



Kingdom of Cambodia

Nation Religion King



NATIONAL FINANCIAL INCLUSION STRATEGY 2019 - 2025

**Adopted by the Council of Ministers in
the Plenary Session on 12 July 2019**

ROYAL GOVERNMENT OF CAMBODIA

National Financial Inclusion Strategy

2019-2025

PREFACE

The attainment of peace in the Kingdom of Cambodia has allowed the Royal Government of Cambodia to focus on the national economic and social development and to achieve commendable outcomes for the country. Cambodia has succeeded in enhancing economic and social capital growth, and rapid poverty reduction. As a matter of fact, Cambodia has been the sixth fastest-growing economy in the world over the past two decades. With an average decline of poverty rate more than 1% per annum, Cambodia has been ranked fourth in the world on the success of poverty reduction, which is one of the key Millennium Development Goals of the United Nations.

Financial inclusion plays a crucial role in poverty reduction in Cambodia. Enabling the unserved population or small and medium enterprises (SMEs) to access affordable financial services would create and broaden potential economic activities across sectors. Such engagement has both direct and indirect impacts on poverty reduction in the society. Until now, Cambodia has made efforts in promoting financial inclusion through countrywide and market-oriented financial sector development, enhancement of financial literacy in all means, reduction of cost in using financial services to a reasonable level, and enabling financial infrastructure development for more convenient and more efficient access to finance.

Nevertheless, Cambodia has a moderate level of financial inclusion, which requires active participation from government ministries and agencies, private sector, development partners, and relevant stakeholders; particularly, in the context of deep regional economic and financial integration under the rapid development of technology in the digital era. In this regard, the formulation of the National Financial Inclusion Strategy 2019-2025 is in line with the current and future status and allows all related stakeholders to participate in the implementation of the action plans as outlined in the strategy in a highly consistent and effective manner. Moreover, the National Financial Inclusion Strategy is prepared in accordance with the Financial Sector Development Strategy 2016-2025 and with the Royal Government's Rectangular Strategy-Phase IV. I believe that the National Financial Inclusion Strategy will continue contributing to poverty and inequality reduction in Cambodia, especially for women and SMEs, and will actively support the development of sustainable and inclusive economic and financial sector.

On behalf of the Royal Government of Cambodia, I would like to extend my deep gratitude and appreciation to various government ministries and agencies, private sectors, development partners, and all relevant stakeholders, specifically the National Bank of Cambodia and the Ministry of Economy and Finance, for contributing to the formulation of the National Financial Inclusion Strategy 2019-2025 as an important roadmap and coordinating framework for implementation of numerous policies, measures, and activities that aim at enhancing financial inclusion across the country.

I strongly believe that the government ministries and agencies, private sectors, development partners, and all relevant stakeholders will continue putting their concerted efforts to achieve a successful and effective implementation of the National Financial Inclusion Strategy 2019-2025.

PHNOM PENH, August 19th 2019

PRIME MINISTER

(Signed and Sealed)

Samdech Akkak Moha Sena Padei Techo HUN SEN

TABLE OF CONTENTS

FOREWORD.....	v
ABBREVIATION AND ACRONYMS	vii
EXECUTIVE SUMMARY	ix
CHAPTER1: INTRODUCTION	1
CHAPTER 2:CAMBODIA FINANCIAL SECTOR CONTEXT	3
I. Status of financial inclusion in Cambodia	7
II. Barriers to financial inclusion in Cambodia.....	13
III. Market drivers	14
CHAPTER 3:ENHANCING FINANCIAL INCLUSION IN CAMBODIA	18
I. Target Market	18
II. Objective for enhancing financial inclusion	20
CHAPTER 4:PRIORITY ACTIVITIES.....	21
I. Banking sector	21
II. Non-banking sector	23
III. Support infrastructure development	26
IV. Capacity building	33
CHAPTER 5:IMPLEMENTATION ON FINANCIAL INCLUSION STRATEGY 2019-2025	35
I. Anticipated benefits.....	35
II. The financial inclusion strategy and action plan in the context of existing financial policy	35
III. Implementation and evaluation	37
IV. Measurement	37
V. Facilitators of Implementation	37
CHAPTER 6:CONCLUSION	38
CHAPTER 7:ACTION PLAN FOR FINANCIAL INCLUSION.....	39
APPENDIX	51
GLOSSARY	56
REFERENCE.....	59

FOREWORD

In the context of peace in Cambodia, the developments have been increasingly expanding in all sectors with the considerable outcomes obtained from the development of economic and social sectors. These achievements happen under the wise leadership of **Samdech Akka Moha Sena Padei Techo HUN SEN**, Prime Minister of the Kingdom of Cambodia, who has been leading Cambodia toward harmonization and advancement under peace and political stability. Over the past two decades, Cambodia has been ranked as the sixth fastest growing economy in the world with an average growth of over 7% per annum and the poverty rate has significantly decreased from around 53% in 2004 to around 10% in 2018. In the path of maintaining sustainable economic growth, the Royal Government of Cambodia in the 6th assembly mandate has continually issued Rectangular Strategy-Phase IV, sectoral development policies, and practical priority measures. In this sense, the Financial Sector Development Strategy 2016-2025 has been a roadmap for financial sector development in Cambodia, in which promoting financial inclusion has been determined as one of the priority goals.

Financial Inclusion is an access to and usage of formal financial services in a timely manner based on their needs with affordable cost and legal protection. In addition, enhancing financial inclusion will provide socio-economic benefits to both SMEs and people who have no access to formal financial services. For people, these benefits include enhancing livelihood, accessing financial savings, and increasing business opportunities, which help them to have a better access to basic services such as education, health, sanitation, clean water, and so on. For SMEs, the benefits are improving investment capacity, accessing consultation services, and so on. Therefore, developing national financial inclusion strategy is very crucial for achieving these benefits.

Financial inclusion strategy is prepared as the national policy framework, which allows ministries and related stakeholders to be fully involved and to have comprehensive and precise action plans. The National Financial Inclusion Strategy is a policy tool to support the effective implementation of Financial Sector Development Strategy 2016-2025 (FSDS), which aims at achieving stable and effective financial system as well as diversified inclusive financial market to address the domestic demand for financial services, support the sustainability of economic growth, increase people's incomes and reduce poverty.

The 'National Financial Inclusion Strategy 2019-2025' is prepared by the Steering Committee on Financial Sector Development and the Working Group on Financial Inclusion Strategy (Inter-Ministries) with members from National Bank of Cambodia, Ministry of Economy and Finance, Ministry of Interior, Ministry of Planning, Ministry of Commerce, Ministry of Posts and Telecommunications, Ministry of Agriculture, Forestry and Fisheries, Ministry of Education, Youth and Sport, Ministry of Industry and Handicraft, Ministry of Social Affairs, Veterans and Youth Rehabilitation, Ministry of Women's Affairs, and Securities and Exchange Commission of Cambodia. The Financial Inclusion Working Group of the National Bank of Cambodia, as the

secretary of the Working Group on Financial Inclusion Strategy (Inter-Ministries), has cooperated with the technical supporting teams of the United Nations Capital Development Fund (UNCDF) through Making Access Possible (MAP) 2017, which is a project focusing on financial inclusion, especially for low-income people and women-owned SMEs.

After the policies have been identified and the National Financial Inclusion Strategy has been approved, this strategy will be used as a roadmap for the Royal Government, development partners, and private sector to jointly implement by focusing on crucial measures for short term, medium term, and long term. The National Bank of Cambodia, Ministry of Economy and Finance, Ministry of Interior, Ministry of Commerce, and Ministry of Posts and Telecommunications, as leading agencies, will co-ordinate on the action plan implementation and will ensure the cooperation among all stakeholders to achieve the objective of financial inclusion.

We would like to express deep gratitude to concerned ministries and agencies, and the UNCDF for their active supports in organizing and providing essential inputs into the development of this “National Financial Inclusion Strategy 2019-2025” and we believe that this strategy will be a roadmap to enhance financial inclusion in Cambodia successfully and fruitfully.

Phnom Penh, July 23rd, 2019

Deputy Prime Minister

Governor

Ministry of Economy and Finance

National Bank of Cambodia

ABBREVIATION AND ACRONYMS

ABC	Association of Banks in 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
CAFIU	Cambodia Financial Intelligence Unit
CBC	Credit Bureau of Cambodia
CDD	Customer Due Diligence
CMA	Cambodia 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
G2P	Government to Person
GDP	Gross Domestic Product
HDI	Human Development Index
IME	International Money Express
IMWG-FISF	Inter-Ministerial Working Group on Financial Inclusion Strategy Formulation
KHR	Khmer Riel
KYC	Know Your Customer
LPCO	Liquidity Providing Collateralized Operation
LVPS	Low Value Payment Service
MAFF	Ministry of Agriculture, Forestry and Fisheries
MAP	Making Access Possible
MDI	Microfinance Deposit taking Institution
MEF	Ministry of Economy and Finance
MFI	Microfinance Institution
MIH	Ministry of Industry and Handicraft
M&E	Monitoring and Evaluation
MLMUPC	Ministry of Land Management, Urban Planning and Construction
MO	Mobile Operators
MOC	Ministry of Commerce
MOEYS	Ministry of Education, Youth and Sport
MOI	Ministry of Interior
MOJ	Ministry of Justice

MOP	Ministry of Planning
MoSVY	Ministry of Social Affairs, Veterans and Youth Rehabilitation
MOWA	Ministry of Women’s Affairs
MPAT	Ministry of Public Affairs and Transportation
MPTC	Ministry of Posts and Telecommunications
NCD	Negotiable Certificate of Deposit
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
PSI	Payment Service Institution
PSPF	Payment Service Provider Forum
RCI	Rural Credit Institutions
RS	Rectangular Strategy
RTGS	Real Time Gross Settlement
SDG	Sustainable Development Goal
SECC	Securities and Exchange Commission of Cambodia
SME	Small and Medium enterprises
STR	Secured Transaction Registry
TPP	Third Party Processors
TRC	Telecommunication Regulator of Cambodia
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
USD	United States of America Dollar
USSD	Unstructured Supplementary Service Data
VAT	Value Added Tax
VCF	Value Chain Financing
VSLA	Village Savings and Loan Associations

EXECUTIVE SUMMARY

- i. Financial inclusion has become instrumental to addressing country's economic growth, reducing inequality, and decreasing the overall national poverty rates. Access to finance has become an essential policy tool for national and global policy makers. With population being excluded from access to finance, there is a potential loss of deposits or savings, and investible funds capable of enhancing credit creation and capital accumulation, which results in loss of capacity in generating socio-economic development. Elimination of blockages to financial inclusion has significant direct impacts on the productivity and GDP growth through smarter allocation of resources and more efficient financial contracting; resulting in stronger entrepreneurial activities and new business start-ups. Specific country level conditions affect the magnitude of impacts on the elimination of different blockages to financial inclusion; thus, a deep understanding of the country level conditions is necessary for maximizing the impacts of financial inclusion on policy formulation. Financial services are a means to an end of financial inclusion, and financial development must take into account vulnerabilities and ward off possible unintended negative consequences. Inclusive and efficient financial markets have the potential to improve the lives of citizens, to reduce transaction costs, to spur economic activities, and to improve the delivery of other social benefits and innovative private-sector solutions, and overall to enable the achievement of Sustainable Development Goals 2030 Agenda.
- ii. The National Financial Inclusion Strategy 2019-2025 provides guidance on the action plans to achieve the vision of the Royal Government in enhancing financial inclusion in Cambodia as stated in FSDS 2016-2025. The strategy is formulated based on the findings presented in *Making Access Possible: Cambodia Country Diagnostic Report 2017*¹ which draws its analysis from the quantitative data of the nationally representative survey with a sample size of 3,150 as well as information and data derived from the supply-side interviews that included 276 institutional in-field interviews and 152 supply-side stakeholder interviews, which were conducted by Finmark Trust in 2015 and Cenfri in 2016 in cooperation with National Institute of Statistics of Ministry of Planning. The MAP research will help 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. The strategy can form the basis for policy formulation and development of the implementation framework for financial inclusion in Cambodia.
- iii. 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% of adults are completely excluded, having no access to either formal or informal financial services. If compared to that of the last few years, the uptake of formal financial services has improved considerably. The uptake of financial services is significantly higher

among the population segment with higher income level. The main income source is used as a basis to segment the adult population into five target market groups with similar profiles and needs. Farmers are the largest target market in Cambodia whose average monthly income, among the lowest, is KHR 250,000 (USD 61.5) and the highest earning target market, i.e. the formally employed also has the highest level of uptake of formal financial services. The level of overall financial inclusion is similar across two genders with inclusion for females (73%) slightly higher than males (69%)².

- iv. The key barrier to financial inclusion is the low level of financial awareness and 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 KHR 1 million (USD 246) per month (disposable income), implying low income to cover financial service costs. Despite MFIs playing a significant role in expanding the reach and promoting the usage of financial services, there are still gaps in terms of access to rural areas such as commune and village levels and restricted practices followed by these institutions in terms of the services offered. In order to encourage usage, financial products need to be further customised to address the target segment's socio-economic status and needs. This gap has led the population not being served by the formal institutions to use informal channels or otherwise remaining unserved.
- v. Currently, there are 69 insurance service providers operating in Cambodia and distributing insurance products such as general insurance, life insurance, and micro-insurance. In 2018, the insurance usage rate increased of which 28% was used by adult populations. Insurance penetration increased from 0.21% in 2010 to 0.83% in 2018, while insurance density increased from US\$1.73 to US\$12.04.
- vi. Different interventions that will support the national objective of increasing the level of financial inclusion in Cambodia are detailed in National Financial Inclusion Strategy 2019-2025, which provides a framework to define, prioritise, coordinate, measure, and track the implementation of such interventions. The national strategy proposes a policy target, which offers the objective of enhancing financial inclusion as follows:

Increase access to quality formal financial services, reduce the financial exclusion of women by half from 27% to 13%, and increase usage of formal financial services from 59% to 70% by 2025 as well as improve household welfare and support economic growth through the following priority activities:

1. Encourage savings in formal financial institutions,
2. Promote innovative credit products for SMEs,
3. Enable the expansion of payment system capabilities,
4. Improve broader access to insurance,
5. Strengthen the capacity of the financial sector regulators, and
6. Increase consumer empowerment and protection, and financial sector transparency.

- vii.** The above-mentioned priority activities have been formulated on the basis of the MAP analysis taking into consideration identified customer needs and impediments for access and usage of financial services. The interventions under these priority activities 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 priority activities.
- viii.** Based on the Strategy's priority activities, action plans have been drawn to propose short-term, medium-term, and long-term activities, which when accomplished will contribute to the achievement of the long-term vision of the Royal Government. These action plans are targeted towards the achievement of the six priority activities which will cover the critical aspects of financial inclusion in Cambodia. Meanwhile, the actual implementation of these activities will have a broader impact in financial sector and the overall economy of the country.
- ix.** The National Financial Inclusion Strategy 2019-2025 will provide a direction for the Royal Government, development partners, and private sector to make concerted efforts and focus on areas that need immediate intervention. The National Bank of Cambodia, Ministry of Economy and Finance, Ministry of Commerce, Ministry of Post and Telecommunications and Ministry of Interior, as leading agencies, will coordinate the implementation of the action plans and ensure cooperation between all stakeholders to achieve the financial inclusion objective.

CHAPTER1

INTRODUCTION

- 1.** The government recognizes the role of financial sector in facilitating economic growth through enhancing access to financial services. Thus, the Royal Government of Cambodia outlined its objective of enhancing financial inclusion that is well aligned with the development policy area of promoting financial inclusion under the Financial Sector Development Strategy (2016-2025). A well-functioning financial sector is the foundation for providing access to affordable and appropriate financial instruments to unserved and underserved households.
- 2.** Empirical results and studies suggest that there is a positive association between financial inclusion and economic growth, specifically financial service penetration, and the availability and usage of financial services provided by banks and other financial institutions. Furthermore, repressed financial markets (low and administered interest rates, domestic credit controls, high reserve requirements, and concessional credit practices) discourage savings, retard the efficient resource allocation, increase the segmentation of financial markets, and constrain investment, which in turn affect the economic growth³.
- 3.** Increased access to finance has been linked with growth, income smoothing, and poverty reduction⁴. Access to a range of cost-effective financial services will enable low-income individuals to better manage their financial lives while creating positive economic impacts⁵. The deepening of the financial services accelerates economic growth through expanding access to those who do not have adequate finance thus enhancing resilience and capacity to cope with shocks, to improve macroeconomic policy effectiveness, and to support solid and durable inclusive growth.
- 4.** Pawn shop business has played part of financial inclusion in expanding and servicing small and medium loans to individuals that need immediate cash; as well as, to fulfil additional demand of small businesses.
- 5.** Financial development enables bigger investments and more productive allocation of capital, which lead to higher income growth⁶. At the same time, better and cheaper services for saving money and making payments allow firms and households to avoid the cost of cash transactions, cut the costs of remitting funds, and provide the opportunity to accumulate assets and smooth income.
- 6.** The Royal Government is in the process of implementing the FSDS 2016-2025 and promoting financial inclusion through multi-sector policy including the formulation of a financial inclusion policy. The NFIS 2019-2025 will illustrate the action plans to support the broadening access to and the deepening provision of financial services to individuals and SMEs by focusing on the consumptions of Cambodian adults (aged 18+ years) with four financial products: savings, payments, credit, and insurance.

7. The NFIS 2019-2025 highlights the recommended priority activities to meet the identified financial needs of the market.
8. Priority activities specified in the strategy 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. 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 increased consumer empowerment and protection, and financial sector transparency 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). In addition, specific interventions such as increasing financial literacy will encourage responsible borrowing and lending practices, which will in turn promote sustainable economic growth. Promoting financial literacy campaigns can also help reduce inequality within Cambodia by targeting underserved segments of the population.
10. Promoting a gender-responsive strategy by developing policies to ensure an enabling gender-responsive 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 to build the financial competence and management skills of high potential women entrepreneurs will also help close the gender gap in financial inclusion.

CHAPTER 2

CAMBODIA'S FINANCIAL SECTOR CONTEXT

I. Cambodia's Context

- 11. *Cambodia's economy.*** The economy has experienced a phenomenal growth over the last two decades. With an average growth rate of 7.7%⁷ over the period of 1995-2015, it is one of the fast-growing economies in the world. This robust economic growth in the past two decades has transformed Cambodia into a lower-middle income country in 2016⁸. With this transformation, the government is focusing on social and economic structure changes and has also increased the budget for capital expenditure. Cambodia has narrowed current account deficit to 7.1% of GDP in 2017 which was financed by continuous strong FDI inflows, estimated to have reached USD 2.8 billion (or 13% of GDP) in 2017⁹.
- 12. *Population profile: based on NIS 2013, young, marginally more female, and mainly rural-based population***¹⁰
- Total population: 14.7 million
 - Total adult population (18+ years): approximately 9.9 million adults
 - Young population (below the age of 40): 63% of population
 - Most rural based: 75% of population
 - 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 67 years for men.
 - 43% of population have only basic education and adult literacy level stood at 80% in 2013. Gross enrolment rate for upper secondary school is 24% and the school drop-out rate is 4.1% at primary, 15.4% at lower secondary and 18.3% at upper secondary level¹¹.
 - Human Development Index: 143 out of 188 countries in 2014 but falls under the Medium Human Development category in terms of Human Development Index¹².
- 14. *Infrastructure development is a key priority***
- The total length of road in Cambodia measured 47,263 km, 74% of which were rural and provincial roads. The government aims to have 16,482 km of national and provincial roads paved by 2023 from the current 13,340 km¹³.
 - 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 expansion¹⁴.

- Cambodia has a total tele-density of 121.38%. The mobile penetration is 120.83% with 19.42million subscribers and the internet penetration is 84.70% with 13.46 million users¹⁵.
- 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 region¹⁶.

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

- Cambodia's growth performance is the result of macroeconomic stability, which is witnessed by robust and steady economic growth at a more than 7 percent annual rate during the last two decades, modest fiscal deficit (1.4% of GDP), prudent economic policies with low public debt, positive balance of payment (surplus of 7.4% of GDP in 2017), relative low inflation (2.23% at the end of 2017), and remarkable increase in international reserves (USD 8.7 billion in 2017).
- GDP per capita has risen from USD 1042 in 2013 to USD 1,435 in 2017.
- Cambodia Economic used to be a predominantly agricultural country and is moving from a primary agrarian-based economy to a secondary and an industrial one.
- In 2017, agriculture contributed 19.2% to the GDP, industrial share to GDP was 34.1% followed by Service sector contributing 39.4%.
- 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.

16. *Income distribution: low, but moderately equitable incomes and reducing poverty levels*

- In parallel with GDP per capita growth, Cambodia experienced substantial poverty reduction from 53.5% in 2004 to only 13.5% in 2014 in terms of percentage of people living below the national income line, which continues to improve in the last three years (around 10% in 2018) and is significantly contributing to Cambodia's sustainable development targets.
- Cambodia has currently moved from a low-income country to a lower-middle income country¹⁷.
- Average monthly personal income: KHR 942,288 (approximately USD 231.63)¹⁸.
- 75% population earn below KHR 1,000,000 (approximately USD 246) per month¹⁹.
- 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 population²⁰.

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

- Foreign Currency Deposits accounted for about 83% of money supply (M2) in Cambodia in 2017. Dollarization has been able to partially provide price and exchange rate stability resulting in low inflation as well as to prevent domestic currency devaluation when there is a mass capital outflow.

- Although dollarization has limited the effectiveness of monetary policy and restricted the central bank's role as the lender of last resort to the banking sector, the National Bank of Cambodia has continued to develop and issue new monetary policy tools, including Negotiable Certificate of Deposit (NCD) and Liquidity-providing collateralized operation (LPCO), aiming at enhancing liquidity management of banks and financial institutions, developing the interbank market, and promoting the use of local currency.
- Local currency in circulation (riel) and local currency deposits increased by 28% and 17.4%, respectively in 2017. Cambodia has promoted the use of Khmer Riel based on some market mechanisms and the development of economic and financial sector. In banking sector, the approaches include maintaining the value of Khmer Riel, supplying Khmer Riel to the needs of all areas, improving the design and quality of Khmer Riel, and setting the minimum requirement of Khmer Riel loan in proportionate to the total loan portfolio of the banks and financial institutions.
- Insurance sector has been emerging as Cambodia's economy has been applying payment in multi-currencies, particularly in US dollar and Khmer Riel for any insurance services.

Box 1: The Financial Access Strand

The Financial Access Strand²¹ is used to enable comparison of levels of financial inclusion across countries or market segments. Based on the MAP diagnostic report 2017, the calculation of the access strand is depicted as follows:

- a) **Banked:** The percentage of adults who have/use financial services provided by banks 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 financial service providers.
- b) **Other formal:** The percentage of adults that use financial services from other formal financial institutions regulated by a supervisory authority as mandated by law, e.g. microfinance institutions (both micro-finance non-deposit taking institutions and microfinance deposit taking institutions), leasing companies, payment service institutions, savings and credit unions, co-operatives, and postal savings institutions. Meanwhile, Insurance including general insurance, life insurance, and micro-insurance were used by legal entities and individuals to insure their properties, liabilities, life, health, and personal accidents, etc. Referring to the statistics of life insurance business, most of their customers are youth at the age of over 18 years old. These insurance products have been serving and distributing under the legal and regulatory framework on insurance. These adults could also use other financial services provided by informal financial service providers.

Individuals who have/use financial services provided banks and other formal financial institutions are classified as using formal financial services or formal channels.

- c) **Informal:** The percentage of adults that is not formally served but use informal financial services or informal channels. This is the usage provided by only informal financial service providers and does not include individuals who are within the banked or other formal categories.
- d) **Excluded:** The percentage of adults who do not use any financial services, neither formal nor informal, to manage their financial lives.

The access strand does not show overlaps between the various categories.

II. Status of financial inclusion in Cambodia

18. **Moderate level of access to formal financial services.** There is a relatively moderate level of access to formal financial services at 59%, of which 17% have access to banks, 42% to other formal financial institutions²², which is mostly dominated by MDIs, 12% to financial services from informal providers, and 29% excluded as shown in Figure 1. However, when taking overlaps of usage into account, the uptake of other formal stands at 52% (6%, 4%, 26% & 16%) and that of informal stands at 34% (12%, 16%, 4% & 2%) as shown in Figure 2.

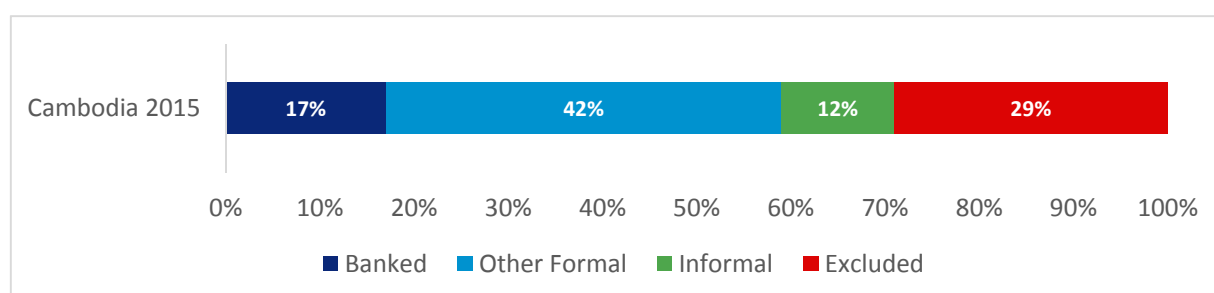
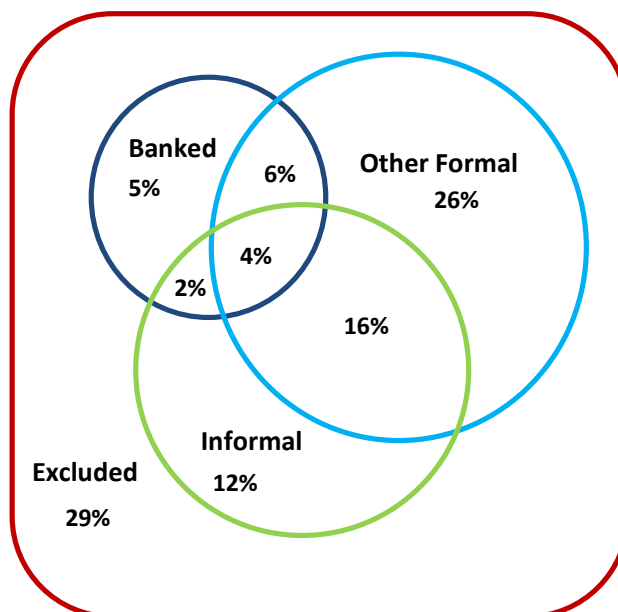


Figure 1: Financial inclusion in Cambodia

19. **Financial access driven by other formal services.** Other formal channels, including microfinance institutions and payment service institutions, are driving financial inclusion in Cambodia. MDIs offer suite of financial services that are comparable to banks with the largest outreach and low amount financial services that are affordable and customized towards the need of the rural and low-income population. Thus, MDIs are catalyst to enhance formal financial inclusion in the country. With MDIs' overall penetration of 17%²³, if MDIs are considered as part of the banked segment, the overall access to banked services stands around 34%. Around 47% of other formal financial institutions are MFIs out of which 33% of other formal financial institutions are through MDIs. Overall MFIs has a penetration of 24%, of which MDIs have a 73% share. There is a significant overlap in accessing to financial services between other formal and informal (16%), and banked 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% of adults using only banks to access financial services. It is noted that the population using informal channels (12%) is higher than that of those using banks only. In addition to other formal financial institutions, the informal providers play an important role for financial inclusion in the country.

Figure 2: Overlaps between the financial service providers



- 20. 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.* The level of financial inclusion is similar across the genders, with inclusion for females being 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 and 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 areas (74% of urban adults and 69% of rural adults are included). The provinces with poor access to finance include Kratie, Preah Vihear, and Ratanakiri. However, when considering the absolute numbers, the total inclusion of rural adults is far greater than that of the 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 institutions are more dominant in 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

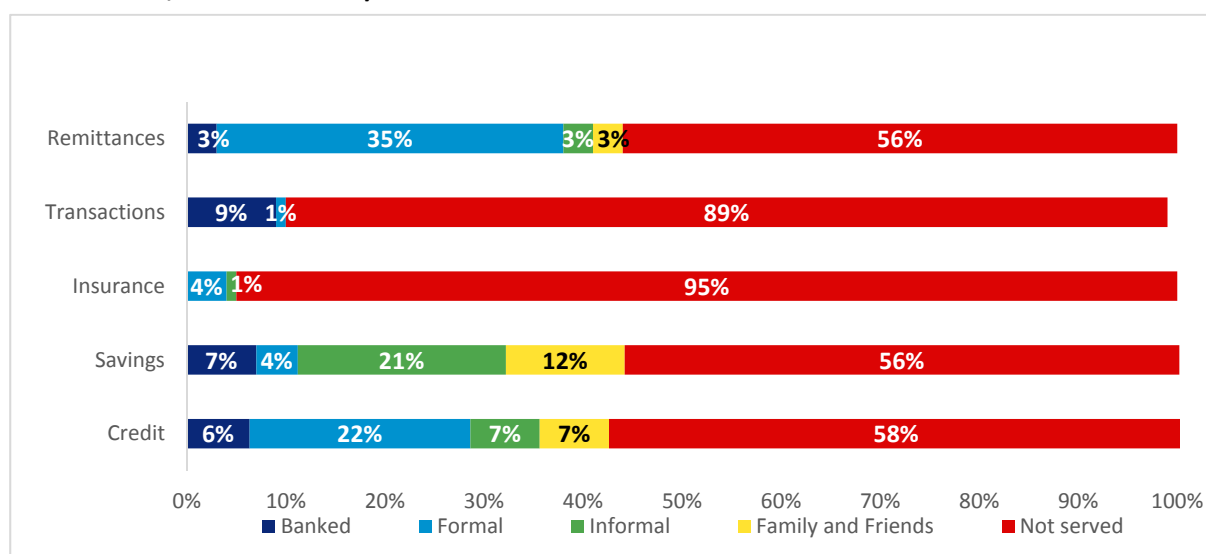
primary education, and 67% of adults with no education. The key difference in access is the percentage of uptake at banks. Access to banks occurs for 51% of adults with tertiary education, 18% of adults with secondary education, 13% of adults with primary education, and 8% of uneducated adults. There is significant scope for banks to still target tertiary educated adults.

21. *Remittance, savings and credit are the most commonly used financial services.*

Remittance is the most commonly used product used by Cambodian with 44% of adults either sending or receiving remittances. Of those who use remittances, 35% use other formal channels, led by mobile money, and only 3% use banks. 44% of adults save with both formal and informal providers. The key providers of savings are informal channels with 25% of adults, followed by ‘Saving at home’ 22%, and a smaller percentage in formal channels, of which 7% in banks and 5% in other formal channels. 42% of adults access credit. Other formal financial institutions played an important role in this product market, with 22% of adults accessing credit from this source, while 7% from informal providers, 7% from family and friends, and 6% from banks (Figure 3). Only 11% of adults use digital transactions. The low level of digital transaction demonstrates the significant use of cash in the economy. In 2017, formal inward remittance as percentage of GDP was 6%, equivalent to USD 1,276 million. 9% of the adult population received international remittances, especially through Thailand corridors. 79% of international remittance was received through formal channels and 21% through informal channels²⁴.

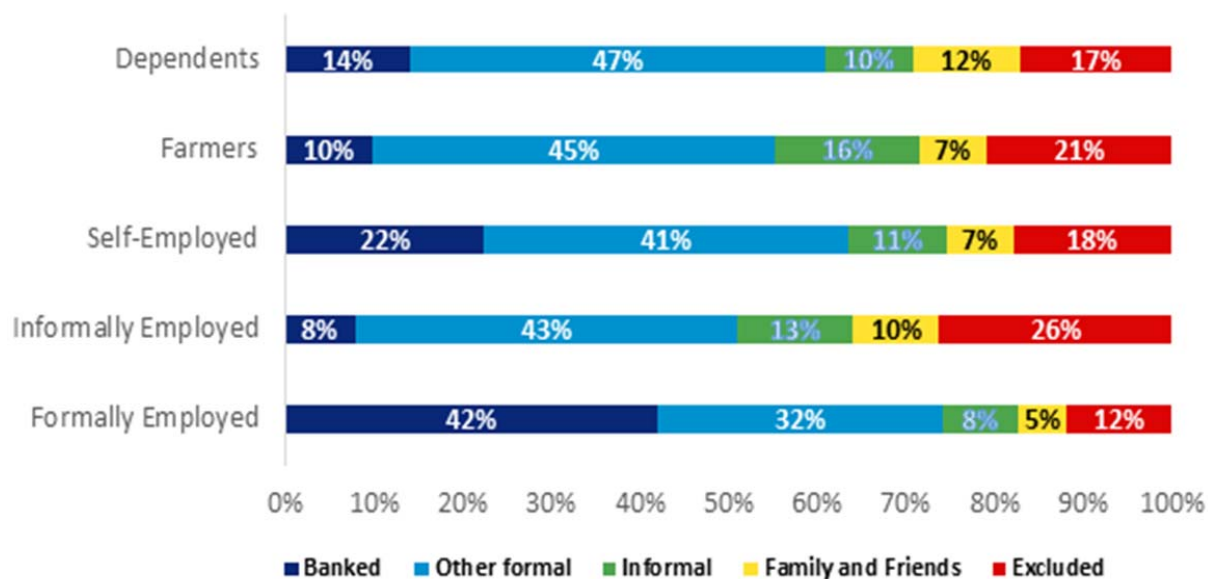
22. *Insurance.* Since insurance sector has been developing for almost 2 decades, the industry has been progressively providing its services on general insurance, life insurance, and micro-insurance as life insurance products with saving component (endowment product) dominantly covered around 91% of total life insurance products.

Figure 3: The usage across the four financial services in the markets (savings, payments, credit, and insurance)



23. ***Depth of financial services²⁵ accessed is limited.*** The majority of adults only make use of 1 to 2 financial service categories. Considering the population with access to financial service, 49% of adults only use one type of financial services, 36% of adults use two types of financial services, 13% of adults use three types of financial services, and lastly only 1% of adults access all 4 financial service categories. The implication is that very few 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 channels, and rather transacting in cash, such as saving and accessing credit from family and friends, which could affect the depth.
24. ***Measures to prevent over-indebtedness and protect vulnerable groups.*** The study on status of debt indicated that consumers can access credit from multiple sources, which means that a portion of these individuals are able to hide over-indebtedness by using one source of credit to repay another. The multiple institutions relationship from more than three financial institutions and increasing Portfolio at Risk (PAR) of borrowers indicate signs of over indebtedness. Refinancing of loans often puts extra financial burden on the borrowers as they need to repay and then re-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 more prudent to develop strong credit reporting and mechanisms to evaluate the capacity to borrow along with awareness campaigns and adequate mechanisms for protecting borrowers.
25. ***Access to financial services.*** Access to financial services that address the needs is crucial to ensure that individuals and households could effectively manage their financial lives. Despite the complexity, it is important to measure the depth of usage of financial services including informal services. 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 market of financial inclusion.*** Farmers (33%) and self-employed (20%) are the largest target markets in Cambodia. However, the formally employed (11% of population), which is a relatively smaller target market, has the highest level of inclusion (88%) followed by self-employed target market (82%). The usage of other formal financial institutions is similar across all target markets. Only formally employed segment's usage of other formal financial institutions (32%) is slightly lower 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 (Figure 4).

Figure 4: Access strand across target markets



Farmers are the key users of credit with 51% accessing credit either through formal or informal channels. In terms of savings, formally employed target market has the highest level of inclusion with 59% claiming to save either in a formal or informal channel. Similarly, 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 remittance through formal and informal channel; while, in terms of sending remittance, formally-employed target market (30%) makes the most use of formal and informal channels.

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 financial needs of each of these segments²⁸ 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• First highest median income• Majority are province and rural based• Highest education level• Highest access to formal financial services• Majority (74%) use formal financial services• Primary sending of remittance
Informally Employed	1.50 million	<ul style="list-style-type: none">• Main income is salaries and wages from informal entities and piece work• Most financially excluded segment• Majority use formal financial services (51%)• Low education level• Majority are rural based (75%)• Slightly dominated by Males
Self Employed	2.03 million	<ul style="list-style-type: none">• Main income is from own business (SMEs)• 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• Low income• Majority are rural based with low education levels• 55% use formal financial services• 33% depend 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• Majority are rural based• Lowest income group• 61% use formal financial services

III. Barriers to financial inclusion in Cambodia

Access barriers

27. *Accessibility is a key physical barrier.* Although the number of bank branches are increasing, above 52% of the population still take more than 30 minutes to reach the nearest formal financial service providers. Although the population is concentrated in rural areas, formal financial service providers' distribution touch points are mainly centered near key markets in urban areas and using a number of channels to distribute their services via branches, ATMs, POS, and electronic banking services. However, the low-income groups often cannot bear the cost and time involved in travelling long distances to access financial services.
28. *Low level of income makes affordability an issue.* 75% of adults earn less than 1,000,000 KHR (approximately USD 246) per month. Majority of the population have low disposable income with 29% of adults indicating that they do not have any income. Among the 44% of the adults who save, 60% were able to keep money as savings for a maximum of one month, indicating low amount of saving to be kept aside. This entails the inability of a large section to afford formal financial services as most of the financial services accrue benefits only in the long-term deposits. While 12% of 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 challenge²⁷.
29. *Inability to meet requirements is an issue to accessibility.* The informally employed and unemployed populations generally are not able to establish their repayment capacity or proof of income documentation to access credit from formal financial service providers. On the other hand, formal financial service providers also require collateral against which loans are issued, the inability to furnish such collateral or security generally leads to refusal of a loan request.
30. *Insurance product accessibilities and distribution channels.* Insurance companies are operating their business only in Phnom Penh city and few branches in some other potential economic areas. These branches are extended by only life and general insurance companies. Meanwhile, insurance products' distribution channel through intermediaries is still limited due to restriction on insurance agent's role of commercial banks and microfinance institutions to act as referral; only which, highly increase costs to insurance companies in deploying their sale staffs at all branches of banks and microfinance institutions. This mechanism does not provide opportunity to be applied by particularly micro-insurance companies. Meanwhile, products distribution via digital channel is under testing stage by insurance agents. Whereas, the legal and regulatory framework for insurance product distribution via digital channel has yet to be developed.

Usage barriers

- 31. *Financial services provided by formal financial institutions are not fully matching the needs of the population.*** The value proposition of formal services is not completely aligned with the needs of adults whereby those not served by formal financial institutions are currently being served to an extent, by informal channels or otherwise unserved. In case of savings, the issues of convenience and ease of access limit mobility, particularly in rural areas, whereby the vast majority (76%) prefer to save at home or with informal financial service providers. 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 use per month; wherein, bank accounts are mostly used for the purpose of receiving fund, which is almost immediately and entirely withdrawn. Moreover, the tax on insurance premium is not an incentive for insurance customers and insurers except tax for life insurance which was revised in 2018. Among various insurance products in the market, agricultural insurance products are not yet available to meet the customer's demand such as crop, rubber-tree, weather index, and livestock insurance products, etc. At the same time, compulsory insurance on private motor vehicles and other compulsory insurances are not yet put into force.
- 32. *Less financial awareness and literacy are the 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%, placing the country in 135th position out of 144 countries surveyed, which implies that the larger population has lower ability to engage with financial services²⁸.
- 33. *Stigma and fear of debts.*** 58% of the adults did not have access to credit, of which 62% are fearful of taking debts, while 8% of 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.

IV. Market drivers

Market drivers that influence financial inclusion in Cambodia

- 34. *Other formal financial institutions dominate the market.*** Despite a high number of banks and size of their balance sheet, other formal financial institutions dominate in terms of providing retail financial services. 52% of adults access financial service through other formal channels making it the most used channel²⁹. This is dominated by the usage of MFIs which have been extending their outreach rapidly with the sector's branch expansion registering growth of 0.4% in 2018 alone. MFIs and MDIs are emerging as the key providers of funds and are acting as an alternative to informal providers who charge higher interest rates. In terms of payments, other formal channels, in the form of mobile money, are gaining higher attraction with increasing numbers of people using mobile

money for transaction and remittance. For example, the volume of payments done by domestic payment service providers has risen by 30.23% from USD 4.8 billion in 2017 to USD 6.88 billion in 2018; while in the same period, the transactions conducted by banks has risen by 22.63% from USD 12.1 billion to USD 15.64 billion. In addition, pawnshop business operates in various provinces, and especially the Ministry of Economy and Finance has delegated the work to municipal/provincial economy and finance departments to serve as the secretary in managing, monitoring, and supervising with the purpose of strengthening and expanding the scope of financial services to people and pawnshop's clients.

35. ***Informal financial service providers.*** Various saving and credit groups such as Village Savings and Loan Associations (VSLA), Tong Tin, and local money lenders are the informal financial service providers availing financial services in Cambodia. 12% of the adult population use informal channels to manage their financial lives. When overlaps are considered, 34% of the adult population makes use of informal channels. Informal lending is widespread in Cambodia and plays 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 where savings are pooled, and credit is accessible on a rotating interest bidding basis³⁰.
36. ***Large number of financial institutions with foreign investment.*** In 2018, Cambodia has a large number of formally registered players with 43 commercial banks, 14 specialized banks, 81 microfinance institutions, 15 leasing companies, and 112 registered pawn shops. Of the total paid-up capital of banks; foreign shareholdings stood at 74.3% and local shareholdings at 25.7%. A similar pattern is observed in the case of MFIs where 75.6% are foreign funding capital.
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. For the period of 12 months by December 2018, the total assets increased by 21.4%; shareholder equity increased by 23.1%; borrowing from other sources decreased by 14.4%; deposits increased by 27.9%. Meanwhile, the number of depositors increased by 20.9% to 4.2 million customers, while borrowers increased by 7.5% to 0.8 million customers. The number of bank branches (including those of specialized banks) increased to 906 and that of ATM increased to 1,818 machines. The banking sector landscape is stable as reflected by the increased minimum capital requirement and the key indicators such as: high level of liquidity in the banking system (banks 158.8% and MFIs 213.6%), high level of solvency ratio (banks 24.2% and MFIs 19.8%) and low level of non-performing assets (banks 2.2% and MFIs 1.3%).
38. ***Increased minimum capital requirement will likely support the expansion of bank coverage.*** The increase in minimum capital requirement for banks and financial institutions will facilitate the consolidation of the sector and increase the competition. Growing competition and shrinking margins will force the formal financial service

providers to explore new markets and to facilitate expansion beyond the urban centers. 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 institutions.

39. ***Formal financial institutions extend 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 2018, commercial banks had 876 branches, and MFIs had a total of 1,423 branches. Although the bank branches are concentrated around Phnom Penh and certain urban centers, MFIs have extended their services in remote areas of the country. In addition to the traditional bank branches, banks offered 1,818 ATMs, 15,476 point-of-sale (POS), internet banking, and mobile banking to extend the reach of financial services in the country. There is a total of 34,449 mobile money agents in 2018 with the coverage of one mobile money agent per 356 adults in average. Moreover, the alternative distribution landscape with FinTech is still in its infancy.
40. ***Law and Regulatory provisions in banking sector.*** 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 Foreign Exchange (1997), the Law on Banking and Financial Institutions (1999), the Law on Negotiable Instruments and Payment Transactions (2005), and the law on Anti-money Laundering and Combating the Financing of Terrorism (2007). Law on Secured Transactions enables users to make secured transactions through automate MOC system (online). However, this system is not widely used due to limited participation from private sector and other stakeholders. A number of acts including Law on Banking and Financial Institutions touch on the issues of consumer protection. The adoption of the draft Consumer Protection Law, Trust Law, and Competition Law will be the key in ensuring the establishment of mechanisms for consumer protection. However, there are few regulations that need to be drafted to regulate the sector. Law on Banking and Financial Institutions states that banking operations include the processing and provision of means of payment to customers in national currency or foreign currency. Currently, Prakas that regulate Institutions and mobile network operators providing payment services are Prakas on Third-Party Processors and Prakas on the Management of Payment Service Institutions. The preparation of regulations for mobile network operators providing payment services should be discussed among relevant authorities to avoid regulatory conflict.
41. ***Moderate usage of range of formal financial services.*** 36% of adults only use one type of financial services; among which, 18% use only one payment instrument, making it the most popular product. 10% of adults use both savings and payment products while only 1% of adults use all 4 types of financial services.
42. ***Insurance service development.*** Currently, insurance products available in the market provided by general insurers are general insurance products such as fire, health, PA, engineering, compulsory insurance, and others, etc.; provided by life insurers are life

insurance products such as endowment, term-life, whole-life and annuity; and provided by micro-insurers are micro-insurance products with small amount of premium and sum insured to cover health, personal accident, term life, and credit life.

- 43. *Insurance public awareness and product distribution.*** Insurers have promoted their products and services via advertisement, media, social events, and other workshops and seminars. In addition, Insurance and Pension Department of Ministry of Economy and Finance has worked closely with Insurance Association of Cambodia to conduct various workshops and series of seminars throughout the country to raise public awareness on insurance to local authorities and related institutions. Insurers have been using various distribution channels such as sale staffs, agents, brokers, banks, and micro-finance institutions as referral and digital sales.
- 44. *Pawnshop sector.*** Pawnshop sector has been regulated since 2010 through Prakas No. 028 Sor.Hor.Vor dated 12 January 2010, which then was amended to Prakas No.030 Sor.Hor.Vor dated 13 January 2017 on pawnshop business supervision aiming at identifying mechanisms, tools, and procedures to manage and monitor pawnshop businesses. At the same time, to strengthen the market, a number of mechanisms have been defined by the regulators as follows:
- Develop law and related regulations
 - Establish off-site supervision and on-site supervision plan on pawnshop business to ensure an effective monitoring
 - Enhance small-sized pawnshop business supervision through the delegation to the municipal/provincial departments of Economy and Finance
 - Continue cooperating with Ministry of Interior and other relevant authorities in order to mobilize and take actions on unlawful businesses.

CHAPTER 3

ENHANCING FINANCIAL INCLUSION IN CAMBODIA

I. Target Market

45. *The types of Target Market.* The needs identified for the five target market segments are shown in Table 1. The identified needs under each target segment are unique and are based on the assessment of how they could drive financial inclusion and usage of formal financial products.

Table 1: Financial service needs by target market segment

Segment	Identified Needs
Formally Employed	<ul style="list-style-type: none">• Salary receipt account with cost-effective and digital transactions (internet or mobile banking). Such accounts are usually free of annual maintenance charges with zero minimum balance. They enable clients to execute digital transactions such as mobile top-up, fund transfer, utility bill payment, and merchant payments.• Deposit protection scheme that improves saving mobilization.• Easy access and knowledge on recurring deposit accounts, long-term savings plans that encourage savings in disciplined manner.• Bundled financial products which enable individuals to save (with slightly higher interest, or interest on daily minimum balance), and enable payment transactions (online and mobile) and provision for availing credit (based on the average account balance and income history).• Affordable pricing medical and life insurance products.
Informally Employed	<ul style="list-style-type: none">• Easy access and knowledge about flexible low value savings product to facilitate savings of irregular income and to smoothen up future consumption.• Accessible and cost-effective remittance products which facilitate savings and provide access to credit against savings³¹.• Financial products to facilitate investment in skills to 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 system• Low cost insurance products to assist with mitigating risk attached to household and business especially products that reduce key-person risk.• Financial products to facilitate investment in skills to 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 savings for consumption smoothing. • Financial products to facilitate investment in skills to enhance their productivity.

46. *Priority activities.* The activities are prioritized based on its impact on the number of people taking into consideration the national objective of economic growth. The 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 priority activities are shown in Table 2.

Table2: Priority activities based on the key observations³²

Priority activities	Key Observations
1. Encourage savings in formal financial institutions	Only 6% of adults save in banks; 49% save in cash and assets. Despite having access, the usage of the savings products is low.
2. Promote innovative credit products for SMEs	Only 28% of the self-employed have access to formal credit, 10% have access to informal sources and 62% are excluded.
3. Enable the expansion of payment system capabilities	89% of adults use cash for transactions; 32% of adults use other formal channels to make payments.
4. Improve broader access to insurance	95% of adults have no insurance coverage.
5. Strengthen the capacity of the financial sector regulators	FSDS (2016-2025) prioritizes building institutional and human resource capacity in financial sector.
6. Increase consumer empowerment and protection, and financial sector transparency	Cambodia has a financial literacy rate of 18% ranking 135 out of 144 countries ³³ .

II. Objective for enhancing financial inclusion

47. *Objective for enhancing financial inclusion.* The National Financial Inclusion Strategy (2019-2025) provides a policy direction for enhancing financial inclusion objectives as follows:

Increase access to quality formal financial services reduce the financial exclusion of women by half from 27% to 13% and increase usage of formal financial services from 59% to 70% by 2025, as well as, improve household welfare and support economic growth through the following priority activities:

1. Encourage savings in formal financial institutions
2. Promote innovative credit products for SMEs
3. Enable the expansion of payment system capabilities
4. Improve broader access to insurance
5. Strengthen the capacity of the financial sector regulators and
6. Increase consumer empowerment and protection, and financial sector transparency.

48. *Pre-conditions.* The identified six priority activities are laid out such that it leads to the accomplishment of the objectives mentioned above. To achieve such objectives, it requires pre-conditions below:

- Political will and coordination among stakeholders,
- Political and macro-economic stability,
- Improved educational infrastructure and literacy level, and
- Improved financial infrastructure.

CHAPTER 4

PRIORITY ACTIVITIES

49. To enhance financial inclusion, six priority activities have been identified as follows:

- 1) Encourage savings in formal financial institutions,
- 2) Promote innovative credit products for SMEs,
- 3) Enable the expansion of payment system capabilities,
- 4) Improve broader access to insurance,
- 5) Strengthen the capacity of the financial sector regulators, and
- 6) Increase consumer empowerment and protection, and financial sector transparency.

The implementation of the priority activities will fulfill the needs for financial services and products of the adult population. These activities have been classified as below:

- Banking sector includes commercial banks, specialized banks, microfinance institutions, rural credit institutions, financial leasing companies, third party processors, payment service institutions, installment operations, and money market and interbank,
- Non-banking sector includes insurance, pensions, capital markets, and pawnshops,
- Support infrastructure development includes governance and the legal and regulatory framework, market conduct and consumer protection, credit bureau, credit guarantee, and depositor protection and
- Capacity building.

I. Banking sector

Encourage savings in banking sector

50. *Encourage saving habits among adults and channel it for capital formation.* There is low level of savings amongst the Cambodian adults due to multiple factors, key to which is their low and irregular income (58% 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 banking sector. On the other hand, majority of people save at home or informally, which indicates that there is a potential unmet demand within the different saving categories. Savings groups and cooperatives offer low cost savings with low or no access barriers and thus have been successful in mobilizing savings in regular and mandatory form. 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.

There is high usage of credit to manage consumption (15%) and emergencies (7%). This reflects that people access funds through credit and then use limited income for repayment of credit rather than for saving. It is important to encourage adults to save for

their key needs, emergencies, and facilitate mobilization of these savings, and instilling savings culture, instead of credit for better financial management.

Females (46%) save more than males (39%) – a gender gap of 7%. The most common mechanism for saving through informal providers is for both females (37%) and males (28%), of which females are 9% higher than males³⁴. 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's and their accounts were more likely to be dormant. There is a need to develop the capacity to collect and use gender-disaggregated big data on clients to build the business case for women, and in turn to inform their market proposition and client segmentation strategy.

51. *Culture of saving in assets provides customers with returns but locks up capital that could have been used for intermediation.* The culture of saving in cash and assets has long existed in Cambodia. The returns on monetary savings are limited, while saving in assets promise a market-linked return. Saving in form of cash is convenient, has no transactions costs, and is highly liquid; whereas, the implication of the savings in physical assets makes capital unavailable for intermediation. Therefore, it is important to explore avenues that would allow customers to take up savings products with banking and financial institutions that give a competitive return. This could include product offerings that monetize physical assets, such as placing these assets in the commodity trading market. Furthermore, addressing the affordability and accessibility of saving products will be a key driver in promoting the growth of these services and its acceptance.
52. *Opportunities for banks and financial institutions (BFIs) to leverage on the trust factor to expand their market.* Trust among Cambodian adults in BFIs is high, but BFIs have not been able to leverage it to increase their client-base, while informal institutions rank on the low scale of trust. 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, the opportunity for BFIs to leverage this trust is to address other barriers that are keeping consumers from accessing their services. Saving with BFIs is considered to be costly as it entails annual charges, account maintenance and minimum balance requirements, along with low interest earnings. Introduction of bundled low-value savings products, higher returns, and better value for saving depositors will provide an opportunity for mobilizing savings.
53. *Summary of strategies by banks and MDIs to promote 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, payments & insurance) and
 - Launch a communication campaign to promote the Deposit Protection Scheme to low-income and rural populations.

Promote innovative credit products for consumers and SMEs

54. ***Opportunities for expansion of credit by banks.*** Banks are the largest providers of credit in terms of volume and a comparatively smaller retail client base. Clientele of banks are dominated by corporate 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 the market. However, banks can promote cash-flow based lending for SMEs especially those with high potential but lack of financing. Banks could introduce products using movable collaterals and receivables. The establishment of SME banks by the government will address the challenges in access to credit for SMEs.
55. ***Lending products for SMEs.*** Microfinance institutions are less stringent in terms of loan application/approval processes and requirements, in turn for high quality collateral. Despite the saturation of the market, there can be avenues for expanding credit in the focused areas of non-collateralized lending for SMEs, value chain financing etc. Because of the reach and convenience, MFIs are well placed to meet the financing needs of the SME client. The establishment of the credit guarantee scheme will enhance SMEs' access to funding from banks and financial institutions.
56. ***Enhance financial lease market.*** Even though financial leasing sectors was established in 2012, the sector has played a key role in financing SMEs on agricultural equipment, small machineries, etc. MEF has issued regulations on taxation mechanism for financial lease operations to avoid double VAT calculation on financial leasing. In addition, in order to address the challenges in financial lease operation, MOJ has issued an instruction to courts to cooperate in speeding up the procedure and in ruling of the preservative disposition for financial lessors to confiscate assets in the financial lease operations.
57. ***Strategies to improve functioning of the credit:***
- Develop financial products and promote inventory, receivable, factoring and value-chain financing for SMEs
 - Review which selected sectors and credit segments could be covered by the credit guarantee scheme (agriculture, renewable energy, and women-owned SMEs etc.)
 - Draw specific attention to designing product for women (credit to young women and waged-employed women and 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 banks and financial institutions and
 - Conduct sector and product demand survey for selected sectors (agriculture and renewable energy, etc.) where financial lease can be expanded.

II. Non-banking sector

Improve broader access to insurance

58. ***Insurance service overview.*** By the end of 2018, there were 32 insurance companies in the market. Those were 13 general insurers, 10 life insurers, 1 reinsurer, and 8 micro-

insurers, 16 brokers and 22 agents and 3 loss adjusters which are licensed to provide insurance services in Cambodia. Total gross premiums increased from USD 25 million in 2010 to USD 195 million in 2018 of which USD 86 million are general insurance (or 14% increased from 2017), USD 100 million are life insurance (or 49% increased) and USD 9 million are micro-insurance (or 7% dropped). Over the last 5 years (2014-2018), the average growth rate of total gross premium was 35%. Insurance penetration increased from 0.21% in 2010 to 0.83% in 2018 and Insurance density increased from USD 1.73 to USD 12.04, respectively.

59. ***Leverage micro-insurance to provide access to the poor at rural area.*** Micro-insurance targets to the low-income population, as most of them are not accessible to insurance service yet. There are 8 micro-insurers in Cambodia currently offering micro-health, term life, and credit life insurance. The claims payment should be paid in cash or non-cash for micro health insurance. This is a good foundation to build up life insurance products as well as to explore the potential of general insurance products. Micro-insurance is defined in laws and regulations on insurance. Regulations on Micro-insurance have been developed and revised in the view of ensuring proper regulations, to regulate the micro-insurance and to facilitate the growth of the sector. In order to create conducive environment for the expansion of micro-insurance, it requires a strong cooperation between NBC, MEF, and MPTC, to introduce a joint regulation to promote insurance product distribution channels under each respective supervisory agency.
60. ***Opportunity of insurance companies to expand services through affordable insurance products.*** The insurance market is still in the early stage with major insurance companies providing life insurance and general, micro-insurance products. There is a good opportunity for the insurance companies to add to their portfolio, an array of affordable insurance products and services as there is a need. Majority of Cambodian adults use mostly saving and credit products to manage their risks, which is fatal as it stretches their financial capabilities. Pertaining to the insurance penetration in Cambodia is still small, 0.74%, so 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 micro-insurance market and this can be encouraged through regulatory support. These products can easily be marketed through banks and microfinance institutions, as referral agents, that have already started offering general insurance products underwritten by general insurance or micro-insurance companies.
61. ***Explore cost-effective distribution channels.*** The main challenge in the expansion and uptake of the insurance is the lack of widespread cost-effective distribution channels, which is crucial to 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 non-bank 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, which has accelerated the

outreach. This demonstrates an opportunity to the development and expansion of affordable insurance products (high-benefit products with affordable cost) and distribution approach to increase the scale and reach to the current large segment of unserved market.

62. *Strategies to improve functioning of the insurance market:*

- Support the diversification of micro-insurance and low-premium products including health, hospitalization etc.
- Explore the development of weather index-based, crop and livestock insurance to support the development of agricultural insurance products
- Support the design of low-premium personal insurance for low-income women and promote insurance products distribution channels to customers, and
- Introduce a code of conduct for insurance and micro-insurance companies.

63. *Enhance monitoring and supervising on pawnshop business.* As of 2018, there are 527 pawnshops which have been granted licenses from MEF with total capital of 30 million USD and, since 2014 they have participated in providing loan with 157 million USD to formal financial system. In this means, the pawnshop business has played an important role in providing loan to many urgent needs to low and medium-income people. Therefore, the preparation of regulations is a priority to supervise and regulate the pawnshop business process while ensuring transparency, avoiding regulatory arbitrage, and eliminating illegal pawnshop business.

64. *Strategies to enhance pawnshop business:*

- Develop law and regulations to strengthen pawnshop business supervision, and
- Improve monitoring and supervision on pawnshop business to ensure the effectiveness and efficiency of sustainable implementation.

Roles of Capital Markets in financial inclusion

65. *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 incentives and technical supports to encourage more companies to participate in the capital market. SECC is also working on regulations for listing of both government and non-government securities. SECC is trying to encourage participation from institutional investors such as insurers, which could improve the depth and quality of the market.

66. *Dispute resolution in securities sector.* As a part of investors' protection, the SECC has recently adopted a Prakas on dispute resolution in securities sector, which provides the investors as well as 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 an important role to safeguard order and fairness in the

market. In this regard, the SECC has been conducting many seminars on the implementation of law and regulations throughout the country. The SECC has adopted a Prakas on investigation in securities sector, which provide a clear and precise framework for the regulator, and market players to acknowledge their roles and duties when the investigation process is initiated.

67. *On-going activities of SECC.* SECC has been conducting several activities for market promotion such as, 1) the Investor Education program for imparting 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.

III. Support infrastructure development

Encourage savings in formal financial institutions

68. *Promotion of savings culture needed.* MAP 2017 demonstrated a weak savings culture (with formal financial institutions), which would benefit from promoting the awareness of saving as an alternative to credit. The Government shall 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 protections, credit provisions, and tax benefits.

69. *Strategies for formal financial institutions to promote savings:*

- Develop a national savings rollout plan with tax incentives for low-income clients,
- Develop regulations allowing MDIs' agents to collect low value savings, and
- 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 SMEs

70. *Explore modalities for expanding non-collateralised credit for SMEs.* Credit in Cambodia is extended against immovable assets as collateral, and supported by regular income; in other words, limiting access to credit facilities for people without collateral and movable assets. This limit has increased the use of credit from informal financial service providers, which typically charge at higher interest rates. Therefore, this provides an opportunity for unsecured structured credit products and the use of movable collateral that will increase the availability of sourcing capital for investment and growth, while reduce the cost of credit. At the same time, the operationalization of Secured Transaction Registry has been facilitating credit on the basis of movable collateral (such as inventory, accounts receivables, crops, and equipment) and will increase the availability of credit through group guarantee schemes and others. This supports enhanced categories of collateral that would expand credit uptake from formal financial institutions.

71. *Improved credit reporting and credit risk assessments.* As the credit activities rapidly grow, the effective monitoring and supervision of the credit market is important for maintaining financial sector stability in Cambodia. Effective supervisory regulations need

to be strengthened, in order to prevent multiple borrowings and over-indebtedness. Particularly, data in 2018 shows that customers having relationships with more than three institutions had portfolio at risk of 1.10% (PAR-30: arrears over 30 days). CBC has been mandated with the aims to provide timely data on borrowings to help manage credit risk through proper credit assessments. However, lack of timely data on borrowers or issues, arising out of multiple IDs used by borrowers, results in gaps of information provided by CBC. As co-operatives are becoming important credit providers, it is essential to monitor and implement the practice of credit reporting of co-operatives to CBC. To enhance the effectiveness of credit management, the priority is to strengthen CBC and mandatory reporting for effective assessment of potential borrower's creditworthiness.

72. *The strategies to improve the functioning of credit:*

- Expand and strengthen the process and promotion on secured transaction registry to private sector and related stakeholders 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, and
- Update national identity system to include centralised registry and explore options to streamline IDs, such as digital biometric national IDs.

Enable the expansion of digital payment system capabilities

73. *Plan for transition to digital transactions.* Digital payment channels are fast, secure, and cost efficient to carry out payment transaction, 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 starts from the use of deposit or transaction accounts with banks, MDIs, and payment account with payment service institutions. These accounts are the resource pools from which digital transactions take place and income flows in. One means to ensure the usage of these accounts is to push for digital payment into these accounts from government payments and employer payments; for example, social security pay-outs, contract payments, and salary payments. It is critical to ensure that there are sufficient digital transaction and encashment points to enable employees to access these funds without undue hardship. Furthermore, 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 are critical bridge between the real economy and the digital financial system and represent 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 uses should be discouraged as their function is already accommodated in EFT payment streams and they introduce unnecessary risk, 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 regulations. 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.

- 74. *Facilitate the development of remittance channels.*** A significant segment of the population remits and receives money both domestically and internationally. Remittance products are the most commonly used financial products, with 44% of adults either sending or receiving remittances. For domestic remittance, mobile payment is the preferred channel for both receiving and sending money³⁵. The preference for over the counter (OTC) assistance is one of the reasons for higher usage of mobile payment. Payment service institutions are the key players in supporting the expansion of access to financial services through the transactional footprint that they have extended to rural and urban areas, with their agent networks, as well as the lower-cost mobile payment products that they offer. Given cross-border migrant workers, the easy documentation requirement of mobile money transfers is a key element in redirecting informal remittance transfers into the formal channel. Additionally, remittance transfers can readily be accessed through ATMs, mobile money transfer agents, and kiosks. In terms of international remittance, the majority of receivers in Cambodia receive money from formal remittance channel, mainly from money transfer operator including Western Union, Money Gram, and IME. Particularly, Cambodia has the highest percentage of people receiving domestic remittances. Therefore, adopting conducive environment for payment service institutions to provide cross-border remittance service is a key. Provided this importance, the NBC has introduced new regulation on “the Management of Payment Service Institution” which enables payment service institutions to open channel and corridor for smoothing trade settlement and cross-border remittance. Moreover, directing remittance into a formal channel also provides an opportunity to introduce savings and credit products to the remittance senders and receivers.
- 75. *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. In this context, the development of payment infrastructure to support the clearing and settlement of inter-bank payment transactions will be essential. The retail payment system includes:
- a) **National Clearing System (NCS)** was launched in December 2012 to facilitate the central clearing of payment via checks and electronic payment orders;
 - b) **Fast Payment System** was launched in July 2016 to enable real-time fund transfer in local currency across banks and MDIs with the service network located all over the

country; the NBC has currently encouraged member institutions to expand their Fast Payment System's channels to internet and mobile banking for customer convenience; and

- c) **Cambodian Shared Switch (CSS)** was soft launched in October 2017 which allows customers to transact across banks and MDIs via ATM and POS terminals using debit card. 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, 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 institutions, specialized banks, and switch operators to participate as 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, a large value payment system to clear and settle of large value payment. The introduction of the RTGS will substantially reduce the settlement risk of large value payment.

- 76. *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, the NBC has considered participating in the Asian Payment Network (APN) and connecting with 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 through regional settlement corridors.
- 77. *Forward looking regulations to encourage market growth.*** A key factor to ensure the development of retail payment infrastructure in Cambodia is the cooperation between regulators and private sector to address regulatory issues. Forward looking regulations need to take into account of interoperability at the channels, instruments, and payment systems levels whilst also promoting competition among payment service institutions at the consumer service level. Moreover, given the rapid pace of development in the payment technology landscape, the regulations should encourage the 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 as part of initiatives in promoting the financial inclusion.
- 78. *Strategies to increase the use of digital payment systems as follows:***
- Introduce RTGS system to reduce settlement risk in LVPS,
 - Promote the access of Fast Payment via other channels,
 - Introduce CSS system and encourage Banks and 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 government payment to digital payment,
- Review interconnection options and explore possibility for ASEAN inter-linkages, and
- Promote financial literacy and consumer protection in the payment space.

Improve broader access to insurance

79. *Expanding compulsory insurance will drive uptake of insurance.* Cambodia offers a social insurance scheme, including pensions, benefits, health, occupational injury, illnesses, and unemployment. The government assumes contributions for certain population segments such as the retired civil servants, army veterans, disabled, and the poor. Compulsory insurance in Cambodia is currently applied for Motor Vehicle insurance or third-party liability insurance (for commercial vehicles only), Construction Insurance, and Insurance for Passenger Transport (Insurance Law of The Kingdom of Cambodia, 2014). 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. Motor vehicle insurance or third-party liability insurance for private vehicles will be effective and be studied on the sample of appliance, from other countries in region.
80. *Bundling insurance products to increase attractiveness to consumers.* Insurance offered along with additional services or value-added benefits increases the incentive to take up insurance. Insurance products in Cambodia, beside 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 campaigns to ensure consumers are aware of the value that insurance can offer.
81. *Revise current taxation regime on insurance premium.* Currently there are no tax incentives for the income-earning population to take up insurance, except for life insurers. Insurance is termed as a fringe benefit and a 20% tax is levied at an individual level. On the other hand, 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.

82. *Strengthen cooperation between related authorities.* 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. Strengthening the cooperation between related authorities and creating Center of Excellence in formulating regulations will improve consistency of regulations. The FSDS (2016-2025) 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.

83. *Strategies to support activities:*

- Draft key regulations for micro-insurance sector,
- Consider on reforming taxation regime for insurance sector,
- Develop consumer protection mechanism for insurance sector, and
- Strengthen consumer protection prioritizing lending, advertising, complaints, fees, interest rates, and collection practices.

Increase consumer empowerment and protection, and financial sector transparency

84. *Promote financial literacy campaigns.* Given that Cambodia has a financial literacy rate of 18%, campaigns designed to promote financial literacy are important. The NBC has launched campaigns to promote financial awareness emphasizing on consumer empowerment and financial sector transparency in order to enhance financial inclusion and support vulnerable customers. Particularly, the Let's Talk Money Campaign, which was launched in 2016, was designed to empower consumers to use, to choose, to negotiate, and to communicate in order to make well-informed financial decisions. These are the steps in the right direction. The efforts can be further achieved by 1) regulatory devices such as borrower cool-off periods, minimum lending rates, and borrowing ratios; and 2) measures to promote effective debt restructurings and/or workouts such as bankruptcy laws including alternatives to court-based recovery. Moreover, the move to promote lending for investment over lending for consumption has to be accelerated. However, the regulator cannot be the sole champion of promoting financial literacy in the country, this should include the involvement of the formal financial institutions 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 can go a long way in overcoming financial literacy barriers without any financial up skilling of consumers. Regarding high potential women entrepreneurs, there is a need to build the financial competence and management skills through implementing financial literacy initiatives. Furthermore, it is to ensure a gender sensitive consumer protection regulatory provisions and consumer protection mechanisms for security and recourse against abuses in the provision of financial services.

85. ***Strengthen consumer protection provisions.*** In order to increase uptake of financial services and higher participation and engagement with the formal financial institutions, it is key that strong consumer protection and recourse provisions are adopted and implemented. Consumer protection mechanisms should ensure that users have security and recourse 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, regulatory provisions should ensure that the services of financial institutions are communicated in a clear and consumer friendly manner. In addition to empowering individuals to take informed decision, the regulatory provisions should also facilitate the establishment of a healthy competitive environment for the institutions.
86. ***Establishment of a well-functioning dispute handling mechanisms.*** One of the primary issues for extending loan against fixed assets has been due to the 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 formal financial institutions preferred out of court settlements, refinancing, or working with the client to dispose the asset and pay the loan³⁶. 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 realization 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 processes. This will enable reasonably priced and timely settlement of disputes between consumers and financial institutions.
87. ***Strategies to increase consumer empowerment and protection, and financial sector transparency:***
 - 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, and
- Develop streamlined mechanisms for dispute resolution.

IV. Capacity building

- 88. *Technical skill development plan required to build capacity of regulators and institutions.*** There is a shortage of skills in financial sector across all levels. The Financial Sector Development Strategy 2016-2025 prioritizes the undertaking of a financial sector training needs assessment for all sectors. This will ensure sufficient resources to support financial sector's functions and the ability to expand financial inclusion further. The formal financial institutions are mandated to prepare and implement a working procedure for capacity building.
- 89. *Regulator's Capacity Building.*** With the increasing number of financial service providers and expanding of financial services and credit portfolio, effective monitoring and regulating the sector has become a key challenge for the regulators. Due to the limited human and financial resources, investments need to be made to develop technical skills of the regulators to efficiently monitor and regulate the financial sector. According to the current situation, insurance regulator's capacity is limited to the development trend of the insurance industry. This results in capacity building requirements on risk-based supervision, market-conduct supervision, complaint handling, and other technical skills such as actuarial analysis, etc. In terms of the insurance sector, MEF plans to increase public awareness with the aim of promoting, supporting, and encouraging the interest in using insurance. In order to build local skill sets and to improve the current capacity of the industry's players, the regulator can introduce mandatory or voluntary subsidized training requirements for agents, brokers, and insurance company staff.
- 90. *Strengthen Regulatory Implementation.*** The financial sector is witnessing rapid changes brought about by digitization, which requires suitable proactive preparation. On the other hand, as highlighted in MAP 2017 with regards to credit reporting, monitoring of MFIs and co-operatives, consumer grievance handling, dispute resolution, etc., regulation is not always effectively applied by the institutions. Regulators need to devise a plan and improve capacity to strengthen proper implementation of regulation and effective monitoring.
- 91. *Institutional Capacity Building.*** Financial sector skill development should be prioritized to improve product offering, 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 by Association of Bank in Cambodia (ABC) with a mission to contribute to the progress of the training and learning development of executives and professionals, through a series of coordinated and tailored training programs with stakeholders. A development fund has been established to encourage

knowledge development by offering accredited and quality 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, surveys, banking systems infrastructure, scholarships, etc.

92. *Strategies for Capacity Building:*

- Increase sector monitoring, enforcement and leading innovation in financial sector,
- Build supervision and technical capacity of regulators, and technical capacity of formal financial institutions, and
- Promote higher investments in human resource development in financial sector.

CHAPTER 5

IMPLEMENTATION ON FINANCIAL INCLUSION STRATEGY 2019-2025

I. Anticipated benefits

93. Cambodia has a good level of financial inclusion in terms of access to formal financial services except for insurance where the access is low³⁷. Access to and usage of financial services has the potential to enhance the overall welfare of the individual while also to facilitate the attainment of economic growth, employment generation, and human capital development. In the current scenario, proximity to financial service providers and lack of availability of financial products that match the needs of the population remain an issue for Cambodian adults, while low financial awareness has resulted in low usage of the available financial services. The activities proposed in the National Financial Inclusion Strategy 2019-2025 intends to address these issues and provide the following specific benefits:
94. Availability of relevant and affordable savings, credit, payment, 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, consume wisely, and improve savings habit, it will foster the consumer's economic.
95. 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.
96. The national financial inclusion strategy 2019-2025 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.
97. The financial inclusion action plan will support the quantification and tracking of parameters to measure financial inclusion in Cambodia as outlined by the national financial inclusion strategy 2019-2025.

II. The financial inclusion strategy and action plan in the context of existing financial policy

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

98. **The Rectangular Strategy – Phase IV (RSIV) for the 6th mandate of the National Assembly:** is the overarching strategy that guides the economic development efforts of Cambodia which the elements consist of growth, employment, equity, and efficiency. RSIV also intends to enhance financial inclusion especially small and medium financial services as well as rural credit services for SMEs and low-income population with affordable

interest rates and continue to strengthen and expand new insurance products particularly life insurance and micro insurance.

99. **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.
100. **The Cambodia Industrial Development Policy (CIDP) 2015-2025** prioritizes the strengthening of domestic financing mechanisms and ensuring the availability of sufficient affordable interest credit. Unlocking of flexible saving mechanism and financing mechanism will have broader beneficiary to the population.
101. **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 with affordable costs and favourable terms and conditions. The strategy also touches on expanding the scope of compulsory insurance through the development and enhancement of regulatory frameworks while also strengthening regulator's capacity. Moreover, social safety net systems will also be strengthened through centralization and integration of the system.
102. **The Policy on Incentive and Establishment of National Program for Development of Affordable Housing** aims to address the housing problem, but also in part, to contribute to financial inclusion by encouraging financial institutions, particularly commercial banks, to provide financing for people who are less bankable, low incomes and/or lack of land title, and could not access to credit from banks for buying houses. To achieve this objective, through this policy, the government will address these issues by: 1) reduction in property's costs to an affordable selling price through incentivize the housing developers with tax breaks, supporting infrastructure development, and easing regulatory burdens; 2) the study on the minimum compliance tools for lenders on fringe lenders under the light regulatory regime; 3) with the ability to own their house, families may be more incentivized to save, which may, in turn, enhance the culture of savings; and 4) as the homeowners receive land title, they could better access to finance in the future particularly when the price of their house increases over time.
103. Financial inclusion remains a priority for the government, where the focus is to promote initiatives that promote sustainable and inclusive growth. The NBC has been a member of Alliance for Financial Inclusion (AFI) since 2015. Currently, the NBC is implementing the "Enhanced 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.

104. The National Financial Inclusion Strategy 2019-2025 integrates all government agencies' current effort in the field of financial inclusion as a basis for creating a strategic framework for implementation. The strategy was prepared based on a comprehensive diagnostic of the financial sector of Cambodia and the identification of the greatest potential impact areas, as well as the extensive consultations with key stakeholders. The strategy will provide a platform to consolidate efforts being made by government agencies and development partners in financial inclusion enhancement and help guide the future initiatives around the areas of financial inclusion.

III. Implementation and Evaluation

105. The Inter-Ministerial Working Group on Financial Inclusion Strategy Formulation (IMWG-FISF) is responsible for coordinating the implementation of the National Financial Inclusion Strategy 2019-2025. The NBC, MEF, MOI, MOP, MOC, MPTC, MAFF, MOEYS, MIH, MoSVY, MOWA, SECC, and all stakeholders, including the regulators, formal financial institutions, relevant ministries and donors, will play a core function in implementation.

IV. Measurement

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

V. Facilitators of Implementation

107. Implementation of financial inclusion efforts could be facilitated by the following:

- Increasing buy-in from private sector to introduce new financial services, promote the development of affordable financial services, and collaborate for expansion of financial services;
- Reforming bureaucratic procedures to increase willingness to implement recommendations and give greater prioritization to reform efforts, could improve the supportive framework needed to promote financial inclusion efforts;
- Improving retail infrastructure in terms of ATMs, POS machines, encashment points, etc. can facilitate the implementation of 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;
- Improving regulatory capacity and supporting regulations could facilitate implementation of the National Financial Inclusion Strategy 2019-2025; and
- Ensuring timely credit reporting of financial institutions to the CBC will lead to accurate credit report and assessment, thus circumventing bad lending. Therefore, credit information about borrowers can form the basis of credit appraisals.

CHAPTER 6

CONCLUSION

- 108.** 29% of adults are excluded from the financial sector, while those have some level of access. Broadening scope and quality of access to financial services will provide benefits from this access to underserved and unserved population. Therefore, broadening and deepening financial inclusion in Cambodia is a priority. The National Financial Inclusion Strategy 2019-2025 has laid out the national priorities for the enhancement of financial inclusion in Cambodia and is in line with FSDS 2016-2025. However, financial inclusion is challenging to achieve and requires a clear vision, sufficient resources, and effective collaboration across a broad range of stakeholders.
- 109.** The National Financial Inclusion Strategy 2019-2025 highlighted six priority activities that can help stakeholders to address the challenges of enhancing financial inclusion such as 1) encourage savings in formal financial institutions, 2) promote innovative credit products for SMEs, 3) enable the expansion of payment system capabilities, 4) improve broader access to insurance, 5) strengthen the capacity of the financial sector regulators, and 6) increase consumer empowerment and protection, and financial sector transparency.
- 110.** The successful implementation of the priority activities 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 need to be taken into account in order to ensure successful implementation of the National Financial Inclusion Strategy 2019-2025.
- 111.** The implementation of these activities is anticipated to deepen and broaden financial services and improve household welfare, while also supporting economic growth and aiding in the development of human capital.
- 112.** Implementation of the National Financial Inclusion Strategy 2019-2025 will most visibly contribute to financial inclusion through the development of strategies, financial services and business models that deliver better value to low-income people.
- 113.** The priority activities of the strategy have been detailed out in the action plan which will be converted into the implementation plan for achieving the objective of financial inclusion.
- 114.** Upon approval of the National Financial Inclusion Strategy 2019-2025 and endorsement as a policy, Executive Agencies will have to coordinate implementation of the action plan and to ensure a coordinated effort between all stakeholders to achieve the financial inclusion objective. The NBC, chair of the IMWG-FISF, and other related ministries/agencies including MEF, MOC, MPTC and MOI etc. takes the leading and facilitating roles with support from UNCDF. The leading agency will have a team to spearhead the process. One of the key activities is to ensure effective dissemination of the action plan and to hold a stakeholder's consultation to identify suitable agencies to lead the different activities outlined in the action plan.

CHAPTER 7

ACTION PLAN FOR FINANCIAL INCLUSION

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
I. Banking Sector				
A. Banks				
<i>Increase access to credit for SMEs and agricultural and rural development community</i>	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, handicrafts and social enterprises		NBC (Lead Agency) MEF MOC MIH MoSVY
		3. Review which selected and credit markets could be covered by credit guarantee scheme (Agriculture, renewable energy, women-owned SMEs, etc.)		MEF (Lead Agency) NBC MIH MAFF MOWA
		4. Support and promote credit to agricultural and rural development community		MEF (Lead Agency) NBC MAFF
<i>Develop incentives for savings mobilization</i>	5. Promote and support the design of inbound remittances-linked saving products (particularly cross-border remittances)			NBC (Lead Agency) MEF
		6. Launch a communication campaign to promote the Deposit Protection scheme		NBC (Lead Agency) MEF

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
B. Microfinance institutions				
<i>Enhance accessibility of savings products</i>	7. Encourage the increase in depth of financial services usages for clients (savings, credit, and payments)	8. Conduct feasibility study towards regulations allowing MDIs' agents to collect low value savings	9. Support the development and regulatory approval of low-cost approaches to mobilize savings outside of MDIs branch network in rural areas	NBC (Lead Agency) MOWA
<i>Develop incentive for savings mobilization</i>	10. Develop and promote remittances-linked saving products			NBC (Lead Agency) MOWA
		11. Launch a communication campaign to promote the Deposit Protection scheme		NBC (Lead Agency) MEF
			12. Study the potential impact of a national savings rollout plan with tax incentives for low-income people	MEF (Lead Agency) NBC
<i>Increase access and offer targeted lending services for SMEs</i>	13. Promote the development of non-collateralized lending for SMEs (cash-flow based lending)	14. Promote inventory, receivables, factoring, and value chain financing for SMEs		NBC (Lead Agency) MEF MOC MIH MOWA
	15. Conduct feasibility study on group lending's new processes and mechanisms to meet emerging customers' needs	16. Promote access to financial services for women underserved segments		NBC (Lead Agency) MOWA

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
	17. Conduct feasibility study on warehouse collateral management development and financing	18. Develop guidelines and promote warehouse financing systems with third party collateral management companies at regional level and value-chain actors in relation with banks and financial institutions at local level		MEF (Lead Agency) MAFF NBC MOC
II. Non-banking sector				
<i>Increase insurance public awareness and customer protection</i>	19. Conduct public awareness workshops and seminars on insurance countrywide 20. Cooperate with Insurance Association of Cambodia and other development partners to conduct public educational seminars on insurance	21. Study and set up mechanism and procedure of insurance complaint application and mediation process 22. Continue conducting public awareness workshops and seminars on insurance countrywide 23. Continue cooperating with Insurance Association of Cambodia and development partners to conduct public educational seminar on insurance 24. Prepare educational programs via media networks	25. Continue promoting and strengthening consumer protection implementation by reviewing related regulatory framework 26. Cooperate with MoEYS to incorporate insurance subject into curriculum 27. Develop regulations on code of conducts and consumer protection 28. Continue running educational programs via media networks	MEF (Lead Agency) MoEYS

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
<i>Improve access to insurance product and distribution channels</i>	29. Establish MoU with NBC on broader implementation of bancassurance 30. Prepare a regulation on individual insurance agent registration	31. Prepare a regulation on licensing of micro-insurance companies 32. Study on online-distribution channels in insurance industry	33. Prepare a regulation on online distribution channels in insurance industry	MEF (Lead Agency) MPTC NBC MoEYS
<i>Develop insurance products and compulsory insurance</i>	34. Study the models from other countries to formulate a framework on implementation of private motor vehicle compulsory insurance	35. Prepare regulations on private motor vehicle compulsory insurance. 36. Promote micro-insurance products such as crop insurance, rubber tree insurance, weather index insurance and livestock insurance	37. Review regulatory framework on private motor vehicle compulsory insurance 38. Continue promoting micro-insurance products such as crop insurance, rubber tree insurance, weather index insurance and livestock insurance	MEF (Lead Agency) MPAT MOI
<i>Provide insurance tax incentives</i>	39. Study on regulations of other countries in region on tax incentives for insurance sector	40. Continue studying and assessing the feasibility on the best practice of tax incentives for insurance sector	41. Cooperate on formulating regulation on tax incentives for insurance sector	MEF
<i>Enable the expansion of payment system capabilities</i>	42. Introduce Cambodian Shared Switch system 43. Promote the access of Fast Payment via other channels	44. Introduce RTGS system to reduce settlement risk in LVPS 45. Encourage financial institutions to expand the ATM & POS infrastructure to remote and rural areas 46. Review and explore possibility for ASEAN inter-linkages		NBC

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
			47. Promote the migration of government payment to electronic payment (P2G, G2P)	MEF
			48. Promote the usage of innovative payment instruments and channels	NBC (Lead Agency) MEF
		49. Introduce risk-based supervision on PSIs along with the growth of sector 50. Promote the dialogue forum between PSI and regulator regarding their queries and challenges		NBC
	51. Provide licensed PSIs and specialized banks a right to USSD access with fixed priced set by MPTC to enable rural credit access (i.e. outside of internet coverage areas)			MPTC (Lead Agency) NBC MEF
		52. Encourage PSIs to have code of conduct on implementation	53. Facilitate the implementation of code of conduct for PSIs	NBC
<i>Draft tools for non-regulated financial services providers</i>	54. Conduct feasibility study on the minimum rules of compliance for the fringe lenders under the light regulatory regime			NBC (Lead Agency) MEF MLMUPC

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
		55. Register and ensure regular monitoring of financial schemes outside of the banking laws and regulations		NBC
Expand financial leasing services for productive equipment	56. Conduct sector/product demand survey for selected sectors (agriculture, renewable energy, etc.) 57. Collect and distribute data on aging population pyramid at province level			NBC (Lead Agency) MIH MAFF MOP
			58. Support the development of a leasing association	NBC
Consolidate and link the cooperatives and saving groups	59. Prepare list of registered cooperatives with related ministries and consolidate financial data of cooperatives to NBC	60. Support standardization and good governance and reporting practices 61. Support the capacity building of relevant ministries on cooperatives supervision	62. Support the linkage between cooperatives and MDIs for savings mobilization and investment for increased access to finance in rural areas	NBC (Lead Agency) MIH MOWA MAFF
	63. Support the development of local community-based saving and credit groups, village banking and cooperatives through training and raising awareness on finance			NBC (Lead Agency) MOP MAFF MEF

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
<i>Increase Pawnshop business monitoring and reporting</i>	64. Continue granting licenses to pawnshop business	65. Develop a risk-based approach to supervise and monitor pawnshop business 66. Increase monitoring on the current regulatory compliance to ensure that practice is under the strict monitoring and supervision and with high responsibility	67. Strengthen supervision and cap the lending amount of pawnshops not more than 20,000,000 KHR	MEF (Lead Agency) NBC MOI MOWA
<i>Capital Market</i>	68. Study the role and impact of FinTech on the Capital Market.	69. Develop digital products and services for the Capital Market		SECC
III. Cross-cutting policies and sector coordination				
<i>Formalize public and private sector dialogue and sector coordination</i>	70. Develop an inter-agency coordination mechanism between MEF, NBC, SECC, MOC, MOP, MOJ, MIH and other ministries/agencies for the consolidated oversight of all financial service providers			Inter-ministerial committee
	71. Issue regulations and other necessary guidance to strengthen and expand the implementation of the secured transaction law			MOC (Lead Agency) MEF MOJ NBC

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
		72. Institute a transparent and regular public dialogue platform for all financial institutions to ensure that these institutions get transparent and accountable explanation about new regulations		NBC
Strengthen reporting and support responsible lending	73. Introduce new data reporting requirement at CBC in discussion with CMA and NBC in order to better monitor market risks, market saturation, emerging market trends and innovative delivery channels.	74. Develop OID indicators, which CBC, ABC, CMA and NBC extracted from CBC and NBC data to draft an OID monitoring dashboard for quarterly monitoring 75. Design capacity building program for Rural Credit institutions on compliance with reporting standards		NBC
		76. Develop framework for periodic estimate of the size of shadow banking activities		NBC (Lead Agency) MEF
		77. Link up the moveable asset registry data to the CBC	78. Promote and enforce the use of secured transaction registry (moveable collateral) by pawnshops and other institutions	MOC (Lead Agency) MEF NBC

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
			79. Allow CBC to access selected information at national ID database system (to measure real household debt levels)	MOI(Lead Agency) NBC
			80. Request and enforce regular financial report sharing by non-traditional and non-licensed financial providers	NBC (Lead Agency) MEF
		81. Study the feasibility of pawnshop business in reporting to CBC		MEF(Lead Agency) NBC
		82. Communicate and ensure that financial institutions comply with all requirements related to simplified customer due diligence (following FATF standards)		CAFIU
Promote gender sensitive strategy	83. Collect and analyze gender-disaggregated data for banks and Financial Institutions (using CBC data) to guide new product design			NBC (Lead Agency) MOP
		84. Develop guidance to ensure an enabling gender-sensitive environment conducive to the expansion of inclusive financial services in Cambodia	85. Monitor OID and NPL level for women to ensure that credit is allocated responsibly	NBC(Lead Agency) MEF MOWA

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
		86. Conduct feasibility study on gender-disaggregated data collection and analysis for pawnshops (using CBC data)		MEF (Lead Agency) MOP MOWA
IV. Increase consumer empowerment and protection, and financial sector transparency				
Enhance financial literacy	87. Support the efforts of NBC and ABC/CMA to promote consumers' financial literacy	88. Review the effectiveness of current Financial literacy programs and develop a long-term strategy targeting low-income customers 89. Include key information related to responsible borrowing in lending contract templates for all formal financial institutions		NBC
	90. Develop financial literacy campaigns materials on leasing, mobile banking and use of new technologies for access to finance.			NBC (Lead Agency) MEF
	91. Support MoEYS to incorporate financial literacy into the curriculum and textbooks	92. Support MoEYS with teachers' training program (training the trainer) on financial literacy		NBC (Lead Agency) MEF SECC MOEYS
Securities Market Promotion	93. Expand SECC good governance for SMEs program	94. Support SMEs graduation toward stock market listing		SECC
	95. Promote investors' awareness in securities market	96. Study on strategy development for expanding securities trading to a larger population	97. Conduct investor events to promote investors' education and introduce the investor association	SECC

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
	98. Promote public education and awareness related to securities market by providing seminar to university students and the general public			SECC
<i>Increase consumer protection</i>	99. Define the obligation for financial service providers to use a standardized calculation of effective interest rates in all circumstances	100. Develop a financial sector consumer protection policy upon the approval of law on consumer protection 101. Support the development of extension system for the implementation of the law on consumer protection	102. Evaluate international practices on regulations for the prescription of debt to monitor the implementation of excessive lending	NBC (Lead Agency) MOC
	103. Promote the CMA lending guidelines and develop a 'responsible lending' label for MFIs meeting the guidelines	104. Promote the use of hotline provided by NBC for complaint handling		NBC
	105. Conduct training and examination for securities market participants to grant professional licenses			SECC
V. Capacity building for regulators				
<i>Increase financial sector monitoring, enforcement and leading innovation</i>	106. Increase NBC capacities and human resources to register, review, license, monitor and enforce regulations implementation 107. Develop a piloting window to test emerging models and technologies (P2P, mobile transactions, etc.) and allow innovative lending and technology without risk to the sector	108. Research and monitor emerging trends of financial inclusion	109. Strengthen supervision and oversight of payment system and services	NBC

Priority Activities	Short term 2019 - 2020	Medium term 2021 - 2022	Long term 2023 - 2025	Agencies Concerned
	110. Build up insurance regulator's capacity on risk-based supervision, mediation skill	111. Continue strengthening insurance regulator's capacity 112. Build up regulator's capacity on other technical skills	113. Review capacity building program 114. Build up regulator's capacity on the actuarial skills	MEF
	115. Expand and strengthen the capacity of the SECC officials in digital finance for the security market			SECC

APPENDIX

COMPOSITION OF THE COMMITTEE ON ECONOMIC AND FINANCIAL POLICY, THE STEERING COMMITTEE ON FINANCIAL SECTOR DEVELOPMENT STRATEGY AND WORKING GROUPS FOR FINANCIAL INCLUSION STRATEGY

Committee on Economic and Financial Policy

1	Aun Porn Moniroth	Deputy Prime Minister, Minister of Economy and Finance	Chair
2	Chea Chanto	Governor, National Bank of Cambodia	Vice-Chair
3	Chea Sophara	Deputy Prime Minister, Minister of Land Management, Urban Planning and Construction	Member
4	Chhay Than	Senior Minister, Minister of Planning	Member
5	Cham Prasidh	Senior Minister, Minister of Industry and Handicraft	Member
6	Sun Chanthol	Senior Minister, Minister of Public Work and Transport	Member
7	Lim Kean Hor	Minister of Water Resource Management and Meteorology	Member
8	Tram Iv Tek	Minister of Posts and Telecommunications	Member
9	Thong Khon	Minister of Tourism	Member
10	Suy Sem	Minister of Mine and Energy	Member
11	Veng Sakhon	Minister of Agriculture, Forestry and Fisheries	Member
12	Pan Sorasak	Minister of Commerce	Member
13	Sok Chenda Sophea	Minister attached to the Prime Minister, Secretary General of the Council for the Development of Cambodia	Member
14	Hing Thoraxy	Secretary of State, Council of Ministers	Member
15	Vonsey Vissoth	Secretary of State, Ministry of Economy and Finance	Member
16	Hean Sahib	Permanent Vice-Chair, Supreme National Economic Council	Member

Steering Committee on Financial Sector Development Strategy

1	Chea Chanto	Governor, National Bank of Cambodia	Chair
2	Nguon Sokha	Secretary of State, Ministry of Economy and Finance	Permanent Vice-Chair
3	Neav Chanthana	Deputy Governor, National Bank of Cambodia	Standing Vice-Chair
4	Ok Boun	Secretary of State, Ministry of Commerce	Member
5	Sarak Khan	Secretary of State, Ministry of Posts and Telecommunications	Member
6	Soy Siphon	Secretary of State, Ministry of Social Affairs, Veterans and Youth Rehabilitation	Member
7	Ros Seilava	Under-Secretary of State, Ministry of Economy and Finance	Member
8	Mey Vann	Government Delegate, Director General of General Department of Financial Industry, Ministry of Economy and Finance	Member
9	Sou Socheat	Director General, Securities and Exchange Commission of Cambodia	Member
10	Sum Sannisith	Deputy Governor, National Bank of Cambodia	Member and Secretary

Working Group for Financial Inclusion Strategy (Inter-Ministries)

1	Neav Chanthana	Deputy Governor, National Bank of Cambodia	Chair
2	Rath Sovannorak	Director General, National Bank of Cambodia	Permanent Vice-Chair
3	Chou Vannak	Deputy Director General, Ministry of Economy and Finance	Vice-Chair
4	Tuon Thavrak	Secretary of State, Ministry of Planning	Member
5	Soung Menglong	Director General, Ministry of Social Affairs, Veterans and Youth Rehabilitation	Member
6	Tep Roda	Deputy Director General, Ministry of Posts and Telecommunications	Member
7	Chea Fung	Deputy Director General, Ministry of Women Affairs	Member
8	Mok Sarom	Deputy Director General, Ministry of Education, Youth and Sport	Member
9	Heng Sophoan	Deputy Director General, Ministry of Industry and Handicraft	Member
10	Sor Chetra	Deputy Secretary General, Ministry of Agriculture, Forestry and Fisheries	Member
11	Kep Samphy	Director, Securities and Exchange Commission of Cambodia	Member
12	Im Koy	Acting Director, Ministry of Commerce	Member
13	Soy Rotanak	Deputy Director, Ministry of Interior	Member

Working Group for Financial Inclusion Strategy (National Bank of Cambodia)

1	Heng Bomakara	Director, Off-Site Banking Supervision Department	Team Leader
2	Ouk Sarat	Director, Payment System Department	Deputy Team Leader
3	Em Kamnan	Director, Legal Department	Member
4	Seng Youraden	Deputy Director, On-Site Supervision Department	Member
5	Som Kossom	Division Chief, Off-Site Supervision Department	Member
6	Sarun Helyda	Division Chief, Licensing Department	Member
7	Mak Reaksmey	Division Chief, Legal Department	Member
8	Som Nita	Division Chief, Economic Research and International Cooperation Department	Member
9	Ou Sokpanha	Deputy Division Chief, Licensing Department	Member
10	Khem Virak	Section Chief, Licensing Department	Member
11	Chea Tola	Division Chief, Off-Site Supervision Department	Secretary
12	Ouch Botkhemra	Section Chief, Off-Site Supervision Department	Secretary
13	Pal Khuon Mora	Deputy Section Chief, Off-Site Supervision Department	Secretary
14	Khun Dymonineath	Officer, Legal Department	Secretary
15	Hang Pisey	Officer, Legal Department	Secretary

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2	Kameshnee Naidoo	UNCDF, South Africa
3	Rajeev Kumar Gupta	UNCDF, Bangkok
4	Hong Ngin	UNCDF, Cambodia
5	Yohann Formont	UNCDF, Cambodia
6	Deanna Morris	UNCDF, Bangkok
7	Robin Gravesteijn	UNCDF, Bangkok
8	Sujeev Shakya	Beed management pvt. Ltd., Nepal
9	Sudip Bhaju	Beed management pvt. Ltd, Nepal
10	Subrina Shreshtha	Beed management pvt. Ltd, Nepal
11	Raju Tuladhar	Beed management pvt. Ltd, Nepal
12	Obert Maposa	FinMark Trust, South Africa
13	Kingstone Mutsonziwa	FinMark Trust, South Africa
14	Louise de Villiers	Cenfri, South Africa
15	Albert van der Linden	Cenfri, South Africa
16	Barry Cooper	Cenfri, South Africa

GLOSSARY

Nº	Term	Description
1	Financial Access	Refers to access to financial services provided by formal financial institutions such as account opening etc.
2	Financial Usage	Refers to access to and use of financial services provided by financial service provider.
3	Debt Restructurings/ workouts	Refers to change of terms of the original loan contract such as the principal, rate, term, maturity etc. in favour of customers who have temporary financial difficulty.
4	Cross Selling	Refers to selling an additional financial product or service to an existing customer.
5	Recurring Deposit Account	Refers to a special kind of term-deposit account offered by banks which allow people with regular incomes to deposit a fixed amount every month into their account and earn interest at the rate of fixed deposits.
6	Receivables	Refers to an account that records and monitors the amount of trading which is owed by the customers or debtors.
7	Formal Financial Service Providers	Refers to banks and others financial institutions.
8	Financial Access Strand	Refers to access to or usage of financial service graphs.
9	Tele-density	Refers to the number of telephone connections for every hundred individuals living within an area.
10	Out grower schemes	Refers to farming contract which is binding between the farmer/landlord and a company. The contract sets forth cooperation between farmer/landlord and company related to labours, raw material, and agriculture resources, costs, risks and profits sharing etc. Contract can be in short term or long term.
11	USSD	Refers to mobile messaging via mobile phone (not particularly smart phone)for payments without internet connection.
12	Commodity Trading Market	Refers to a market for trading of commodity product in the economy.
13	Weather index insurance	Refer to insurance which insure the yield of crops. It pays out based on an index, such as rainfall, measured at a local weather station or by satellite, rather than based on a consequence of weather.
14	Crop insurance	Refer to an insurance which insure farmers and crop producers against their loss of crops due to weather, animals, and natural disasters, such as hail drought, and floods etc.

15	Livestock Insurance	Refer to an insurance policy providing coverage for losses due to the dead or injury of one's livestock. It generally covers accidents, acts of God, thefts and so forth. It generally covers infectious diseases, weather, and natural disasters etc.
16	Informal Channels	Refers to the means of access to or usage of financial services provided by informal financial service providers.
17	Formal Channels	Refers to the means of access to or usage of financial services provided by banks and others financial institutions.
18	Other Formal Channels	Refers to the means of access to or usage of financial services provided by other financial institutions.
19	Switch Operator	Refers to an institution or entity that operates the network system of ATM and/or POS to enable cross transactions.
20	Payment Ecosystem	Refers to factors which impact the settlement process such as regulations, service providers, and business especially the connection network or message delivery between service providers.
21	Disposable income	Refers to total net income after deduction of taxes and social security charges, which are available for consumption or savings as needed.
22	Referral Agent	Refers to banks and microfinance institutions authorized by the National Bank of Cambodia in providing referral service to customers who need insurance products to a partner insurance company.
23	Agent Banking	Refers to retail or post counters which contracted with banks and financial institutions or mobile network operators to provide financial services.
24	Big Data	Refers to data storing centre which contains large and detailed necessary information that can be used for comprehensive analysis, evaluation and interpretation. Generally, it is required a huge investment in IT to manage and store this data set.
25	Center of Excellence	Refers to a working group, a sharing entity or a unit that provides specific training programs.
26	MAP Cambodia Diagnostic Report	Refers to the report of MAP Project which analyzes the status of financial inclusion to support the expansion of access to and usage of financial services in Cambodia.
27	Cool-off periods	Refers to a period in a contract which allows customers to cancel loans without any penalty from lenders.
28	Doing Business Index	Refers to an index to measure the convenience of doing business. For higher-ranking countries (a low numerical value) it indicates more convenience of doing business, simpler regulations of doing business and stronger protection mechanism of intellectual rights, etc.

29	Small and Medium Enterprises	Refers to micro, small and medium enterprises.
30	Bancassurance	Refers to the sales of insurance services by banks and financial institutions.
31	PAR- Portfolio at Risk	Refers to percentage rate of the total outstanding loan portfolio which is exposed to risk.
32	Factoring	Refers to a financial transaction in which banks and financial institutions buy receivables or receipts from a company at discount.
33	Value Chain Financing	Refers to flow of offering financial services through any point in a value chain including production stage, selling stage, after-sale services, etc.
34	Borrowing Ratio	Refers to percentage rate of debt over capital of borrowers to measure the ability of getting additional financing.
35	Financial Service Providers	Refers to all banks, other financial institutions, and informal financial service providers.
36	Recourse	Refers to rights to demand personal damage claims related to usage of financial services.

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1 MAP 2017
2 FinScope, 2015
3 McKinnon and E. S. Shaw (1973) model, the success of the financial liberalization process depends to the following hypothesis: the effective
deepening of the financial sector, a positive correlation between the saving and the real interest rate, and a perfect complementarity between the
4 money demand and investment
Honohan 2004, 2007; Levine 2005
5 Cull Robert, Tilman Ehrbeck and Nina Holle, 2014
6 R.C. Merton and Z. Bodie, 1995
7 NIS, 2016
8 The World Bank, 2016
9 National Bank of Cambodia, 2017
10 National Institute of Statistics, 2013
11 MoEYS, 2016-2017
12 UNDP, 2015
13 The National Strategic Development Plan (2019-2023), Ministry of Planning
14 Ministry of Planning, 2014
15 MPTC, 2018
16 Ministry of Planning, 2014
17 The World Bank, 2016
18 FinScope, 2015
19 FinScope, 2015
20 FinScope, 2015
21 FinScope, 2015
22 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.
23 FinScope, 2015
24 FinScope, 2015
25 The MAP study analyses four core product markets: payments, savings, credit and insurance. The payments market is further split into payment
transaction and remittance. The financial access strand is used to illustrate the uptake across the particular product market.
26 FinScope, 2015
27 FinScope, 2015
28 Global Financial Literacy Report, Leora Klapper, 2015
29 FinScope, 2015
30 FinScope, 2015
31 For instance, a bank will 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 and the remittance receiver or
remittance sender. To incentivise savings, these accounts have all transactional features and are free of annual charges.
32 FinScope, 2015
33 Global Financial Literacy Report, Leora Klapper, 2015
34 FinScope & UNCDF, 2015
35 The World Bank, 2016
36 MAP 2017
37 FinScope, 2015