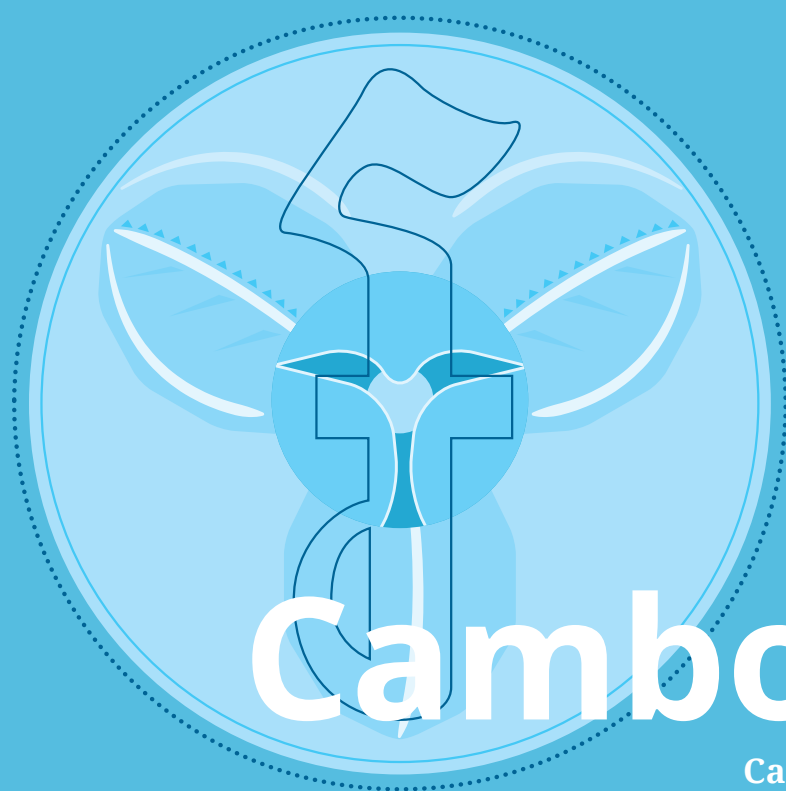


Making Access Possible



Cambodia

Cambodia Financial
Inclusion strategy

Roadmap and action plan

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.

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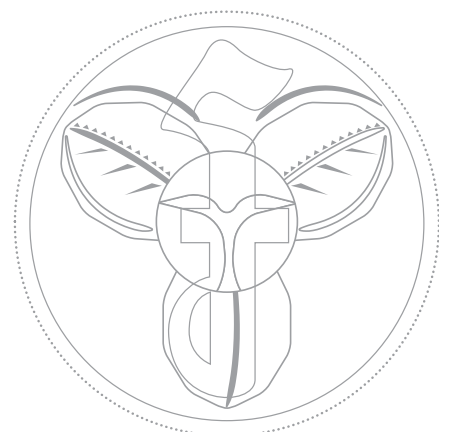


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Abbreviation and acronyms

ABC	Association of Bankers Cambodia
ABIF	ASEAN Banking Integration Framework
AFI	Alliance for Financial Inclusion
APN	Asian Payment Network
ASAPCP	ASEAN Strategic Action Plan for Consumer Protection
ASEAN	Association of Southeast Asian Nations
ATM	Automated Teller Machine
CBC	Credit Bureau of Cambodia
CDD	Customer Due Diligence
CMA	Cambodian Microfinance Association
CSS	Cambodian Shared Switch
EFT	Electronic Fund Transfer
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FI	Financial Institution
FMT	FinMark Trust
FSP	Financial Service Provider
FSDS	Financial Sector Development Strategy
GDP	Gross Domestic Product
G2P	Government to Person
HDI	Human Development Index
IMWG-FISF	Inter-Ministerial Working Group on Financial Inclusion Strategy Formulation
KHR	Khmer Riel
KYC	Know Your Customer
LVPS	Low Value Payment Service
M4P	Markets Work for the Poor
MAFF	Ministry of Agriculture, Forestry and Fisheries
MAP	Making Access Possible
MDI	Microfinance Deposit taking Institutions
MEF	Ministry of Economy and Finance
MFI	Microfinance Institutions
MIH	Ministry of Industry and Handicraft
M&E	Monitoring and Evaluation
MNO	Mobile Network Operators
MOC	Ministry of Commerce
MOEYS	Ministry of Education, Youth and Sport
MOI	Ministry of Interior
MOWA	Ministry of Woman Affairs
MPTC	Ministry of Post and Telecommunications
MSE	Micro and Small Enterprises
NCS	National Clearing System

NBC	National Bank of Cambodia
NIS	National Institute of Statistics
NPL	Non-Performing Loan
OID	Over Indebtedness
OTC	Over the Counter
P2G	Person to Government
POS	Point of Sale
PPP	Public Private Partnership
PSP	Payment Service Provider
PSPF	Payment Service Provider Forum
RCO	Rural Credit Operators
RTGS	Real Time Gross Settlement
RS	Rectangular Strategy
SECC	Securities and Exchange Commission
SME	Small and Medium enterprises
STR	Secured Transaction Registry
TPP	Third Party Provider
TRC	Telecommunication Regulator of Cambodia
UNCDF	United Nations Capital Development Fund
USD	United States of America Dollar
USSD	Unstructured Supplementary Service Data
VAT	Value Added Tax
VSLA	Village Saving and Loan Associations

Executive Summary

- i. The Cambodia Financial Inclusion Roadmap (2018- 2025) provides guidance for achieving the vision of increased financial inclusion in Cambodia. The roadmap is based on the findings presented in the *Making Access Possible: Cambodia Country Diagnostic Report 2017* which draws its analysis from the quantitative data of the nationally representative– FinScope Consumer Survey 2015 survey with a sample size of 3,150 and the information and data derived from Supply side interviews that included 276 in-field interviews and 152 supply-side stakeholder interviews. The MAP Cambodia research will provide support to the Royal Government of Cambodia to implement its financial inclusion agenda by identifying existing challenges and opportunities and suggesting interventions to further the level of financial inclusion in the country. The roadmap can form the basis for policy formulation and development of implementation framework for guiding the efforts for financial inclusion in Cambodia.
- ii. The FinScope research shows that 59% of Cambodian adults have access to formal financial services (17% access services from banks and 42% from other formal providers), 12% use only informal services while 29% adults are completely excluded having no access to either formal or informal financial services.
- iii. The uptake of financial services is significantly higher among the population segment with higher income level. The main income source as reported in FinScope (2015) is used as a basis to segment the adult population into five target market groups¹ with similar profiles and needs. Although, farmers are the largest target market in Cambodia their median monthly income of KHR 250,000 (USD 61.5) is among 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 overall financial inclusion is similar across the genders with inclusion for females (73%) slightly higher than male (69%).
- iv. 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. Majority of the population (75%) earn less than USD 245 per month implying low disposable income for financial services costs. Despite, MDIs and MFIs playing a significant role in expanding the reach and promoting usage of financial products there are still gaps in terms of access to more rural (commune and village level) and restricted practices followed by these institutions in terms of the products offered. In order to encourage usage the financial products needs to be further customised to address the target segment socio-economic status and needs. This gap has led to the population not served by the formal institutions to use informal channels or otherwise remains unserved.
- v. The MAP analysis identifies interventions that will support the national objective of increasing the level of financial inclusion in the country. These interventions are detailed in the form of this roadmap, which provides a framework to define, prioritise, coordinate, measure and track these

¹Target markets are distinct groups based on the main source of income. The study divides the population into subsets based on reported primary source of income. In Cambodia, the population has been segmented into five target markets – 1-farmers (farming activities), 2-dependents (remittance or income from household members), 3-formally employed (salary and wages from government, state or private registered companies), 4-informally employed (salary and wages from non-registered individuals or piece work) and 5-self-employed (own business).

interventions. The roadmap proposes a policy target, which offers vision and direction to the objective of improving financial inclusion. The proposed policy goal for Cambodia is as follows:

Increase access to quality of formal financial services, reduce the financial exclusion of women by 50% (from 27% to 13%), and diversify usage of formal financial services from 59% to 70% by 2025 as well as improve household welfare and support economic growth through the following key objectives:

1. Encourage savings in formal financial institutions
 2. Promote innovative credit products for SMEs and MSMEs
 3. Enable the expansion of payment system capabilities
 4. Prioritize the development of a well-functioning insurance market
 5. Strengthen the capacity of the financial sector regulators
 6. Increase consumer empowerment and sector transparency
- vi. The above mentioned priority areas have been formulated on the basis of the MAP analysis taking into consideration the identified customer needs and impediments for access and usage of financial services. The interventions under these priority areas will be implemented in the context of the country's Financial Sector Development Strategy (2016 -2025). Consideration has been given to existing financial inclusion initiatives to complement the identified Roadmap priorities.
- vii. Based on the Roadmap priorities, the Action Plan has been drawn that proposes short term and long term activities that when accomplished will contribute to the achievement of the long term vision of the Action Plan. These activities are targeted towards the achievement of the six priority areas which will cover the critical aspects of financial inclusion in Cambodia. However, the actual implementation of these activities will have a broader impact in the financial sector and the overall economy of the country.
- viii. Upon approval of the Financial Inclusion Action Plan for Cambodia and endorsement as a policy, it will provide a direction to the efforts currently being carried out by the government, development partners and private sector players by consolidating efforts and focusing on areas that need immediate intervention. The Executive Agency, the National Bank of Cambodia, will coordinate the activities of the plan and ensure a coordinated effort between all stakeholders to achieve the Financial Inclusion goal.

Introduction

1. The Royal Government of Cambodia, has outlined its objective of increasing financial inclusion in the country. This is well aligned with the development policy area of promoting financial inclusion under the Financial Sector Development Strategy, 2016-25 (FSDS). A well-functioning financial sector is the foundation for providing access to affordable and appropriate financial instruments to the unserved and underserved households. The government recognizes the role played by the financial sector in facilitating economic growth through enhanced access to financial services.
2. Empirical results and studies suggest that there is a positive association between economic growth and various dimensions of financial inclusion, specifically banking penetration, availability of banking services and usage of banking services in terms of deposits. Financial inclusion plays a key role in developing a strong and an efficient financial infrastructure, which facilitates the growth of an economy. Increased access to finance has been linked with growth, income smoothing and poverty reduction. Access to a range of cost effective financial services that low income individuals can utilize, will enable them to better manage their financial lives while creating economic impacts.
3. The deepening of the financial services accelerates economic growth through the expansion of access to those who do not have adequate finance thus enhancing resilience and capacity to cope with shocks, improve macroeconomic policy effectiveness, and support solid and durable inclusive growth.
4. Financial development enables bigger investments and more productive allocation of capital, which lead to higher income growth. At the same time, better and cheaper services for saving money and making payments allow firms and households to avoid the cost of barter or cash transactions, cut the costs of remitting funds, and provide the opportunity to accumulate assets and smooth income.
5. The Government, through the National Bank of Cambodia (NBC), is in the process of effecting the FSDS and promotion of financial inclusion through the formulation of a financial inclusion policy. The Making Access Possible (MAP) programme will be a key input to this policy through the MAP Cambodia Diagnostic Report. The financial inclusion roadmap and the recommended activities in the action plan is an outcome of the robust diagnostic and programming framework 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
6. The analysis of the Supply side diagnostic study is supported by 276 in-field interviews with representatives of the Cambodian target markets and information and data derived from the 152 supply-side stakeholder interviews with regulators, financial service providers, third party service providers as well as 4 focus-group discussions with a range of stakeholder groups and associations. The study also analysed statistical data sourced from the NBC along with significant desktop

research to identify trends and validate findings. The quantitative data is provided by the nationally representative Cambodia FinScope Consumer Survey 2015².

7. The roadmap summarizes the main findings of the diagnostic report and highlights the recommended priority areas to meet the identified financial needs of the market.
8. Interventions under the priority areas specified in the roadmap will work towards meeting specific sustainable development goals (SDGs). Promoting financial inclusion is critical in order to meet SDG 1 viz. ending poverty in all its forms everywhere. In particular, encouraging savings in formal financial institutions through developing incentives for savings mobilization and enhancing accessibility of savings products can help combat poverty. Increased access to targeted lending and micro insurance can also work towards SDG 1.
9. The priority of increasing consumer empowerment will work towards promoting inclusive and sustainable economic growth, employment and decent work for all (SDG 8) and reducing inequality within and among countries (SDG 10). Specifically, interventions such as increasing financial literacy will encourage responsible borrowing and lending practices, which will in turn promote sustainable economic growth. Promoting literacy campaigns to address low levels of financial literacy can also help reduce inequality within Cambodia by targeting underserved segments of the population.
10. Moreover, promoting a gender sensitive strategy by developing policies to ensure an enabling gender-sensitive environment will help achieve gender equality and empowerment of women and girls (SDG 5) in terms of financial inclusion. Specific strategies of collaborating with partners to develop women-targeted goal-oriented savings products and building the financial competence and management skills of high potential women entrepreneurs will also help close the gender gap in terms of financial inclusion.

² The FinScope Consumer Survey is a nationally representative survey of the adult population aged 18 years and older at regional and urban/rural level with a sample size of 3,150 individuals. This was carried out during November 2015- January 2016.

Cambodia financial sector context

Country context

11. Cambodia has experienced a phenomenal economic growth over the last two decades. With an average growth rate of 7.7% (National Institute of Statistics, 2016) over the period of 1995-2015, it is one of the fastest growing economies in the world today. This robust economic growth in the past two decades has transformed Cambodia into a lower-middle income country in 2016 (The World Bank, 2016). With this shift to lower middle income country, the government is focusing on social and economic structure changes and has also increased the budget for capital expenditure. Cambodia has been narrowing current account deficit to 9.4% of GDP in 2015. The deficit was financed by continued strong FDI inflows, estimated to have reached US \$1.8 billion (or 10% of GDP) in 2015 (World Bank, 2016).
12. ***Population profile: young, marginally more female, and mainly rural based population*** (National Institute of Statistics, 2013)
 - Total population: 14.7 million
 - Total adult population (18+ years): approximately 9.9 million adults
 - Young population: 63% are below the age of 40
 - Most rural based: 75% of population based in rural areas
 - Gender split: 52% female; 48% male
 - Male headed household: 73%
13. ***Socio-economic development: steady development despite low global ranking***
 - Average life expectancy at birth has increased to 71 years for women and 77 years for men.
 - 43% of population have only basic education and adult literacy level stood at 78%. Net enrolment rate for upper secondary school is 21% and the school drop-out rate is 8.7% at primary level and 19.6% for secondary level (FinScope, 2015).
 - Human Development Index (HDI): 143 out of 188 countries in 2014, but falls under the Medium Human Development category in terms of Human Development Index (UNDP, 2015).
14. ***Infrastructure development a key priority***
 - The World Economic Forum's Global Competitiveness Index 2016-2017 ranked Cambodia 106th out of 138 countries for infrastructure.
 - The total length of road in Cambodia measured 47,263 km, 74% of which were rural, provincial roads. The government aims to have 20,000km of national and provincial roads paved by 2018 from the current 13,340 km (Ministry of Planning, 2015).
 - The country depends on imported fuel, coal, biomass and hydropower for its power supply. The government is working on the vision to make electricity accessible for all citizens by 2020 with investments being made in hydropower projects, solar projects and electrical grid expansion (Ministry of Planning, 2014)
 - Cambodia has a total tele-density of 150.92%. The mobile penetration is 130% with 19.17 million subscribers and the internet penetration is 46.4% with 7.25 million users (MPTC, 2016)
 - The government is focusing on the development of national and regional infrastructure networks and logistical capabilities to improve connection within the country and with the region (Ministry of Planning, 2014).

15. ***Political scenario: Improving political scenario and stability***
- Cambodia is a constitutional monarchy with principles of liberal multiparty democracy, where the King is the head of state and prime minister is the head of government.
16. ***Economic growth: rapidly growing economy driven by increasing exports***
- Economy growing rapidly in the last two decades at 7.7% (National Institute of Statistics, 2016) during the period of 1995-2015, registering an economic growth rate of 7% in 2015
 - GDP in 2015: KHR 73,224 billion (USD 18 billion); GDP per capita was USD 1,218 (National Institute of Statistics, 2016) which is the lowest among its neighbours Lao PDR (USD 1,818.4), Vietnam (USD 2,110.9) and Thailand (USD 5,814.8).
 - Predominantly agricultural country, moving from a primary agrarian-based economy to a secondary and an industrial one.
 - In 2015, agriculture contributed 21.2% to the GDP, industrial share to GDP was 32.7% followed by Service sector contributing 39.6% (National Institute of Statistics, 2016).
 - 33% of country's population comprises of farmers; and 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
 - Share of agriculture to GDP decreased from 44.7% in 1995 to 21.2% in 2015 (National Institute of Statistics, 2016)
 - Industrial share to GDP increased to 32.7% in 2015 from 15% in 1995; focusing mainly on export based garment and footwear industry both of which are intensive labour based industries.
 - Cambodia's growth performance is the result of macroeconomic stability. This is reflected in relatively low inflation (2.3% at the end of February 2016), positive balance of payment (annual surplus of 4.2% of GDP) increasing international reserves (USD 6.5 billion in 2016), modest fiscal deficit (1.4% of GDP) and low public debt, and prudent economic policies.
 - Ranked 131th out of 190 countries, on the Doing Business Index in 2017 slipping three spots from 128th in 2016; however, Cambodia climbed up 7 places to stand at 7 position from 14 in 2016 in terms of getting credit.
17. ***Income distribution: low, but moderately equitable incomes and reducing poverty levels***
- Poverty has fallen sharply—from 50 percent of the population in 2005 to 13.5 percent in 2014. The World Bank now classifies Cambodia as a lower-middle income economy, and no longer low income.
 - Average monthly personal income: KHR 942,288 (USD 231.63).
 - 75% population earn below KHR 1,000,000 (USD 245.82) per month.
 - One fifth of the population earns more than half of the country's income, which amounts to 18 times the income of the lowest 20% of the population.
18. ***Multi-currency economy: High circulation of US dollar with efforts to increase usage of local currency***
- US dollar accounted for an estimated 83% of total transactions in Cambodia in 2015.
 - Dollarization restrains country's monetary policy and restricts the central bank from acting as the lender of last resort to the banking sector. While the NBC uses from time to time the dollar

reserve requirement ratio as a monetary policy tool to control liquidity, its effectiveness has proven limited.

- Cambodia's external competitiveness is expected to be further eroded if the country maintains the pegged exchange rate policy, if and when further dollar appreciation occurs. In the absence of an independent exchange rate regime, the overvaluation of real effective exchange rate, therefore, calls for policies to improve productivity and competitiveness.³
- But the text might also balance the negatives - by recognizing the gains for macro stability and ease of investment.
- Local currency (Riel) in circulation increased by 17.7% in 2015
- Deposit in riel increased by 29% in 2015, Credit in riel stood at 33%

³ 2016 IMF Article IV staff report

Box 1 : The FinScope access strand explained

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 banks¹ 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.
- **Excluded:** The percentage of adults who do not use any financial products- formal or informal- to manage their financial lives.

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

Status of financial inclusion in Cambodia

19. **Moderate level of access to formal financial services.** Cambodia has a relatively moderate level of access to formal financial services at 59%. As shown in Figure 1, 42% Cambodian adults have access to other formal financial service providers⁴, which is mostly dominated by MDIs. However, when taking overlaps of usage into account, the uptake of other formal stands at 52% and that of informal stands at 34%. The other formal and informal providers are the backbone of financial inclusion in the country. 12% of the Cambodian adults access financial services from informal providers and Cambodia has a financial exclusion rate of 29%.

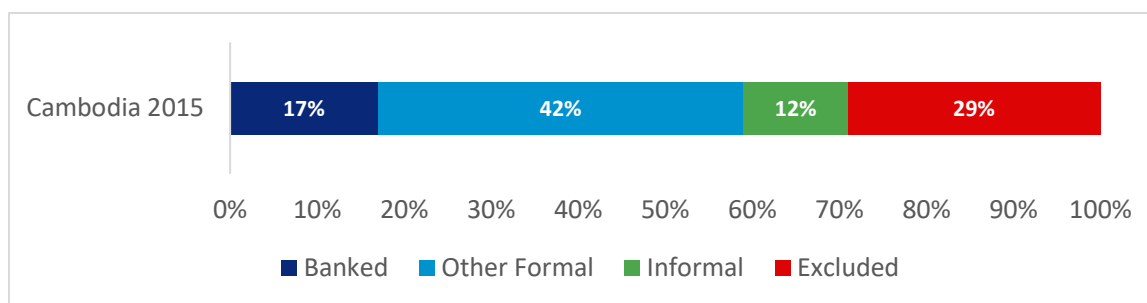


Figure 1 Financial inclusion in Cambodia

20. **Financial access driven by other formal services.** The other formal channels, including Micro Finance Institutions (MFIs), Micro Finance Deposit taking Institutions (MDIs) and mobile money, are driving financial inclusion in Cambodia. 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 and offer low amount financial products that are affordable and customized towards the need of the rural and low income population. With MDI's overall penetration being 17% (FinScope, 2015), if MDI's are considered as part of the banked segment, then the overall access to banked services stands around 34%. Around 47% of 'other formal' are MFIs (MDIs and other MFIs) out of which 33% of 'other formal' is through MDIs. Overall MFIs have a penetration of 24%, of which MDIs have a 73% share. There is a significant overlap between other formal and informal (16%) and bank and other formal (6%) as shown in Figure 2. This implies the usage of multiple financial service types. Banks have the lowest uptake with only 5% adults using only banks to access financial services. It is noteworthy that the population using informal channels (12%) only is higher than that of those using banks only. In addition to the other formal financial service providers, the informal providers play a significant role for financial inclusion in the country.

⁴ These are non-bank formal institutions regulated or monitored by a supervisory authority as mandated by law, e.g. microfinance institutions (both MDIs and MFIs), leasing companies, insurance companies, registered pawn shops, mobile financial service providers, savings and credit unions, co-operatives and postal savings institutions.

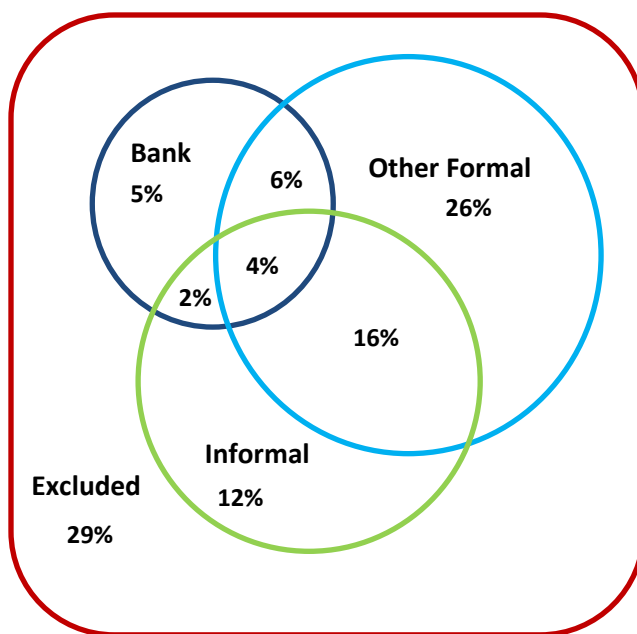


Figure 2 Overlaps between the financial service providers

Source: FinScope 2015

21. **Access level similar across demographics.** Three key demographic indicators of gender, geographic location, and education are considered for their impact on financial inclusion below:

- *No significant gender differential in financial inclusion.* FinScope (2015) shows that the level of financial inclusion is similar across the genders, with inclusion for females slightly higher. This finding continues when examining usage across product markets and providers, which does not show a significant difference between genders. There are nonetheless a few segments where women's access is lower than men's (for instance- credit to young women and waged-employed women, savings for older women).
- *Financial inclusion is proportionally higher in urban areas.* When examining geographic differences in financial inclusion, the percentage of inclusion in urban areas is slightly higher than that of rural (74% of urban adults and 69% of rural adults are included). The provinces with poor access to financial inclusion include the provinces of Kratie, Preah Vihear and Ratanakiri. However, when considering the absolute numbers that underpin this, the total of rural adults included is far greater than that of urban adults. In total, there are 5.2 million rural adults accessing financial services versus 1.9 million urban adults. It is worth noting that 30% of urban individuals access financial services from banks while only 12% of rural population access through banks. Other formal channel is more dominant in the rural areas (43%).

Higher education level leads to higher access. Individuals with tertiary level of education have higher access to financial services with 86% of tertiary educated adults accessing financial services, versus 68% of adults with secondary education, 72% of adults with primary education and 67% of adults with no education. The split between provider types accessed for financial

services is largely similar across the secondary, primary and no education groups and matches the population average. However, for the tertiary group a key difference in access is the percentage of uptake at banks. 51% of tertiary educated adults have access to banks versus between 18%-8% of the other education groupings.⁵ There is significant scope for banks to still target tertiary educated adults.

22. **Remittance, savings and credit the most commonly used financial services:** Remittance is the most commonly used product used by Cambodian adults with 44% adults either sending or receiving remittances. Of those who use remittances 35% adults use other formal channels, led by mobile money, and only 3% use banks. 43% of adults in Cambodia save (both with formal and informal providers). The key provider of savings is informal channels (25% of adults), followed by 'Saving at home' for 22% of adults and a smaller percentage of adults saving in formal channels (7% in banks and 5% in other formal). 42% of adults access credit. Other formal providers are the major players in this product market, with 23% of adults accessing credit from this source. This is followed by 10% of adults accessing credit from informal providers, 9% from family and friends, and 6% from banks. Only 11% of adults use digital transactions and 5% of adults use insurance. The low level of digital transaction demonstrates the significant use of cash in the economy.

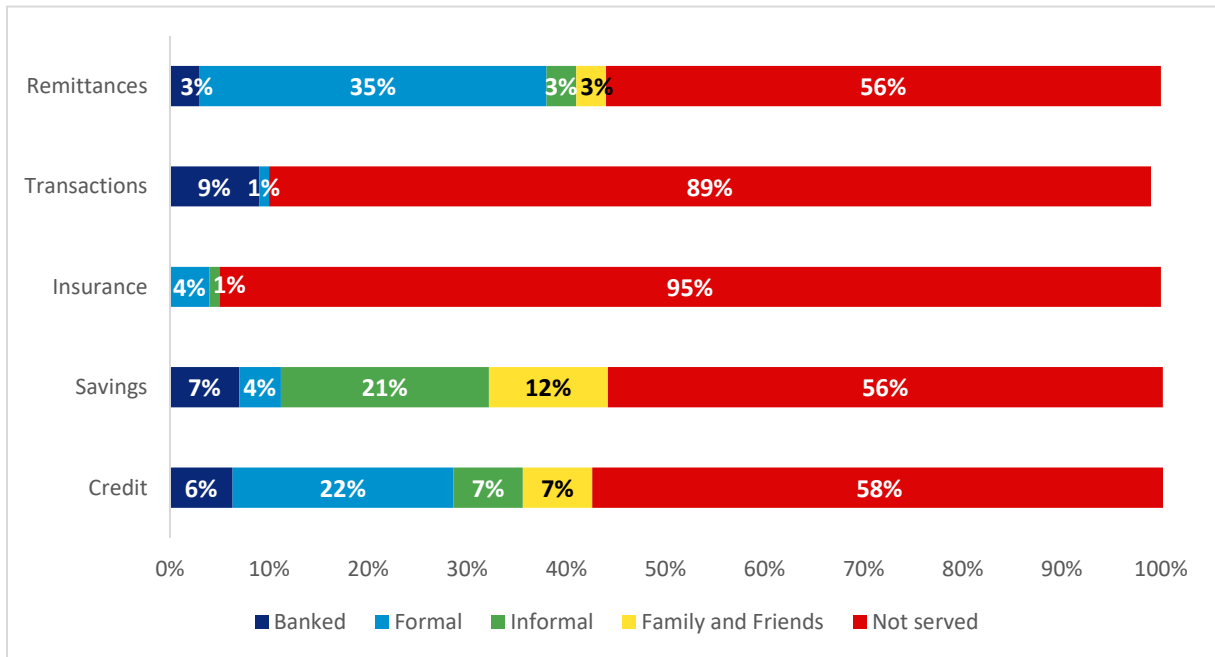


Table 1 : Financial service usage across the four product markets (savings, payments, credit, and insurance)

⁵Access to banks occurs for 18% of adults with secondary education, 13% of adults with primary education and uneducated (8%).

23. ***Depth of financial products⁶ accessed is limited.*** The majority of Cambodian adults only make use of 1 to 2 product categories. When the population with access to financial service is considered, 49% of adults only use one type of financial product, 36% of Cambodian adults use two types of financial products, 13% make use of 3 financial products and lastly only 1% access all 4 financial product categories. The implication is that very few Cambodian adults with access to financial services use a comprehensive portfolio of financial services to enable them to live their financial lives efficiently. This is supplemented by adults fulfilling financial services needs outside of formal and informal institutions and rather transacting in cash, saving and accessing credit from family and friends- such usage can affect the depth.
24. ***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. It becomes prudent to develop strong credit reporting and mechanisms to evaluate the capacity to borrow along with awareness campaigns and adequate mechanisms for protection of borrowers.
25. It is important to ensure that access to a portfolio of financial services that suits the individuals and households are available to address their needs effectively and manage their financial lives. Despite the complexity, it is important to measure the low depth of usage of product classes including informal products and their hierarchy in Cambodia. A focus on depth adds granularity to the understanding of financial inclusion enabling policymakers to develop targeted interventions to improve financial inclusion.
26. ***Diverse target markets make up the population.*** Farmers (33%) and self-employed (20%) are the largest target markets in Cambodia. In terms of financial inclusion however, the formally employed (11% of population) which is a relatively smaller target market have the highest level of inclusion (88%) followed by self-employed target market (82%) as shown in Figure 3. The usage of formal providers is similar across all target markets. Only the formally employed segment's usage of formal channels is slightly lower (32%) than the rest of the target markets. Dependents (12%) and informally employed (10%) are the highest users of family and friends to manage their financial lives. Farmers are the key users of credit with 51% accessing credit either through formal or informal channels. In terms of savings and insurance, the formally employed target market has the highest level of inclusion with 59% claiming to save either in a formal or informal channel and 11% of the segment have some form of insurance coverage. Similarly, the formally employed are the key users of digital payment channels with 39% of the segment transacting through formal channels. It must be noted that the dependents segment shows higher inclusion (51%) in terms of receiving

⁶The MAP study analyses four core product markets: payments, savings, credit and insurance. The payments market is further split into transaction and remittance. The financial access strand is used to illustrate the uptake across the particular product market.

remittance through formal or informal channel while in terms of sending remittance, formally-employed (30%) target market makes the most use of formal and informal channels.

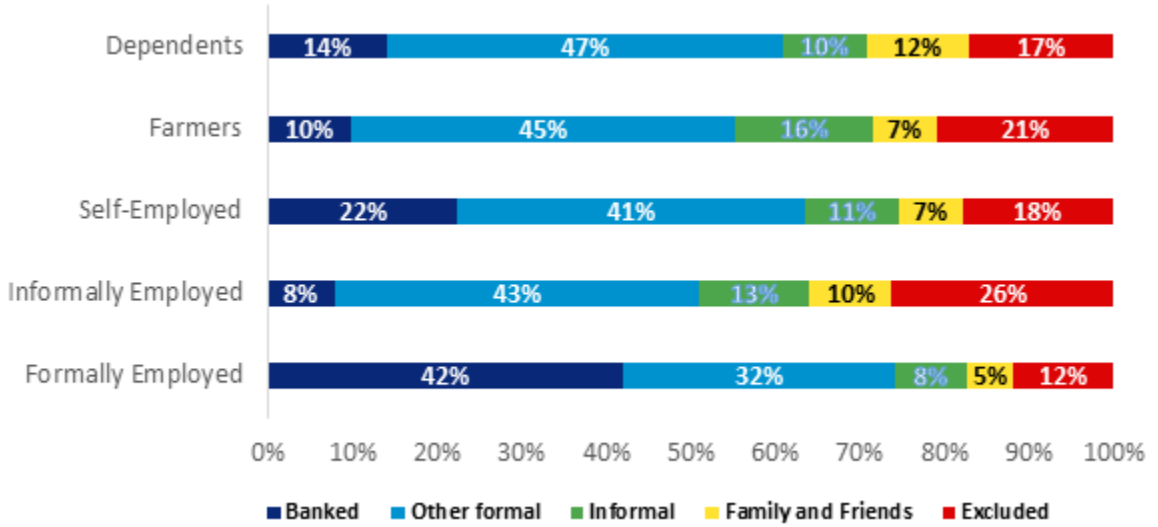


Figure 3 Access strand across target markets

Source: FinScope 2015

Box 2: Target Market Characteristics

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 deeper knowledge of financial needs of each target market segment. The identification of the target market and its segmentation is done on the basis of the reported main source of income. This 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. The description and needs of each of these segments are shown below:

Segment	Estimated Size	Characteristics
Formally Employed	1.11 million	<ul style="list-style-type: none"> • Main source of income is salaries from private or government entities • Majority are rural based • Best-educated target market • Best served target market in terms of access to formal financial services • Majority (74%) use formal financial services • Primary senders of remittance
Informally Employed	1.50 million	<ul style="list-style-type: none"> • Main income is salary and wages from informal entities and piece work • Most financially excluded segment • Majority use formal financial services (51%) • Low education level • Highly rural based (75%) • Slightly dominated by male
Self Employed	2.03 million	<ul style="list-style-type: none"> • Main income is from own business (MSMEs) • Second highest median income • Highest access to mobile phone • Moderately higher usage of formal financial services (63%)
Farmers	3.28 million	<ul style="list-style-type: none"> • Main source of income is from farming activities • Largest target market with low income • Majority are rural based with low education levels • 55% use formal financial services • Significant percentages (33%) of farmers are dependent on remittance. • Significant savings in informal channels.
Dependents	1.04 million	<ul style="list-style-type: none"> • Main source of income is from receipt of remittance • Smallest target market segment with high rural dominance. • Lowest income group • 61% use formal financial services.

Barriers to financial inclusion in Cambodia

27. The MAP research identified a number of barriers to increased usage of formal financial services and products:

Access barriers

28. **Accessibility is a key physical barrier.** Although the number of bank branches are increasing over the years, still above 52% of the population take more than 30 minutes to reach the nearest formal provider. Although the population is concentrated in rural areas, formal financial service providers' distribution touch points are mainly centred near key markets in urban areas. Financial institutions are using a number of channels to distribute their services via branches, ATMs, POS and electronic banking services. However, the low income group often cannot bear the cost and time involved in travelling long distances to access financial services.
29. **Low income level makes affordability an issue.** FinScope shows that 75% of Cambodian adults earns less than 1,000,000 Cambodian riel (USD 245) per month. Majority of the population have low disposable income with 29% adults indicating that they do not have any income. Majority of the adults who save (60%) were able to keep money as savings for a maximum of one month, indicating low amount of savings to be kept aside. This entails the inability of a large section to afford financial services from formal service providers as most of the products from the formal providers accrue benefits only in the long term deposits. While 12% Cambodian adults were not able to maintain minimum balance, another 8% considered service charges levied by the banks to be very high. The MDIs have been able to provide products with better returns on long term deposits, however mobilisation of small savings through commitment savings and higher returns is a challenge.
30. **Eligibility requirement is an issue.** The informally employed and unemployed population generally are not able to establish their repayment capacity or proof of income documentation to access credit from formal service providers. On the other hand, formal institutions also require collaterals against which loans are issued, the inability to furnish such collaterals or security generally leads to refusal of loan.

Usage barriers

31. **Formal products not fully matching the need of the population.** The value proposition of formal services are not completely aligned with the needs of Cambodian adults whereby those not served by the formal institutions are currently being served to an extent by informal channels or is otherwise unserved. In case of savings, issues of convenience and ease of access limit mobilisation, particularly in rural areas, whereby the vast majority (76%) prefer to save at home or with informal institutions. Cambodia had an account dormancy level of 20% in 2014, this is a significant increment from the dormancy level of 8% in 2011 registering zero interaction over a year. On the same note, the number of used (3+ uses per month) account has also decreased from 21% in 2011 to 18% in 2014. Moreover, 62% of bank accounts are used as mailbox with 1-2 average uses per month wherein bank accounts are mostly used for the purpose of receiving fund which is almost immediately and entirely withdrawn. In terms of insurance, 35% (3,513,463) Cambodian adults do not see the need for having an insurance product, as the major portion do not own any insurable

asset. Moreover, the taxation regime on insurance premiums is a disincentive for clients and providers alike.

32. ***Awareness and financial literacy are key barriers.*** The ability to engage with information on financial services is an important precursor to effective usage of financial services. Cambodia has a financial literacy rate of 18% based on the Global Financial Literacy Report placing the country in 135th position out of 144 countries surveyed (Leora Klapper, 2015) implying that the larger population has lower ability to engage with financial services.
33. ***Stigma and fear of debts.*** Vast majority (62%) of adults without credit are fearful of taking debts, while 8% (394,537) adults without credit refrain from taking credit as they do not want to be known as a defaulter and 7% perceive borrowing to be shameful or embarrassing. The social stigma attached with borrowing acts as a barrier for those in need to access credit to manage their financial lives.

Market drivers

There are broader market drivers that influence financial inclusion in the country:

34. ***Other formal providers dominate the market.*** Despite a high number of banks and the size of their balance sheet, other formal providers dominate in terms of providing retail financial services. FinScope (2015) shows that 52% Cambodian adults access financial service through other formal channel making it the most used channel. This is dominated by the usage of MFIs which has been extending their outreach rapidly with the sector's branch expansion registering growth of 23% in 2016 alone. MFIs and MDIs are emerging as a key provider of funds and are acting as an alternative to informal providers who charge higher interest rates. In terms of payments, other formal channel in the form of mobile money is gaining high traction with increasing numbers of people using mobile money for transaction and remittance.
35. ***Informal providers also play a key role.*** Various savings and credit groups such as Village Savings and Loan Associations (VSLA), Tong Tin and local money lenders are the key informal providers availing financial services in Cambodia. FinScope shows that 12% of the adult population use informal channels to manage their financial lives. When overlap are considered, 34% of the adult population make use of informal channels. Informal lending is widespread in Cambodia and plays a significant role as an alternative channel for access to finance. Many farmers continue to rely on informal credit and private money lenders in the village. Similarly saving in a Tong tin mechanism is still widely popular across the country where savings are pooled and credit is accessible on a rotating basis.
36. ***Large number of financial institutions with foreign investment.*** Cambodia has a large number of formal registered players with 37 commercial banks, 15 specialized banks, 71 micro-finance institutions, 12 leasing companies and 112 registered pawn shops. Of the total paid up capital of banks; KHR 10,310 billion (USD 2.53 billion), foreign shareholding stood at 64.33% and only 35.67% local shareholding. A similar pattern is observed in case of the MFIs where 61% of the total share capital of KHR 1438 billion (USD 353.39 million) 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 (NBC, 2016).

37. ***Stable banking sector witnessing growth:*** The Cambodian banking sector is in a growth trajectory as banking assets continue to grow significantly with wider financial inclusion. By the end of 2016, its total assets increased by 19% to reach USD 23.7 billion; shareholder equity increased by 18% to USD 4.2 billion; borrowing from other sources rose by 65% to USD 1 billion; deposits increased by 18% to USD 13.9 billion. Meanwhile, the number of depositors increased 14% to 3 million customers, while borrowers increased 49% to 0.8 million customers. The number of bank branches increased to 810 and that of ATM increased to 1,255 machines. The banking landscape is stable as reflected by key indicators such as; high level of liquidity in the banking system (Banks 118.3% & Microfinance Institutions 185.7%), high level of solvency ratio (Banks 22.3% & Microfinance 21.69%) and low level of non-performing assets (banks 3.5% and microfinance 1%) as of 2016(NBC, 2016). In order to ensure financial stability, the NBC has already increased minimum capital requirement for banks and microfinance institutions, to build capital buffers (IMF, 2016).
38. ***Increased capital requirement will likely support expansion of bank coverage.*** NBC has recently increased the minimum paid-up capital requirements for banks and MFIs. The increased capital requirement will facilitate consolidation of the sector and increase the competition. Growing competition and shrinking margins will force the formal financial providers to explore new markets and facilitate expansion beyond the urban centres. However, the consolidation will result in larger banks primarily focusing on corporate and high net worth clients whereby marginal clients could no longer be a priority for such providers.
39. ***Financial services distribution channels extending outreach rapidly.*** 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. As of 2016, commercial banks had 783 branches, and microfinance institutions had a total of 6,237 branches. Microfinance institutions increased their number of branches by 23% in 2016. Although the bank branches are concentrated around Phnom Penh and certain urban centres of Cambodia microfinance institutions have extended their services in remote areas of the country. In addition to the traditional bank branches, ATMs, branchless banking, point-of-sale (POS) banking, internet banking and mobile banking is being adopted to extend financial service reach in the country. As of 2016, there were 1,567 ATM terminals and 11,761 POS machines in the country. However, the alternative distribution landscape in Cambodia is still in its infancy. There are a total of 17,840 mobile money agents with a coverage of 1 mobile money agents per 580 adults.
40. ***Regulatory provisions being revised and introduced.*** 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). The inter-ministerial working group chaired by MEF has determined that Law on Secured Transaction (2007) needs to be amended to facilitate the repossession of leased assets without court approval. Moreover a number of acts including Law on Banking and Financial Institutions touch on the issue of consumer protection. The adoption and implementation of the draft Consumer Protection Law, Trust Law and

Competition Law will be key in ensuring the establishment of mechanisms for consumer protection. However there are few regulations that needs to be drafted to regulate the sector. 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. Telecom regulation and bank regulation should be jointly worked on to ensure that no conflict arises. Currently, there are two Prakas- Prakas on Third-Party Processors and Prakas on the Management of Payment Service Providers which regulate the usage of agents and also the telco company which provide the payment services.

41. **Moderate usage of range of formal financial services.** The majority of Cambodian adults (36%) only use one type of financial services; 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. The most popular combination is savings and payments with 10% adult using this combination. Only 1% Cambodian adults use all four types (i.e. payments, credit, savings and insurance) of financial services.

Enhancing financial inclusion in Cambodia

MAP prioritization process

42. The needs identified for the five target market segments are shown in Table 2. The identified needs under each target segment is unique to the target segment and is based on the assessment of how it could drive financial inclusion and usage of formal financial products.

Segment	Identified Needs
Formally Employed	<ul style="list-style-type: none"> • Cost-effective transaction account for salary receipt, with functionality and affordable pricing that enable digital transactions. Such accounts are usually free of annual maintenance charges with zero minimum balance. They enable clients to execute digital transactions (internet or mobile banking) such as mobile top-up, fund transfer, utility bill payment and merchant payments. • Deposit mobilisation by providing deposit protection scheme on savings. • Easy access and knowledge on recurring deposit accounts, long term savings plans that encourage savings in disciplined manner. • Key potential market for medical and life insurance products. • Potential for bundled savings, credit and payment product to enhance access further. These bundled products are usually saving accounts which enable individuals to save (with slightly higher interest, or interest on daily minimum balance), provide insurance coverage, and enable online and mobile payment transactions and provision for availing credit based on the average account balance and income history.

Informally Employed	<ul style="list-style-type: none"> • Easy access and knowledge about flexible low value savings product to facilitate savings of irregular income so as to help in consumption smoothing. • Accessible and cost effective remittance products which facilitate savings and provide access to credit against savings. A bank will for instance ask the remittance receiver or remittance sender to opt into the remittance linked saving accounts where certain percentage of the remittance received is directly transferred into the fixed savings account at competitive interest rates. The remittance receiver can then take out loans against the savings subject to predefined terms and conditions between the bank, the remittance receiver and remittance sender. To incentivise savings, these accounts have all transactional features and are free of annual charges. • Products to facilitate investment in skills that enhance their productivity and support them to grow.
Self Employed	<ul style="list-style-type: none"> • Capital for investment in business • Easy and convenient access to savings • Cost effective and easily accessible digital payment mechanism • Low cost insurance products to assist with mitigating risk attached to household and business especially products that reduce key-person risk. • Products to facilitate investment in skills that enhance their productivity and support them to grow.
Farmers	<ul style="list-style-type: none"> • Agricultural loans with flexible repayment options that match their seasonal income, including out grower schemes. • Flexible low cost savings that enable consumption smoothing to mitigate issue of irregular cash flow. • Low cost insurance products that help mitigate risk associated with natural calamities, agriculture and key-person risk.
Dependents	<ul style="list-style-type: none"> • Low-cost reliable payment channels for receiving remittance. • Financial products that leverage remittances and facilitate savings for consumption smoothing. • Products to facilitate investment in productive potential and skill training

Table 2: Financial service needs by target market segment

43. The interventions need to be prioritized in terms of its impact on the number of people while also considering national objective of economic growth. The interventions and activities are aimed at increasing access and usage of financial services to enable individuals to better manage their financial lives. Based on the analysis, the shortlisted priorities are shown in Table 3.

Shortlisted Priority	Key Observations
Encourage savings in formal financial institutions	Only 6% adults save in banks; 49% save in cash and assets. Despite having access the usage of the savings products is low.
Promote innovative credit products for MSMEs and SMEs	Only 28% of the self-employed have access to formal credit. 11% access from informal sources and 62% are excluded.
Enable the expansion of payment system capabilities	89% adults use cash for transactions; 32% adults use other formal channels to make payments
Prioritize the development of a well-functioning insurance market	95% adults have no insurance coverage
Strengthen the capacity of the financial sector regulators	FSDS prioritizes building institutional and human resource capacity of Cambodia's financial sector
Increase consumer empowerment and sector transparency	⁷ Cambodia has a financial literacy rate of 18% ranking 134 out of 144 countries

Table 3: Shortlisted priority strategies based on the key observations from FinScope, 2015

⁷Global Financial Literacy Report (Leora Klapper, 2015)

A proposed goal for financial inclusion in Cambodia

44. The roadmap provides a vision and direction for financial inclusion by proposing a national financial inclusion goal which is as follows:
45. ***Increase access to quality of formal financial services, reduce the financial exclusion of women by 50% (from 27% to 13%), and diversify usage of formal financial services from 59% to 70% by 2025 as well as improve household welfare and support economic growth.*** In order to attain this goal, the following actions in the form of roadmap priorities is proposed.
1. Encourage savings in formal financial institutions
 2. Promote innovative credit products for SMEs and MSMEs
 3. Enable the expansion of payment system capabilities
 4. Prioritize the development of a well-functioning insurance market
 5. Strengthen the capacity of the financial sector regulators
 6. Increase consumer empowerment and sector transparency
46. The goal proposed identifies six priority areas in which interventions are laid out such that it leads to the accomplishment of the proposed goals. However, in order to achieve the priority objectives there are pre-conditions that needs to be monitored or addressed so as to create a conducive environment. These preconditions include:
- Political will and coordination among stakeholders
 - Stable political and macro-economic conditions
 - Improved educational infrastructure and literacy level
 - Improved financial infrastructure

Implementation priority areas

47. The MAP diagnostic has identified six priority areas for increasing financial inclusion in the country. The priority areas are: 1) Encourage savings in formal financial institutions; 2) Promote innovative credit products for SMEs and MSMEs; 3) Enable the expansion of payment system capabilities; 4) Prioritize the development of a well-functioning insurance market; 5) Strengthen the capacity of the financial sector regulators; 6) Increase consumer empowerment and sector transparency. The improvement in these six priority areas is expected to impact a larger segment of the adult population in terms of meeting their need for financial services and products. The key interventions that will support the achievement of the outlined priorities are detailed in this section. Please refer to the diagnostic report and synthesis report for further details on the priorities. These priority areas have been segregated into: Banking sector (including the banking system, microfinance operations, instalment operations, interbank and money market and financial leases) recommendations, Non-bank sector (including the insurance, pensions, capital markets, pawnshops,) recommendations, Support infrastructure (governance and the legal and regulatory framework for financial sector infrastructure, market conduct and consumer protection, legal and regulatory, credit bureau, credit guarantee and depositor protection), and Capacity building.

Banking sector recommendations

Encourage savings in formal financial institutions

48. *Encourage saving habits among adults and channel it for capital formation.* There is low level of savings amongst the Cambodian adults which is attributed to multiple factors, key of which is their low and irregular income (59% of the adult population), which restricts their ability to save. This has limited the capital formation in the economy and mobilization of funds through the financial sector. On the other hand, majority of the people who save were found to be saving at home or informally which indicates that there is potential unmet demand within the different access categories. Savings groups and cooperatives offer low cost savings with low or no access barriers and thus have been successful in mobilising savings in the form of regular/mandatory or committed savings. Also, people were found to be keeping their savings at home due to high liquidity and to manage emergencies. These cases indicate that people are able to save small amounts and mobilization of these savings is possible.

However, this may be hindered by a trade off with demand for credit. MAP qualitative and quantitative demand-side research (2015) indicate high usage of credit to manage consumption and emergencies (15% of the credit users, use credit for 'living expenses when you do not have money at that time' and 7% use it for emergencies). This results in accessing capital through credit and then funds from a limited income being directed to repayment of credit rather than saving. It is important to encourage the Cambodian adults to use savings for their key needs and emergencies and facilitate mobilization of these savings. 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.

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%.⁸ 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. There is a need 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.

49. *Culture of saving in assets provides customers with returns, but locks up capital that could have been used for intermediation.* There is a long-established culture of saving in cash and assets in Cambodia as the returns on monetary savings are limited, and such assets promise a market-linked return. This has resulted in cash and assets as the preferred savings product in Cambodia. Saving in the form of cash is convenient, has no entry barriers or no transactions costs, and is very liquid. However, the implication of this is that these saving in physical assets makes capital unavailable for intermediation. Therefore, it will be important to explore avenues that would allow customers to take up savings products with financial institutions that give a competitive return. This could include product offerings that monetise physical assets, such as placing these assets in the commodity trading market by leveraging the value of the asset. Furthermore, addressing the affordability and accessibility of saving products will be a key driver in promoting the growth of these services and its acceptance.
50. *Opportunities for the formal FSPs to leverage on the trust factor to expand their market.* Trust among the Cambodian adults in FSPs is high, but the FSPs have not been able to leverage it and increase its client base. Trust in formal institutions is high, while informal institutions rank on the low scale. Yet, usage of savings reflects the opposite picture. This is evident as the savings groups are dominant in terms of client numbers mainly because of the value it provides to the customers. Therefore, there is an opportunity for formal providers to leverage this trust by addressing other barriers that are keeping consumers from accessing their services. Saving with the formal channels is considered to be costly as it entails annual charges, account maintenance and inaccessible because of minimum balance requirements, along with low interest earnings. Introduction of low-value savings products with higher returns to the savings customers, and also consider whether they could bundle benefits to provide savings depositors with better value. This will provide an opportunity of mobilising savings from this segment of the population.
51. *Summary of future strategies by Banks and MDIs to promote formal savings:*
- Promote and support the design of remittances-linked saving products (particularly cross-border remittances)
 - Encourage the increase in depth of financial services usages for clients (savings, credit, insurance & payments)
 - Launch a communication campaign to promote the Deposit Protection Scheme to low-income and rural populations

⁸ FinScope and UNCDF, 2015.

Promote innovative credit products for consumers and MSMEs

52. *Opportunities for expansion of credit by the commercial Banks.* Commercial banks are the largest provider of credit in terms of volume and a comparatively smaller retail client base. The clientele of the banks are dominated by corporates and high net-worth individuals as their target markets. Their products are not designed to serve the small value or retail market on a large scale, hence they do not move down market. However, banks can promote cash-flow based lending for SMEs (especially those with high potential but lack financing). The banks could introduce products using movable collateral and receivables.
53. *Targeted lending products for micro and small enterprises.* Microfinance institutions are less stringent in terms of loan application/approval process and requirement for high quality collateral. Despite the saturation of the market there can be avenues for expansion of credit in focussed areas of non-collateralized lending for MSMEs, value chain financing etc. Because of the reach and network, MFIs are well placed to meet the financing needs of the MSME client.
54. *Enhance financial lease market.* Even though financial leasing operations was established only in 2012, the sector has played a key role in financing MSEs. At present there is an issue of double VAT on leasing which is making borrowing from leasing companies expensive. Otherwise financial lease may result in lower transaction costs and administrative processes when compared to a traditional bank loan for movable assets. The leasing companies can play a significant role in financing agricultural equipment, small machineries for MSEs, etc.
55. *Proposed future strategies to improve functioning of the credit market:*
 - Develop products and promote inventory, receivable, factoring and value chain financing for SME/MSE
 - Review which selected sectors and credit segments could be covered by the credit guarantee scheme (Agriculture, renewable energy, women-owned SMEs etc.)
 - Specific attention is given to design product for underserved market segments for women (credit to young women and waged-employed women, savings for older women)
 - Promote commercial warehouse financing systems at regional level with third party collateral management companies and at local level with local value chain actors in relation with MFIs/MDIs
 - Conduct sector/product demand survey for selected sectors (agriculture, renewable energy, etc.) where financial lease can be expanded

Non-bank sector recommendations

Prioritize the development of a well-functioning insurance market

56. *Progressing sector with immediate potential in the health and agriculture space.* Cambodia's insurance sector is still at a nascent stage with the sector focusing mainly on people who live in urban areas. The uptake of insurance is very low at 5% of adults with a large potential for enhanced market penetration. The immediate potential to expand market penetration is in the agriculture and health space. In an agriculture based economy risk events affecting harvest impacts a large

section of the population as 58% (5,749,834) of Cambodian adults are engaged in farming. Non-life insurance companies dominate the insurance market in Cambodia and holds the potential to expand into index insurance⁹ products. In particular, there is a high potential demand for crop insurance with farmers willing to pay up to USD 15 per year broken down into monthly payments (UNDP, 2013). To develop index insurance, a statistical index needs to be developed measuring deviations from the normal level of parameters such as rainfall, temperature, crop yield and livestock mortality rates etc. This is an expensive process and can be supported by development partners. Secondly, a large section (18%) of the population experience illness in the household that require to assist with mitigation. Potential exists for the few life insurance companies operating in the market to offer low cost health coverage. Further exploration on the viability of servicing these needs via insurance is needed.

57. ***Leverage micro-insurance to provide access to poorer and rural segment.*** Micro-insurance is a product category that targets low-income earners, a high proportion of the adult population excluded from insurance currently. There are five micro-insurance companies in Cambodia currently offering health, term life and credit life with option of claims payment or cashless medical care for micro health insurance. Smart Axiata (an MNO) and BIMA, forged the first partnership between a telecom provider and insurance provider to deliver micro insurance in the form of a simple life insurance product. This is a good foundation to build from for further life product provision, as well as exploration of the potential for general insurance products. Micro-insurance is defined in legislation and an institutional licensing framework exists. The manual on micro-insurance supervision is currently being drafted. This needs to be expedited to ensure that key regulations governing the micro-insurance sector is in place such that it facilitates the growth of this sector. In order to create a conducive environment for the expansion of micro-insurance, it is key that NBC, MEF and the Telecommunication Regulator of Cambodia introduce a joint regulation to supervise the sector with actors who come under the supervision of separate regulators.
58. ***Opportunity of insurance companies to expand through low cost insurance products.*** The commercial insurance market is still at a very early stage with major insurance companies providing standard life and non-life products only. There is a good opportunity for the insurance companies to add to their portfolio an array of affordable insurance products and services (low cost high value insurance products) as there is a need because majority of the Cambodian adults use savings and credit to manage risks and emergencies which is fatal as, it stretches their financial capabilities. As the insurance penetration in Cambodia is a meagre 4% therefore there is a huge untapped market. However the crucial element will be the willingness of insurance providers to proactively drive and participate in developing this market and this can be encouraged through regulatory support. These products can easily be marketed through banks and microfinance institutions who have already started offering general insurance products underwritten by Insurance companies or micro-insurance companies.
59. ***Explore cost effective distribution channels.*** The biggest challenge in the expansion and uptake of the insurance is the lack of widespread, cost-effective distribution channels. This is crucial to

⁹Index insurance is a relatively new but innovative approach to insurance provision that pays out benefits on the basis of a predetermined index (e.g. rainfall level) for loss of assets and investments, primarily working capital, resulting from weather and catastrophic events, without requiring the traditional services of insurance claims assessors. It also allows for the claims settlement processes to be quicker and more objective (IFC).

keeping insurance premiums affordable. Non-traditional distribution channels are often needed to reach clients in remote locations. Extensively leveraging the existing networks of banks, microfinance institutions and other nonbanking financial institutions would help establish insurance uptake in Cambodia. As already done by some micro-insurance providers, technology developments for mobile banking and payment systems facilitate premium collection and claims payments that has accelerated the outreach. This demonstrates an opportunity for development and expansion of low cost insurance products i.e., the right products (affordable cost- high value) and distribution approach to increase scale and reach the currently large segment of unserved market.

60. *Future strategies to improve functioning of the insurance market:*

- Support the diversification of micro-insurance and low-premium products including (health, pregnancy, hospitalization, house, fire, etc.)
- Explore the development of index based crop and cattle insurance to support the development of agricultural insurance products
- Support the design of low-premium personal insurance (health, hospitalization, pregnancy, etc.) for wage employed women
- Introduce a self-regulatory code of conduct for insurance and micro insurance companies.

Role of Capital Markets in financial inclusion

61. *Support the initiatives of SECC.* As the capital market is still new in Cambodia and relatively small compared to other markets in the region, it lacks liquidity and depth. SECC is working towards building the capacities of companies, and instilling standard corporate governance practices to help them list in the capital market. SECC is also developing/providing incentives and technical support to encourage more companies to participate in the capital markets. SECC is also working on regulations for listing of both government and non-government securities. SECC is trying to encourage participation by institutional investors such as insurers which could improve the depth and quality of the market.
62. As a part of investors' protection, the SECC has recently adopted a regulation (Prakas) on dispute resolution in securities sector which provides the investors, as well as the market players, a path to go through whenever they face problem in their investment in the securities market. At the same time, securities law and regulation enforcement program also plays important role to safeguard order and fairness in the market. In this regard, the SECC has been conducting many seminars on law enforcement within the whole country. Recently, a regulation (Prakas) on investigation in securities sector was adopted by the SECC which provide a clear and precise framework for the regulator and market players to acknowledge their role and duties in case the investigation process is initiated by the regulator.
63. SECC has been conducting several activities for market promotion:(1)the Investor Education imparting investors with increased knowledge about recent capital market trading procedure (2) a program for potential listed companies to increase their awareness of alternative financing mechanisms for SMEs in Cambodia and (3)the Excellence program for companies standardization.

Support infrastructure

Encourage savings in formal financial institutions

64. *Promotion of savings culture needed.* The diagnostic showed evidence of a weak savings culture (with the formal service providers) in Cambodia that would benefit from interventions to promote awareness of saving, particularly as an alternative to credit. 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.
65. *Other important issues recommended to be explored to promote savings include:*
- Develop a national savings rollout plan with tax incentives for low-income clients
 - Develop regulations allowing MDIs' agents to collect low value savings
 - Support the development and regulatory approval of low-cost approaches to mobilize savings outside of MDIs branch network in rural areas

Promote innovative credit products for consumers and MSMEs

66. *Explore modalities for expanding non-collateralised credit for MSMEs.* Credit in Cambodia is extended against immovable assets as collateral and supported by regular income. In other words, limiting the access to credit facilities for people without collateral and movable assets. This has increased the use credit from the informal channels and typically charged at higher interest rates. Therefore, this provides an opportunity for unsecured structured credit products and the use of movable collateral which will increase the availability of sourcing capital for investment and growth and reduce the cost of credit. Thus, the operationalization of Secured Transaction Registry, will facilitate credit on the basis of movable collateral (such as inventory, accounts receivables, crops and equipment) will increase the availability of credit, group guarantee schemes and other schemes supporting enhanced categories of collateral would expand credit uptake from the formal providers.
67. *Improved credit reporting and credit risk assessments* As the credit activities rapidly grows, the importance of the stability of the financial sector in Cambodia will depend upon effective monitoring and supervision of the credit market. Effective supervisory regulations such as the credit reporting needs to be strengthened in order to prevent multiple borrowings and over-indebtedness (customers having relationship with more than three institutes had portfolio at risk (PAR-30¹⁰) of 4.95%) (Cambodia, 2016). CBC has been mandated and aims to provide real time data on borrowings to help manage credit risk through proper credit assessments. However, due to lack of timely data about the borrowers or issues arising out of multiple IDs used by the borrowers there can be gaps on the information provided by CBC. As co-operatives are becoming important providers of credit, it will be important to monitor and implement the practice of credit reporting by co-operatives with CBC. The priority is to strengthen the CBC in a context of fast credit growth

¹⁰ Portfolio at Risk (PaR) is calculated by dividing the outstanding balance of all loans with arrears over 30 days, plus all refinanced (restructured) loans, by the outstanding gross portfolio as of a certain date.

and strengthen mandatory reporting for effective assessment of potential borrower's creditworthiness.

68. *Establishment of a well-functioning dispute handling mechanisms.* One of the primary reasons for extending loan against fixed assets has been due to the inefficient and cumbersome judicial process related to dispute resolution and commercial cases. 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 for it 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. Most often in retail matters the cost of the legal recourse is higher than that of the loan size. Therefore, financial institutions extending loan facilities want to minimize their risk by having adequate collateral for both the loan and potential realisation cost together with a confirmed ability to repay the loan. At present, dispute resolution and commercial cases are entirely dependent on the judicial system and there are opportunities to improve dispute handling mechanisms. The potential initiatives could be developing streamlined mechanism(s) to handle financial services disputes through well-resourced Ombudsmen, arbitration and/or specialized commercial courts and consumer courts or tribunals with abbreviated, but just processes. This will enable reasonably priced and timely settlement of disputes between consumers and financial businesses.
69. *The activities proposed under this priority are summarised as follows:*
- Operationalize secured transaction registry to facilitate loan by pledging movable assets as collateral
 - Expand and strengthen further the function of credit bureau on customer details, credit reporting and credit risk assessment mechanisms
 - Periodic study on debt and over-indebtedness
 - Clear regulatory definitions on over-indebtedness, reckless lending, and affordability criteria.
 - Explore the introduction for prescription of debt
 - Update national identity system to include centralised registry and explore options to streamline IDs, such as digital biometric national IDs
 - Develop streamlined mechanism(s) for dispute resolution

Enable the expansion of payment system capabilities

70. *Plan for transition to digital transactions, including enhancing cash support of these channels in the short-medium term.* Digital payment channels provide speed, security and cost efficiency to carry out transactional operations particularly over distance. Cambodia is a highly cash based economy that would benefit from shifting to greater digital transaction usage. A key catalyst for the adoption of digital channels is first the uptake of deposit/transaction accounts with providers such as banks and MDIs, and payment account with mobile money operators. These are the resource pools from which digital transactions take place and income flows into. One means to ensure the usage of these accounts is a push for digital payment into these accounts from government payments and employer payments. For example, social security pay-outs, procurement payments and salary payments. It is critical to ensure that there are a sufficient digital transaction and encashment points to enable employees to access these funds without undue hardship. Further to this point, digital transactions need to be supported by readily available encashment points and cash reticulation infrastructure to allow consumers the choice of transacting in cash until digital payments are sufficiently widespread to eclipse the use of cash. Cash out points and the formal cash

reticulation infrastructure is a critical bridge between the real economy and the digital financial system and represents a crucial step towards the increase, acceptance and usage of digital channels in the long run. Cheques exist as a bridging payments instrument between digital and cash transactions. Their use should be discouraged and eventually discontinued as their function is already accommodated in EFT payment streams and they introduce unnecessary risk, logistic complexity and a layer of cost to banks and financial institutions that can be better applied to digital transactions. Currently, the NBC has put a lot of effort in promoting the use of electronic payment with the development of infrastructures and the introduction of enabling regulatory environment. However, it is realized that the financial literacy is still limited, so public awareness initiatives on digital payment instruments and channels should be taken into consideration especially for the people in rural area, government employees, and retired individuals.

71. ***Facilitate the development of remittance channels.*** A significant segment of the population remits and receive money both domestically and internationally. Remittance products are the most commonly used financial products with 44% of adults either sending or receiving remittances. 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. 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 that remittance transfers can readily be accessed through ATMs, mobile money agents and kiosks. In terms of international remittance, the majority of receivers in Cambodia have received money from formal remittance channel, mainly from money transfer operator including Western Union, Money Gram, and IME. In fact, Cambodia has the highest percentage of people receiving domestic remittances. Thus, adopting the conducive environment for mobile money operator to provide cross-border remittance service is a key. Given this importance, the NBC has introduced new regulation on “the Management of Payment Service Institution” which enables mobile money providers to open channel and corridor for cross-border remittance. Moreover, directing remittance into formal channel also provides opportunity to introduce savings and credit products to the remittance sender and receiver.
72. ***Incentivize development of payment infrastructure.*** Payment systems are the backbone of formal financial services. As such, their development has a direct impact on the ability of the financial sector to provide more and better value services. With this in mind, 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 went live in October, 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.

73. *Review interconnection options and explore possibility for ASEAN inter-linkages.* Linking to regional payments infrastructure has the benefit of facilitating more efficient cross border payments. In order to integrate the local payment system with the regional system, NBC has considered participating in the Asian Payment Network (APN) and connecting 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.
74. *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.
75. *Proposed strategies to increase usability of digital financial systems are summarised as follows:*
 - Introduce RTGS system to reduce settlement risk in LVPS
 - Promote the access of Fast Payment via other channels
 - Introduce Cambodian Shared Switch system and encourage financial institutions to expand the ATM & POS infrastructure to remote and rural area
 - Promote the usage of innovative payment instrument and channels
 - Formalize role of agent banking
 - Promote the migration of government payment to electronic payment
 - Review interconnection options and explore possibility for ASEAN inter-linkages

- Promote financial literacy and consumer protection in the payment space
76. ***Expanding mandatory insurance can drive uptake of insurance.*** Cambodia offers a social insurance scheme including pensions, benefits, health, occupational injury and illnesses, and unemployment. The government assumes contributions for certain population segments such as the retired civil servants, army veterans, disabled, and the poor. 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 health care scheme is currently under review to make coverage mandatory for all citizens. Along with this, a mandatory health care scheme has also been introduced which requires employers to take up state-backed health insurance program for their employees and their immediate family (spouses and children). While mandating insurance should be applied with caution, it does provide the opportunity to overcome barriers to uptake for essential risk needs and should be explored to see if further opportunity exists.
 77. ***Bundling, added incentives and awareness campaign hold potential to increase attractiveness of insurance to consumers.*** Insurance offered along with additional services or value added benefits added are two examples of increasing the incentive for take-up. Insurance products in Cambodia, outside of credit life, are not offered bundled with other service offerings. Bundling provides the opportunity to extend a product offering that meets consumer needs beyond insurance and thereby increases the incentive for uptake, especially when a savings element is included (effectively creating an endowment product). Options to increase the incentive for insurance uptake, especially in an environment where consumers have low exposure to insurance, should be explored further. This should be combined with effective awareness generation campaigns to ensure consumers are aware of the value that insurance can offer.
 78. ***Revise current taxation rule on insurance premium.*** Currently there are no tax incentives for income earning population to take up insurance. Insurance is termed as a fringe benefit and a 20% tax is levied at an individual level (Deloitte, 2016). From the provider perspective, insurance companies are charged 5% tax on gross premiums received. There is a need for tax regulation reform separating capital and value added services portions of insurance premiums and related charges to allow for more appropriate tax treatment. Inappropriate taxation treatment, particularly upon capital amounts and premiums will severely inhibit the development of the insurance sector and in turn longer term capital formation associated with insurers that has proved to be a key development component in more advanced economies. . Given that insurance is a grudge purchase, there is also a need for incentive structure to increase voluntary uptake of insurance.
 79. ***Explore the need for a separate regulatory authority.*** The insurance sector is currently regulated by the Insurance and Pension Department under the Ministry of Economy and Finance. Additionally, banks wanting to extend insurance services need permission from both the NBC and MEF for any partnership or cross selling. Similarly, brokers and insurance agent relation with insurance company are governed by the Law on Insurance and its regulations. The lack of a single supervising authority and centre of excellence makes it a challenge to develop specialised and industry specific regulations to govern the insurance sector. The FSDS has highlighted the need for the continuous review and update of the prakas implemented for their relevance to current market practices. The capacity of these entities to supervise the insurance sector should be considered as part of this

process, especially considering the needs of a sector that is growing and likely to expand the number of players operating in it. It is crucial that clear and timely regulations are introduced to support the expansion of insurance market, for which the presence of a strong specialized regulatory authority will be of key importance.

80. *These support activities are summarised as follows:*

- Draft key regulations for micro-insurance sector
- Revise taxation rule on insurance premium
- Develop consumer protection mechanism for security and recourse against consumer grievances
- Strengthen consumer protection prioritizing lending, advertising, complaints, fees, interest rates and collection practices

Increase consumer empowerment and sector transparency

81. *Promote literacy campaigns to address low level of financial literacy scenario.* Given that Cambodia has a financial literacy rate of only 18%, campaigns designed to promote financial literacy are important. 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. These are steps in the right direction. However, the regulator cannot be the sole champion of promoting financial literacy in the country, this should include the involvement of the financial services industry that will benefit from financial literacy gains and have an interest in supporting their consumer base. Financial literacy initiatives should be targeted at consumers at teachable moments and through financial service providers to ensure understanding, retention and usage of disseminated information. It is also important to overhaul the communications systems of financial service providers to be able to better engage with consumers. Simplified, transparent and audience appropriate communication by financial services providers can go a long way in overcoming literacy barriers without any up skilling of consumers. Regarding women financial competencies, there is a need to build the financial competence and management skills of high potential women entrepreneurs in the garment and financial services sector through implementing financial literacy initiatives. Also ensure a gender sensitive consumer protection regulatory provisions and consumer protection mechanisms for security and recourse against abuses in the provision of financial services.

82. *Strengthen consumer protection provisions.* In order to increase uptake of financial services and higher participation and engagement with the 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. 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. Given the low financial literacy level in the country, regulatory provisions should ensure that the services of financial service providers are communicated in a clear and consumer friendly. In addition to empowering

individuals to take informed decision, it should also facilitate the establishment of a healthy competitive environment for the providers.

83. ***Four main activities are proposed under consumer protection and education, as follows:***

- Support MOEYS to incorporate financial literacy into the curriculum and textbooks
- Review the effectiveness of current Financial literacy programs and develop a long term strategy to target current low-income clients
- Develop a financial sector consumer protection Prakas following the upcoming law on consumer protection
- Explore the introduction of Prescription of debt following excessive refinancing methods

Capacity building

Strengthen the capacity of the financial sector regulators

84. ***Technical skill development plan required to build capacity of regulators and institutions.*** There is a shortage of skills in the financial sector across all levels. The Financial Sector Development Plan prioritizes the undertaking of a financial sector training needs assessment for all sectors. This will ensure sufficient resources to support financial sector function and the ability to expand inclusion further. The FIs should be mandated to prepare and implement a working procedure for capacity building.
85. ***Regulatory Capacity Building.*** With the increasing number of Financial Service Providers and expanding services and portfolio effectively monitoring and regulating the sector has become a key challenge for the regulators. Restricted both by the limited skilled human resource and limited financial capacity, investments need to be made to develop technical skills of the regulators to efficiently monitor and regulate the financial sector.
86. On one had the financial sector is witnessing rapid changes brought about by digitization and need for reacting proactively on the other hand it was highlighted in the diagnostic under different cases like credit reporting, monitoring of MFIs and Co-operatives, consumer grievance handling, dispute resolution etc. that regulation is not always effectively applied by industry. Regulators need to devise a plan and improve capacity to address the issues of proper implementation of regulation and effective monitoring.
87. ***Institutional Capacity Building.*** Financial sector skill development should be prioritized to improve product offering, service delivery and customer service and education to deliver products and services that meets the consumer and business needs. In 2016, The Institute of Banking & Finance Cambodia has been set up with a mission is to contribute to the progress of the training and learning development of executives and professionals, through a series of co-ordinated and tailored programs. A development fund has been established to encourage knowledge development by offering quality and subsidized certified programs, and by providing funds to finance needs for human capital in the sector, and also for other key banking industry initiatives (e.g.: Financial Literacy, Research, Survey, Banking Infrastructure Systems, Scholarships, etc.).

88. *Invest in building the capacity of the insurance sector.* Inadequate technical capacity is another constraint in developing Cambodia's insurance market. Innovation and diversification of the products for the expansion of insurance sector is not likely to succeed or be sustained without improving the current capacity of the broader insurance sector; including the industry, the regulator, and policy makers. Investment in capacity building will develop the entire insurance industry and support the growth of insurance through innovative low cost insurance products.
89. In terms of the insurance sector, MEF plans to increase public awareness with the aim of promoting, supporting and encouraging interest in insurance. In order to build local skill sets and improve the current capacity of industry players, the regulator can introduce mandatory or voluntary subsidized training requirements for agents, brokers and insurance company staff.
90. *The activities proposed under this priority are summarised as follows:*
- Increasing sector monitoring, enforcement and leading innovation
 - Upgrade technical and supervision capacity of Insurance and Pension Department staff
 - Promote higher investments in human resources and development by insurance companies

Action Plan for Financial Inclusion 2018- 2025

Priority Interventions for financial inclusion	Short term 2018 - 2019	Medium term 2020 - 2022	Long term 2023 - 2025	Lead Agency	Partner Agencies
Banking Sector					
BANKS					
Increased access to credit for SMEs	1. Promote and support banks in developing non-collateralized SME lending products (cash-flow based and other methodologies)	2. Support and promote inventory, receivable and factoring lending for SMEs		NBC	MOC MIH MEF
		3. Review which selected sectors and credit segments could be covered by the credit guarantee scheme (Agriculture, renewable energy, women-owned SMEs etc.)		MEF	NBC MIH MAFF
Develop incentives for savings mobilization	4. Promote and support the design of inbound remittances-linked saving products (particularly cross-border remittances)			NBC	
		5. Launch a communication campaign to promote the Deposit Protection scheme		NBC	MEF
MDIs and MFIs					
Enhance accessibility of savings products	6. Encourage the increase in depth of financial services usages for clients (savings, credit and payments)	7. Conduct feasibility study towards regulations allowing MDIs' agents to collect low value savings	8. Support the development and regulatory approval of low-cost approaches to mobilize savings outside of MDIs branch network in rural areas	NBC	MOWA

Develop incentive for savings mobilization	9. Develop and promote remittances-linked saving products			NBC	MOWA
		10. Launch a communication campaign to promote the Deposit Protection scheme		NBC	MEF
			11. Study the potential impact of a national savings rollout plan with tax incentives for low-income clients	MEF	NBC
Increase access and offer of targeted lending products for micro and small enterprises	12. Promote the development of non-collateralized loan products (cash-flow based lending) for Micro & Small Enterprises	13. Promote inventory, receivable, factoring and value chain financing for MSEs		NBC	MOC MIH MOWA MEF
	14. Study ways to adapt group lending new processes and mechanisms to meet emerging clients' requirements.	15. Promoting access to financial services for women underserved segments		NBC	MOWA
	16. Feasibility study for Warehouse collateral management development and financing	17. Develop guidelines and promote commercial warehouse financing systems at regional level with third party collateral management companies and at local level with local value chain actors in relation with MFIs/MDIs		MEF	MAFF NBC MOC
Non-banking sector					
	18. Support the diversification of micro-insurance products including (health, pregnancy, hospitalization, house, fire, etc.).	19. Collaborate with the insurance association to conduct training/hold event to promote and disseminate knowledge on international micro insurance business models, delivery channels, and products for low-income clients.		MEF	NBC

<i>Increase access to microinsurance</i>	<p>20. Revise taxation rule on insurance premium.</p> <p>21. Support micro insurance providers to simplify claim process and increase transparency for clients</p>	<p>22. Promote the development of endowment micro-insurance products by enabling a share of investments from endowment product to be invested with longer than 12 month-term by micro-insurance providers.</p>	<p>23. Introduce a self-regulatory code of conduct for insurance and micro insurance companies</p> <p>24. Introduce tax incentives for endowment life insurance</p> <p>25. Promote higher investments in human resources and low-premium products development by insurance companies</p>	MEF	
		<p>26. Conduct a feasibility study for the development of a weather-based crop and cattle insurance index to support the development of agricultural insurance products and reduce premium costs.</p>		MEF	MAFF
<i>Enable the expansion of payment system capabilities</i>	<p>27. Introduce Cambodian Shared Switch system</p> <p>28. Promote the access of Fast Payment via other channels</p>	<p>29. Introduce RTGS system to reduce settlement risk in LVPS</p> <p>30. Encourage financial institutions to expand the ATM & POS infrastructure to remote and rural area.</p> <p>31. Review interconnection options and explore possibility for ASEAN inter-linkages</p>		NBC	

			32. Promote the migration of government payment to electronic payment (P2G, G2P)	MEF	
			33. Promote the usage of innovative payment instrument and channels	NBC	MEF
		34. Introduce risk-based supervision for PSP following sector growth 35. Promote the payment forum to engage in dialogue with regulator regarding their queries and challenges.		NBC	
	36. Provide licensed PSPs and specialized banks a right to USSD access with fixed priced set by the Ministry of Posts and Telecommunications to enable rural credit access (i.e. outside of internet coverage areas)			MPTC	NBC MEF
		37. Promote self-regulatory code of conduct for all payment service providers	38. Facilitate the implementation of self-regulatory code of conduct for all payment service providers	NBC	
	Non-regulated for-profit financial services providers	39. Define minimum rules of compliance for the fringe lenders under the light regulatory regime (low-cost housing mortgage schemes, consumption credit, PAYGO systems, etc.)			NBC
		40. Register and ensure regular monitoring of financial schemes outside of the banking laws		NBC	

<p><i>Expand leasing services for productive equipment</i></p>	<p>41. Conduct sector/product demand survey for selected sectors (agriculture, renewable energy, etc.)</p> <p>42. Collect and distribute data on aging population pyramid at province level</p>			NBC	MIH MAFF MOP
			43. Support the development of a dedicated leasing association	NBC	
<p><i>Consolidation and linkages for cooperatives and saving groups</i></p>	<p>44. Inform registered cooperatives of the need to provide financial intermediation data and link data with NBC</p>	<p>45. Support standardization and good governance and reporting practices</p> <p>46. Support the capacity of different ministries to register and monitor their cooperatives</p> <p>47. Support the linkage between cooperative and MDIs for savings mobilization and investment for increased access in rural areas</p>	<p>48. Support concentration of cooperatives under union and alliances</p>	NBC	MIH MOWA MAFF

	49. Support the development of local community based saving and credit groups, village banking and cooperatives through training and awareness raising.			NBC	MOP MAFF MEF
<i>Increase Pawn shops monitoring and reporting</i>	50. Prioritize registration of all pawnshops (370+ are registered, 2,000 to 3,000 estimated unregistered)	51. Develop a risk-based approach to control and monitoring of pawnshops 52. Increase and monitor regulatory compliance of pawnshops by MEF and conduct on-site visits to ensure that pawnshops reporting to CBC	53. Regulate and limit pawnshops' capacities to use non-moveable collateral (exclude buildings and land from authorized collateral)	MEF	NBC MOWA
<i>Capital Market</i>	54. Study the role and impact of Fintech on the Capital Market.	55. Develop digital products and services for the Capital Market		SECC	
Cross-cutting policies and sector coordination					
<i>Formalize public private dialogue and sector coordination</i>	56. Develop an inter-agency coordination mechanism between MEF, NBC, SECC, MOC, MOP, MOJ, MIH and others for the consolidated oversight of all financial providers			Inter-ministerial committee	
			57. Finalise the secured transaction law and improve the operations of Secured Transaction Registry	MOC	MEF MOJ NBC

		58. Institute a transparent and regular public dialogue platform for all financial providers to ensure that all financial providers get transparent and accountable explanation about new regulations		NBC	
Upgrade reporting and support responsible lending	59. Introduce new data reporting requirement at CBC in discussion with CMA and NBC in order to better monitor market risks, market saturation, emerging trends and innovative delivery channels.	60. CBC, CMA and NBC develop a range of OID indicators to be extracted from CBC and NBC data to draft a OID monitoring dashboard for quarterly monitoring		NBC	
		61. Capacity building program for Rural Credit institutions on maintaining and reporting standards.			
		62. Develop framework for periodic estimate of the size of shadow banking activities		NBC	MEF
		63. Link up the moveable asset registry data to the CBC	64. Promote and enforce the use of secured transaction (moveable collateral registry) registry by pawnshops and non-bank providers.	MOC	MEF NBC
			65. Allow CBC to access selected information at national ID database system (to measure real household debt levels)	MOI	
			66. Request and enforce regular financial reporting by non-traditional and non-licensed financial providers (low-cost	NBC	MEF

			housing financial facility scheme, utilities providers, consumption payment facility providers, etc.)		
		67. Require pawnshops to report to CBC (at least for pawnshops above \$ 10,000 portfolio)		MEF	NBC
		68. Communicate and implement the simplified customer due diligence (CDD) reporting to all financial institutions (following FATF standards)		CAFIU	
Promote a gender sensitive strategy	69. Institutionalize gender-disaggregated data collection and analysis for Banking and Financial Institutions (possibly using CBC data) to guide product design			NBC	MOP
		70. Develop policies to ensure an enabling gender-sensitive environment conducive to the expansion of inclusive financial services (in Cambodia)	71. Monitor OID and NPL level for women to ensure that credit is allocated responsibly	NBC	
	72. Institutionalize gender-disaggregated data collection and analysis for pawn shop, insurance and microinsurance companies (possibly using CBC data)			MEF	MOP
		73. Develop policies to ensure an enabling gender-sensitive environment conducive to the expansion of inclusive financial services in Cambodia		MEF	

Consumer empowerment					
Increase financial literacy	74. Support the efforts of NBC and ABC/CMA for financial literacy to clients	75. Review the effectiveness of current Financial literacy programs and develop a long term strategy to target current low-income clients		NBC	
		76. Include key information related to responsible borrowing in lending contract templates for all registered lenders.			
	77. Develop financial literacy materials on leasing, mobile banking and use of new technologies for access to finance.			NBC	MEF
	78. Support ministry of education to incorporate financial literacy into the curriculum and textbooks	79. Support ministry of education with teachers' trainings for financial literacy		NBC	MEF SECC MOEYS
	80. Expand SECC good governance for SMEs programme	81. Support SME graduation toward stock market listing		SECC	
	82. Explore the feasibility of creating public/private partnership for insurance related literacy promotion			MEF	
Securities Market Promotion	83. Promote investors' education in securities market	84. Study on strategy development for expanding securities trading to a larger population	85. Conduct investor events to promote investors' education and introducing the investor association	SECC	
	86. Promote public education and awareness related to securities market by providing seminar to university students, and the general public			SECC	
Increase consumer protection	87. Institute the obligation for financial providers to use a	88. Develop a financial sector consumer protection policy	90. Evaluate international practices on regulations for	NBC	

	standardized calculation of effective interest rates in all public communication	following the upcoming law on consumer protection 89. Support the development of local extension system for the practical implementation of the law on consumer protection	the prescription of debt following excessive lending		
	91. Promote the CMA lending guidelines and develop a 'responsible lending' label for MFIs/MDIs meeting the guidelines	92. Promote the use of the <i>grievance call centre</i> and hotlines provided by NBC		NBC	
	93. Conduct training and examination for securities market to grant professional licenses			SECC	
Regulators institutional capacities					
	94. Increase NBC capacities and human resources to register, review, license, monitor and enforce regulations 95. Develop a piloting <i>window</i> to test emerging models and technologies (P2P, mobile transactions, etc.) and allow innovative lending and technology without risk to the sector.	96. Research and monitor emerging trends in financial inclusion	97. Strengthen supervision and oversight of payment system and services	NBC	
Increasing sector monitoring, enforcement and leading innovation		98. Upgrade technical and supervision capacity of Insurance and Pension Department staff regarding micro-insurance 99. Prioritize the development of insurance research and development centre		MEF	
	100. Expand and strengthen the capacity of the SECC officials in digital finance for the security market			SECC	

Financial Inclusion Roadmap and Action Plan to Reform

Anticipated programme benefits

91. The FinScope Survey shows that Cambodia has good level of financial inclusion in terms of access to formal financial services except for insurance where the access to insurance for the Cambodian adults is low. Access to and usage of financial services has the potential to enhance the overall welfare of the individual while also facilitating in the attainment of economic growth, employment generation and human capital development. In the current scenario, proximity to financial service providers remains an issue for Cambodian adults. While there is lack of availability of financial products that match the needs of the population, the issue of low financial awareness has resulted in low usage of the available financial products. The interventions proposed in this roadmap intends to address this issues and provide the following specific benefits:
92. Availability of relevant and affordable savings, credit, transaction and insurance product distributed through improved channels will increase uptake and enhance the individual's ability to diversify risk and manage their financial lives better. When households are able to better manage cash flows, mitigate risks, smoothen consumption and improve savings habit, it will foster the consumer's economic independence.
93. The availability of low-cost and efficient digital payment options will facilitate domestic and international remittance having a larger impact on the population given that a significant population relies on remittance as a secondary source of income.
94. The financial inclusion roadmap and action plan will facilitate the establishment of legal and regulatory frameworks. This along with enhanced technical capacity of regulators will foster the growth of the financial sector including insurance and mobile money sector among others enabling effective delivery of services to the under-served and unserved segment. Better financial inclusion will aid in the growth of the economy and will also support to reduce income inequality.
95. The financial inclusion action plan will support the quantification and tracking of parameters to measure financial inclusion in Cambodia as outlined by the Roadmap

The financial inclusion roadmap and action plan in the context of existing financial policy

Financial inclusion policy in Cambodia is anchored on the following main policy documents:

96. The Rectangular Strategy (RSIII) is the overarching strategy that guides the economic development efforts of Cambodia. The rectangular elements of the strategy includes growth, employment, equity and efficiency. RSIII also intends to enhance financial inclusion through increased access to services from financial institutions by availing low cost banking products on favourable conditions and increased access to micro-insurance by expanding their coverage.

97. The National Strategic Development Plan (2014-2018) 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.
98. Cambodia Industrial Development Policy (2015- 2025) prioritizes the strengthening of domestic financing mechanisms and ensuring the availability of sufficient low interest credit. Unlocking of flexible financing mechanism and saving mechanism is expected to have a broader beneficiary bracket including the population at large.
99. The Financial Sector Development Strategy (FSDS) 2016- 2025 promotes financial inclusion through the expansion of microfinance services targeting the poor, agricultural communities and SMEs. This will include diversification of financial tools and products while availing affordable products with favourable terms and conditions. The strategy also touches on expanding the scope of compulsory insurance through development and improvement of regulatory frameworks while also strengthening regulatory capacity. Moreover, social safety net systems will also be strengthened through centralization and integration of the system.
100. Although Cambodia does not have an overarching financial inclusion strategy, financial inclusion remains a priority for the government. The current focus is to promote financial inclusion initiatives that promote sustainable and inclusive growth. NBC has been a member of Alliance for Financial Inclusion (AFI) since 2015. 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. 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).
101. The Cambodia financial inclusion roadmap intends to integrate the government's current effort in the field of financial inclusion while providing a basis for creating a strategic implementation framework for financial inclusion in Cambodia. The roadmap was prepared based on a comprehensive diagnostic of the financial sector of Cambodia and through the identification of areas that will provide the greatest potential impact. Extensive consultations were carried out with key stakeholder through-out the drafting process. The roadmap will provide a platform to consolidate current efforts being made by government agencies and development partners in the field of financial inclusion and help to guide future initiatives around the areas of financial inclusion.

Implementation and evaluation

102. The Inter-Ministerial Working Group on Financial Inclusion Strategy Formulation (IMWG-FISF) will be responsible for coordinating the implementation of the financial inclusion roadmap. National Bank of Cambodia, as chair of the Group, will be the champion, and will provide leadership to the committee and all the stakeholders. All stakeholders will be responsible for actual implementation, wherein the regulators, financial service providers, supporting ministries and donor will play a crucial role.

Measurement

103. Successful implementation partly depends on being able to measure progress, take corrective action as required, and communicate the outcomes of the interventions. A monitoring and evaluation (M&E) framework will need to be developed for measuring progress nationally, and should track activities, outcomes and outputs.

Facilitators of Implementation

104. Implementation of financial inclusion efforts could be facilitated by the following:
- Increased buy-in from private sector stakeholders to introduce new products and services and greater willingness to go down market and collaborate for expansion of financial services.
 - Reforming bureaucratic procedures to increase willingness to implement recommendations and give greater prioritization to reform efforts, can improve the supportive framework needed to promote financial inclusion efforts.
 - Improvement of retail infrastructure in terms of ATMs, POS machines, and encashment points among others, can facilitate the implementation of the country's payment ecosystem by allowing for increased uptake of digital transactions. Improvement in the retail infrastructure can be driven by the private sector, with the NBC creating a conducive environment for such developments.
 - Improved regulatory capacity and supporting regulations can facilitate implementation of the roadmap.
 - Ensuring timely reporting of FIs' borrowing to the CBC will lead to accurate credit reporting and assessment, thus circumventing bad lending. NBC can help ensure that information about borrowers form the basis of credit appraisals.
 - The Insurance sector is primarily being regulated by the Insurance and Pensions Department under the Ministry of Economy and Finance; having a single supervising authority that can enforce clear regulations, will enhance implementation of financial inclusion efforts.

Conclusion

105. The MAP diagnostic identified that broadening and deepening financial inclusion in Cambodia is a priority. 29% of adults are excluded from the financial sector, while those that current have some level of access to financial services could greatly benefit from expanding the level and quality of this access. The Financial Inclusion Roadmap 2018 – 2025 has laid out the national priorities for the enhancement of financial inclusion in Cambodia and is in line with the updated FSDS (2016-2025). Financial inclusion is challenging to achieve and requires a clear vision, sufficient resources and effective collaboration across a broad range of stakeholders.
106. The Cambodia Financial Inclusion diagnostic and roadmap highlighted six priority initiatives that can help stakeholders to address the challenges of extending financial inclusion 1) Encourage savings in formal financial institutions; 2) Promote innovative credit products for SMEs and MSMEs; 3) Enable the expansion of payment system capabilities; 4) Prioritize the development of a well-functioning insurance market; 5) Strengthen the capacity of the financial sector regulators; 6) Increase consumer empowerment and sector transparency.

107. The successful implementation of the priority initiatives is expected to have positive impact on financial inclusion and thereby economic growth and welfare. However, there are risks as identified in the section above and key dependencies that needs to be taken into account in order to ensure successful implementation of the roadmap.
108. The implementation of the proposed initiatives is anticipated to deepen and broaden financial services and directly improve household welfare, while also supporting economic growth and aiding in the development of human capital.
109. Implementation of the Roadmap will most visibly contribute to financial inclusion through the development of strategies, products and business models that deliver better value to low income customers.
110. The priorities of the Roadmap has been detailed out in the Financial Inclusion Action Plan which will be converted into the implementation plan for achieving the goal of financial inclusion outlined in the roadmap .
111. The financial inclusion roadmap and action plan will be converted into the National Strategy for Financial Inclusion in Cambodia and the same will be adapted to achieve greater level of Financial Inclusion in the country.
112. Upon approval of the Financial Inclusion Action Plan for Cambodia and endorsement as a policy, an Executive Agency will be established to coordinate the activities of the plan and ensure a coordinated effort between all stakeholders to achieve the Financial Inclusion goal. NBC which chairs the IMWG-FISF is well capacitated to take on the role of the implementing agency with support from UNCDF. The implementing agency will have a team to spearhead the process once the mandate is granted. One of the key activities will be to ensure effective dissemination of the Financial Inclusion Action Plan and hold a stakeholder consultation to identify agencies who would or are best suited to lead the different activities outlined in the Action Plan.