve	Drafting process started in 2015; currently research being carried out on regulation in other ASEAN countries. Final Prakas planned to be issued by 2017 with the budget from ADB and technical consultant from US treasury.
Manual on Life insurance supervision	Drafting process started in 2016; currently research being carried out on regulation in other ASEAN countries. Final Prakas planned to be issued by 2017 with the budget from ADB and technical consultant from US treasury.
Manual on Micro insurance supervision	Drafting process started in 2016; currently research being carried out on regulation in other ASEAN countries. Final Prakas planned to be issued by 2017 with the budget from ADB and technical consultant from US treasury.
Investment guidelines for Insurance companies	Drafting. Checking with Supervision Division (Tan Lina, Head of Division 012478887)
Establishment of an independent insurance commission	Plan to learn experience from other countries and plan to set up in 2018
Prakas on tax on life insurance premiums	
Law on social security system	Plan to complete draft in 2016
Law on Pension	Planned for drafting in 2017

Sub-decree on Pension	Planned for drafting in 2017
Regulation on Deposit Insurance	With the support of ADB, carry out a study on Deposit Insurance and plan to set up Deposit Insurance team by 2018 to formulate regulation, prakas and procedures.
Law on volunteer pension of private sector	In October 2016, the inter-ministries adopted a policy on social net. The plan is to formulate regulations and procedures in 2017 for the four implementing government agencies NSSF, NFV, NSSFC, and PWDF.

## Annex 2 Member List of National Clearing System

No		Name of Institution
01	NBC	NATIONAL BANK OF CAMBODIA
02	FTB	FOREIGN TRADE BANK OF CAMBODIA
03	CCB	CAMBODIAN COMMERCIAL BANK LTD
04	CPB	CAMBODIAN PUBLIC BANK LTD
05	CNB	CANADIA BANK PLC
06	KTB	KRUNG THAI BANK PUBLIC CO,LTD PHNOM PEHN BRANCH
07	CAB	CAMBODIA ASIA BANK LTD
08	CUBC	CATHAY UNITED BANK, CAMBODIA
09	MBB	MAY BANK PHNOM PENH BRANCH
10	UCB	UNION COMMERCIAL BANK PLC
11	CMB	CAMBODIA MEKONG BANK PUBLIC LIMITED
12	ABA	ADVANCED BANK OF ASIA LTD
13	RDB	RURAL DEVELOPMENT BANK
14	FCB	FIRST COMMERCIAL BANK PHNOM PENH BRANCH
15	ACLEDA	ACLEDA BANK PLC
16	VBL	VATTANAC BANK
17	ANZ	ANZ ROYAL BANK CAMBODIA LTD
18	CPBK	CAMBODIA POST BANK, PLC
19	SKB	SHINHAN KHMER BANK LIMITED
20	SPN	SATHAPANA BANK PLC
21	RHB	RHB INDOCHINA BANK LIMITED
22	PCB	PHNOM PENH COMMERCIAL BANK
23	BKB	BOOYOUNG KHMER BANK
24	SACOMB	SACOMBANK (CAMBODIA) PLC
25	BOI	BANK OF INDIA PHNOM PENH BRANCH
26	KB	KOOKMIN BANK CAMBODIA PLC
27	PLB	PHILLIP BANK PLC

28	BIDC	BANK FOR INVESTMENT & DEVELOPMENT OF CAMBODIA PLC
29	AGRIBANK	VIETNAM BANK FOR AGRICULTURE AND RURAL DEVELOPMENT, CAMBODIA BRANCH
30	BOC	BANK OF CHINA LIMITED PHNOM PENH BRANCH
31	CIMB	CIMB Bank (Cambodia) Plc
32	MICB	Mega International Commercial Bank Co. Ltd
33	ICBC	ICBC Limited Phnom Penh Branch
34	MB	MB Bank Plc Phnom Penh Branch, Cambodia
35	SHB	SHB Plc Phnom Penh Branch, Cambodia
36	TCB	Taiwan Cooperative Bank, Cambodia Branch
37	BBL	Bangkok Bank Co., Ltd
38	HLB	Hong Leong Bank (Cambodia) Plc
39	KBP	Branch of Kasikornbank Public Company Limited (Phnom Penh)

### Annex 3: Table of regulatory authority and permissible activities

Regulatory/ Supervisory Authority		Degree of Supervision	Financial Institutions	Main Legislation	Permissible Activity					Minimum Capital Requirement	Capital Adequa cy	Liquidi ty Requir ement	Mandatory Investment Requirement
					Deposit Taking		Credit Provisio n	Paymen t Services	Insuranc e				
	Supervisor y Division/ Agent		Institution al Type		From the Publi c	Intermed iate Deposits	To the Public			USD		USD	
National Bank of Cambodia	Directorate General of Central Banking; Directorate General of Banking Supervision ; Inspection General		Commercial Banks	Law on the Organization and Functioning of NBC (1996); Law on Banking and Financial Institutions (1999); Law on Financial Lease (2009); Law on Negotiable	Yes	Yes	Yes	Yes	Financial Institution offering Insurance products need approval from MEF	Local and Subsidi aries 75 mil; Foreign Branch Banks 50 mil;	Solvenc y ratio of the net worth to aggrega te credit risk exposur e >15%		Prakas on Controlling Banks and Financial Institution's Large Exposures, 2006; Prakas on Reporting of the Biggest Exposures and Surveillance of Credit Risk Concentration, 2009
			Specialized Banks		Yes	Yes	Yes	No		15 mil			

			Instruments and Payments Transactions (2005); Law on Foreign Exchange (1997); Law on Anti-money Laundering and Combating the Financing of Terrorism (2007)	Yes	Yes	Yes	Yes						
		Representative Offices											
		Micro Finance Deposit Taking Institution	Prakas on Registration and Licensing of Micro Finance Institutions	Yes	Yes	Yes	Yes		30 mil		at least 20 percent between		
		Micro Finance Institutes (Credit lending)		No	No	Yes	No		1.5 mil		"eligible capital" and its "weighted risks"		
		Leasing Companies	Prakas on Leasing Companies	No	No	Yes	No	No	Financial Lease Business	50,000			
		Third Party	Prakas on Third Party Processors	No	No	No	Yes	No	Payment transaction services				



			Prakas on Money Changers						Buying and selling banknotes Buying travelers cheque				
		Money Changers		No	No	No	No	No		20,000			
		Credit Bureau of Cambodia	Prakas on Credit Reporting						Credit Information Collection and Reporting				
		Telecom Operators											

<b>Ministry of Economy and Finance</b>	Insurance & Pension Department	Subject to Prudential Supervision	General Insurance	No	No	No	No	Yes		Minimum capital of USD 7 million			
			Life Insurance	No	No	No	No	Yes					
			Reinsurance	No	No	No	No	Yes					
			Insurance Agents	No	No	No	No	No					
			Licensed Pawn Shops	No	No	Yes	No	No					



	Securities and Exchange Commission of Cambodia		Cambodia Securities Exchange	The Law on the Issuance and Trading of Non-Government Securities, 2007; The Law on Government Securities, 2006	No	No	No	No	No	capital mobilization from public/securities investors to meet the demand of financing	MEF owns 55% of the registered capital and KRX the remaining 45%.			
Ministry of Agriculture,	Department of Agriculture Cooperative Promotion		Agriculture Co-operatives	The Law on Agriculture Cooperatives 2013	Yes	No	Yes	No	Yes					

Eligible capital will include, "core capital"(Tier 1), and "hybrid capital instruments" such as "non-refundable subsidies" (public grants), "public guarantee funds to cover risks on credit to the clientele", and "perpetual subordinated debts" (elements of Tier II capital). The weighting of risks will be specified by Prakas.

## Annex 4: List of In Country Consultations

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NBC- Financial Inclusion Working Group	NBC Office		
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