



Cambodia

Financial Inclusion Refresh

Making Access Possible

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based analysis feeding into a financial inclusion roadmap jointly implemented by a

range of local stakeholders. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. In each country, MAP brings together a broad range of

stakeholders from within government, the private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country.

This report was prepared by Beed lead by Lisa Cheong, Sudip Bhaju and Yohann Formont. We would like to express our appreciation to the National Bank of Cambodia (NBC), in diligently keeping the financial inclusion prioritised in Cambodia, and in working with the United Nations Capital Development Fund (UNCDF) in both the first MAP Diagnostic as well as this current Refresh.

MAP Series Editor: Kameshnee Naidoo

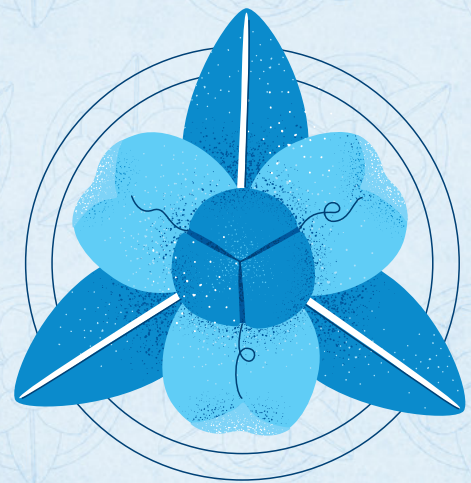
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The cover symbol and artwork

Through the MAP programme, we hope to effect real change at country level and see the impact of financial inclusion on broader national growth and development. The cover graphic features a Romduol, the national flower of Cambodia. The plant has a yellowish-white flower with a single alternate leaf, a height of 8 to 12 metres, and edible fruits clustering with dark-red color when ripened. Each flower is an example of the successful growth in a unique environment.





Working together to support implementation of Agenda 2030

Countries are seeking new ways to address complex and interconnected challenges. Fulfilling the promise of the UN Sustainable Development Goals (SDGs) requires multisectoral approaches that bring together expertise from a range of perspectives. By harnessing our comparative advantage and working within the context of our respective mandates, we can collectively make significant progress towards realising the vision of the SDGs.

Financial inclusion is increasingly positioned as an enabler of broader development goals, in support of the SDGs. More and more countries are including an inclusive financial sector as a key objective in their national development plans, and this tendency is further underpinned by the G20 leadership of financial inclusion, which highlights the ongoing relevance of the SDGs and nationally led financial inclusion efforts. Furthermore, financial markets play a vital role in creating a sustainable future.

Access to finance for individuals, small and medium enterprises (SMEs) and governments is important to a number of the SDGs, helping to facilitate secure payments, including for basic services and trade; smooth cash flows; offer financial protection; and improve allocation of capital while also enabling investments in many areas.

This MAP refresh, in supporting country efforts, increases the focus on inclusive growth (especially through SMEs and agriculture), access to basic services (energy, health and education), and improving household resilience, as well as gender equality. Increased reliance on technological innovation and digital financial services will help to improve the scale and efficiency of financial inclusion interventions.

This refresh was undertaken by the UNCDF to jointly address the United Nations Development Programme's (UNDP's) Signature Solution 1, which seeks to work with countries to keep people out of poverty, relating directly to SDG 1: eradicate all forms of poverty, wherever it exists.

The core focus of Signature Solution 1 is helping people get out of – and stay out of – poverty; and hence the analysis and interventions identified help eradicate poverty, such as by creating decent jobs and livelihoods, providing social safety nets, and ensuring access to services such as water, energy, healthcare, credit and financing support for investment in productive assets.

Partnering for a common purpose

By combining inspiration, ideas, knowledge and resources with our partners, we become more than the sum of our parts.

We are committed to empowering investors—public and private alike—with the clarity, insights and tools they need to optimise the positive impact of their investments, closing the gap between high-level principles and financial performance to make a positive contribution to society.

Note on the use of household data

Within this document (unless otherwise referenced), demographic, income and financial usage data is obtained from the 2021 Cambodia Financial Inclusion Mobile Tracker Survey and compared where applicable to the 2015 FinScope Cambodia Consumer Survey. A summary report and presentation is available as a separate deliverable, and the dataset is available for future research at <https://uncdfmapdata.org>.

Our technical response

In 2015, UNCDF assisted the Royal Government of Cambodia to prepare a Financial Inclusion Road Map and Action Plan. It aimed to “increase access to quality formal financial services, reduce the financial exclusion of women by 50% (from 27% to 13%), and diversify usage of formal financial services from 59% to 70% by 2025 as well as improve household welfare and support economic growth.” The plan called for a MAP study on Cambodia.

A range of countries have adopted this approach, including Botswana, Eswatini, the Democratic Republic of the Congo, Lao People’s Democratic Republic, Lesotho, Malawi, Mozambique, Myanmar and Thailand. A 2017 MAP Diagnostic report considered the context in Cambodia, the demand for and supply of financial services, and regulation of these services. The report highlighted interventions that best meet national objectives for growth and improved livelihoods, and provided a roadmap for defining, prioritising, coordinating, measuring and tracking these.

The report also identified practical recommendations for overcoming barriers to greater financial inclusion, including by encouraging savings in formal financial institutions; promoting innovative credit products for SMEs and MSMEs; enabling the expansion of payment system capabilities; prioritising the development of a well-functioning insurance market; strengthening the capacity of financial sector regulators; and increasing consumer empowerment and sector transparency.

This current report is a MAP Diagnostic Refresh. It reviews implementation of the 2017 Diagnostic recommendations and considers key market changes to identify financial inclusion interventions that can accelerate economic growth and deliver broad social benefits.

Cambodia at a glance

Data as discussed in the 2021 Refresh. Refer to body of document for data sources.

GDP (2019)

US\$27 bn

GDP per capita (2019)

US\$1,643

US\$ 1,093 (2014)

Real GDP growth

-3.1%

2020

Contribution to GDP

Agriculture,
forestry and fishing

20.8%

2019

Contribution to GDP

Industry

33.8%

2019

Ave. GDP growth

7.1%

2019

Contribution to GDP

Manufacturing

16.3%

2019

Contribution to GDP

Tourism

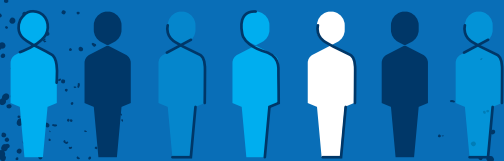
21%

2019

*Population living below
the national poverty line*

12.9%

2018



Total population

16.72

million

2020

Population

RURAL

72.2%

2019

Human development index

0.594

2020

LESS THAN

1%

Unemployment

Gender development index

0.922

2019

Cambodia at a glance

Source: 2021 Cambodia Financial Inclusion Mobile Tracker Survey; 2015 FinScope Cambodia Consumer Survey.

Banked population

30%

2021

Increased from 17% since 2015

Population using other formal services

62%

2021

Increased from 52% since 2015

Population excluded from formal financial services

33%

2021

Decreased from 41% since 2015

Informal financial services

23%

2021

Decreased from 34% since 2015

Female formal financial inclusion

60%

2021

Unchanged since 2015

Bank credit

10%

2021

Increased from 6% since 2015

Formal Saving

17%

2021

Increased from 11% since 2015

Formal remittances

46%

2021

Increased from 38% since 2015

Insured

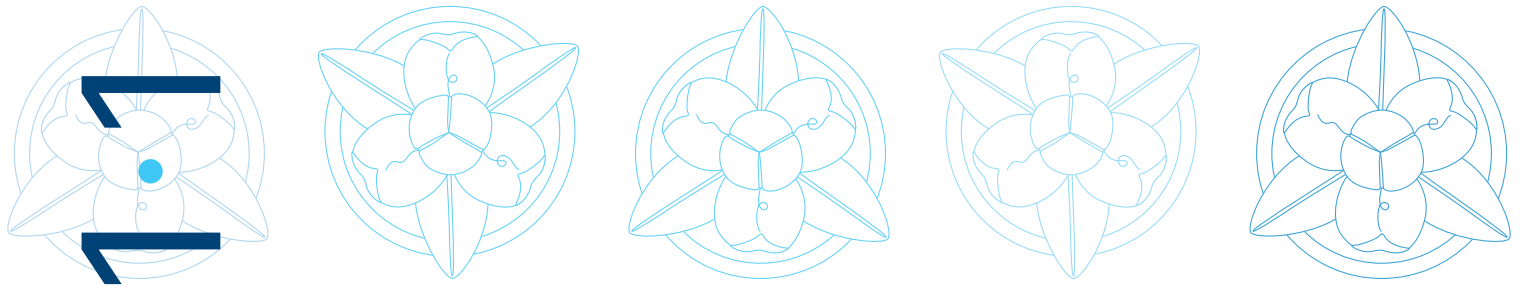
12%

2021

Increased from 4% since 2015



The changing environment



Economy, population and growth

Impressive growth in the economy and income. Cambodia has made substantial strides over the last two decades, achieving lower-middle-income status in 2015 and striving for upper-middle-income status by 2030.¹ Fuelled by textile exports and tourism, the economy grew by 8% annually between 1998 and 2018, one of the fastest rates in the world.² In dollar terms, the economy expanded from USD 16.70 billion in 2014 to USD 27.08 billion in 2019,³ with an average growth rate of 7.1% over the period. GDP per capita went up from USD 1,093 in 2014 to USD 1,643 in 2019, a steep increase of 50% in just five years.⁴ Although Cambodia's GDP per capita remains among the lowest in the Association of Southeast Asian Nations (ASEAN), its growth trajectory puts it on a path to catch up to its regional peers. The pandemic, however, resulted in a reversal, with a -3.1% contraction in growth in 2020, the sharpest decline in Cambodia's recent history.⁵



Cambodia has made substantial strides over the last two decades, achieving lower-middle-income status in 2015 and striving for upper-middle-income status by 2030.

Significant poverty reduction and improved human development. Amid a stable macroeconomic climate, strong growth and ongoing structural reforms, poverty rates in Cambodia fell from 53% in 2004 to 13.5% in 2014 and 12.9% in 2018.⁶ This reflected major progress in improving livelihoods and achieving the Sustainable Development Goals (SDGs). The national score on the Human Development Index increased from 0.570 points in 2015 to 0.594 in 2020, with improvements in life expectancy at birth, expected years of schooling and mean years of schooling.⁷

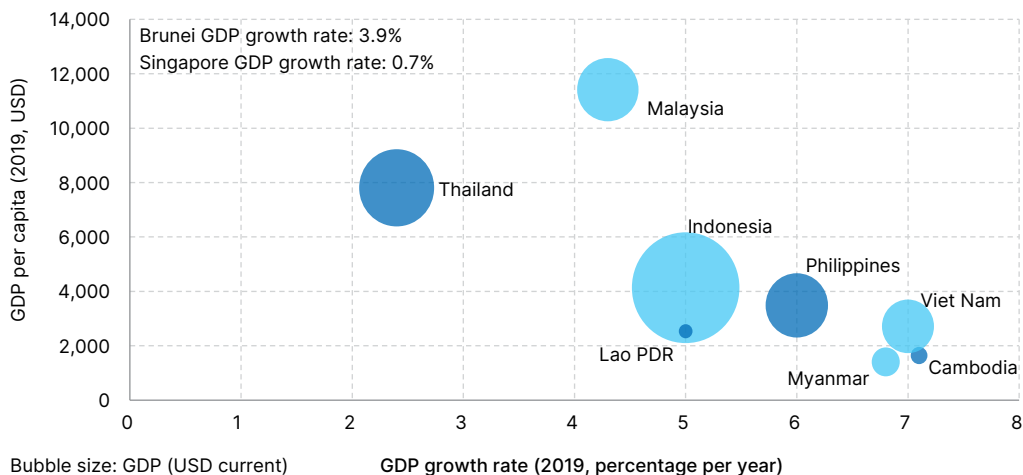
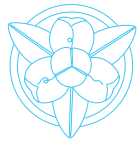
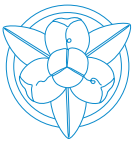
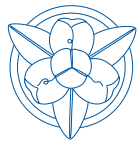


Figure 1: GDP growth and GDP per capita income for ASEAN countries

Source: World Bank country data, 2019.



A growing labour force amid a still mostly rural population. Cambodia's population increased by 7.9% between 2014 and 2019, from 15.27 million to 16.49 million people. The labour force grew by 13.2% over the same period, from 8.4 million to 9.5 million workers. A growing and increasingly young labour force offers a positive economic opportunity, if leveraged appropriately, yet the proportion of people employed in piece jobs, as opposed to salaried or self-employment, seems to be growing (see Section 2.2). The population is also increasingly urban, with a 2019 urbanisation rate of 3.2%, although 72.2% of people remain in rural areas.⁸

Strong prospects for growth but risks must be addressed. Cambodia has strong foundations for growth, such as a vibrant textile industry, a young population, offshore hydrocarbon reserves in the gulf of Thailand and a tourism sector with significant potential. To continue its record of expansion, however, it needs to address poor governance, low levels of spending on health care and education, a lack of skilled workers, and underdeveloped electricity and transport networks. The country has been highly reliant on concessional financing, mostly from Australia, Japan, the United States of America and the European Union. Recently, China emerged as Cambodia's largest source of development assistance and most prominent trading partner. The two countries have further strengthened ties through the Cambodia-China Free Trade Agreement (CCFTA), which will likely enter into force in 2021.

Despite increased focus on financial sector sustainability, vulnerabilities remain. Cambodia has initiated several recent policies aimed at financial sector sustainability, including the Cambodian Sustainable Finance Principles (ABC, 2018), the Cambodian Sustainable Finance Principles Implementation Guidelines (ABC, 2019) and the Sustainable Banking Network Progression Matrix Stage (2019).⁹ In the wake of the pandemic downturn, however, several vulnerabilities remain in the financial sector. These include party lending risks, a lack of consolidated cross-border supervision and gaps in risk-based supervision. The concentration of foreign direct investment (FDI) inflows in a few sectors (namely banking, construction and real estate) combined with bank lending primarily in construction and real estate also creates additional risk.¹⁰ However, the NBC finds that credit in the banking system is sufficiently diversified to various sectors, and the liquidity coverage ratio remains high.¹¹

A shift from agriculture to industries, supported by strong tourism growth. Cambodia has seen a shift from agriculture to industries in its GDP. The contribution of agriculture, forestry and fishery fell from 26.6% to 20.8% of GDP from 2015 to 2019, while the share of industry, including construction, increased from 27.7% to 33.8% over the same period. The contribution of manufacturing, as part of industry, remained constant, however, moving from 16.0% to only 16.3%.¹² The contribution of tourism, part of the services sector, climbed significantly from 13.5% to 21%, despite the share of services overall remaining fairly constant.¹³



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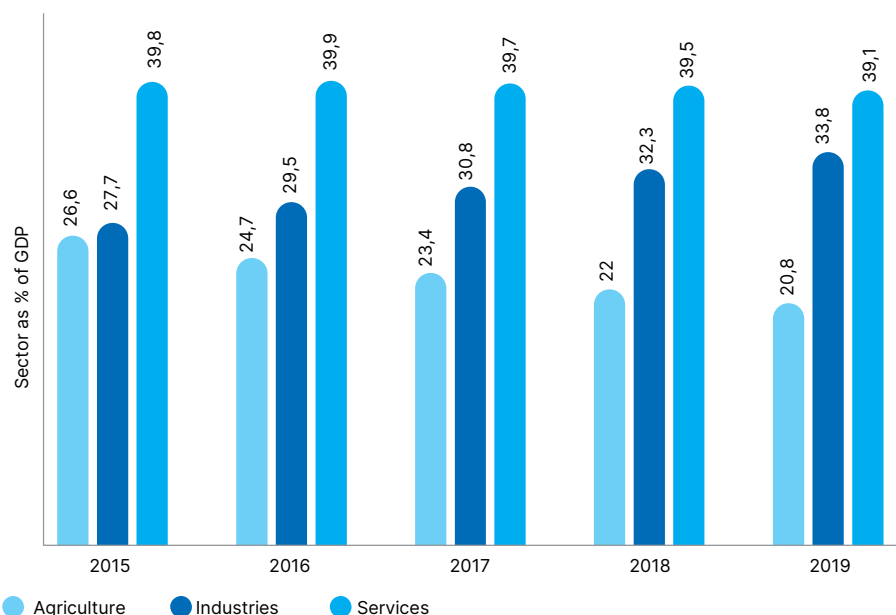
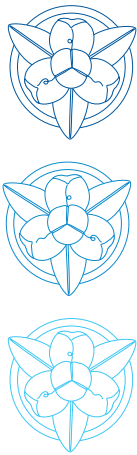
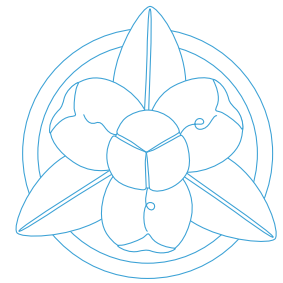
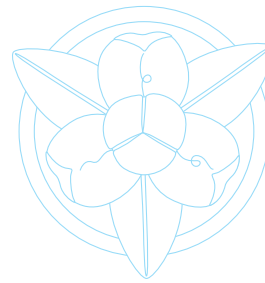
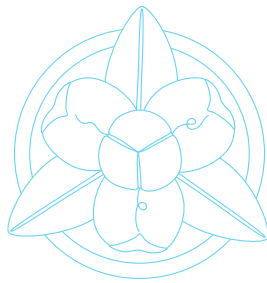
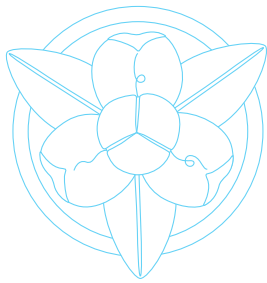
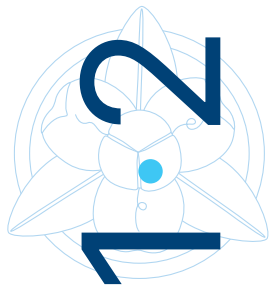


Figure 2: GDP contribution by sector, percentage, 2015-2019

Source: MAFF Annual Report 2019-2020.

Historically strong growth in key sectors and exports has been undermined by COVID-19. In 2020, the pandemic heavily impacted sectors key to recent growth, namely construction, tourism and merchandise exports. Together, they contributed more than 70% of growth and provided 39% of total paid employment in 2019.¹⁴ Due to travel restrictions and lockdowns, Cambodia's tourism and hospitality sector contracted by -1.5% in 2020. The manufacturing sector declined by 0.6% given demand shocks. As the pandemic persisted, exports of manufactured goods were hit hard but ultimately increased from 2019 to 2020 due to greater exports of non-garment products. Despite rapid expansion in the last several years, the construction and real estate sector, which relies heavily on foreign investment, also experienced negative growth in 2020, with some development projects put on hold. The value of investment in construction decreased by -32.1% over 2020, from USD 11.4 billion in 2019 to about USD 7.8 billion. As a result, the current account deficit narrowed to 11.3% of GDP in 2020 from 15% in 2019.¹⁵

Growing deficits have come from the pandemic response. The government issued a large fiscal stimulus of 5% of GDP, which includes health-related spending, income assistance, equity injections, guarantees on loans, tax relief and development spending. The stimulus is expected to turn the budget from a surplus of 0.8% of GDP in 2019 to a deficit. With the fiscal deficit estimated at 5.6% of GDP in 2020 and 6.1% in 2021, the need for financing from abroad will increase and the exchange rate will come under pressure.¹⁶



Policy and regulation

Since the MAP Diagnostic in 2017, significant changes to policies, the regulatory framework and the supervisory landscape have created a more conducive environment for financial inclusion. These encompass the following:

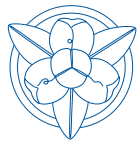
Regulatory framework for bancassurance business by banks and financial institutions. On 30 March 2021, the National Bank of Cambodia issued Prakas No. B7-021-105 Prokor on Bancassurance. It is aimed at increasing public access to insurance services and strengthening consumer protection. The Prakas covers all banks and financial institutions under the supervisory authority of the NBC, allowing them to collaborate with insurers to distribute and market insurance products.

New regulatory body: the Non-Banking Financial Services Authority. In January 2021, the Law on the Organisation and Functioning of the Non-Banking Financial Services Authority (the NBFSA Law), established a new independent regulatory authority for the non-bank financial system, including the entire insurance industry. The NBFSA will be managed by the NBFSA Council, which is composed of several members, including the Minister for Economy and Finance as the chairperson; other representatives of the ministry; representatives of the NBC, the Ministry of Justice, the Ministry of Commerce and the Council of Ministers; and general secretaries and experts. The composition of the council will be determined by a sub-decree.¹⁷ Non-banking financial sectors covered by the law are insurance, private pensions, the securities exchange, social security, public administration, accounting and auditing, real estate, pawnshops and collateral contributions. The law is intended to improve and ensure the efficiency of the management, monitoring and development of the non-banking financial sector, and the promotion of financial technology within it.

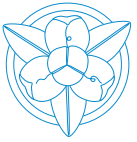
Revision of the Prakas on Credit Reporting. The NBC issued Prakas No. B7-020-352 Br.K on Credit Reporting on 26 June 2020, replacing its previous Prakas No. B7-011-145 on Credit Reporting dated 24 May 2011. The new Prakas introduced changes such as reporting on bounced checks, cross-border credit information sharing subject to the NBC's approval; the expansion of data sources related to loans to electricity, water, telecom, Internet and other service providers;



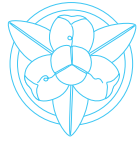
The NBFSA law is intended to improve and ensure the efficiency of the management, monitoring and development of the non-banking financial sector, and the promotion of financial technology within it.



guidelines on the permissible use of credit information; and more detailed and stringent rules on data privacy and consumer rights.



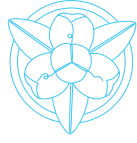
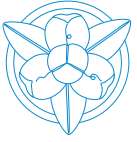
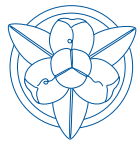
The E-Commerce Law and Consumer Protection Law. On 2 November 2019, the government enacted the Law on Electronic Commerce and the Law on Consumer Protection. The E-Commerce Law regulates the activities of e-commerce service providers and intermediaries. It imposes consumer protection obligations, including data protection and cybersecurity requirements for all e-commerce businesses. In line with the Prakas on the Resolution of Consumer Complaints, the NBC established five service hotlines at the head office and one line in each of 21 provincial branches to handle consumer complaints and provide information on financial services.



Interest rate cap. An interest rate ceiling of 18% was enforced on new or restructured loans of any maturity offered by microfinance institutions (MFIs) and rural credit institutions (RCIs) from April 2017. As stipulated in the regulation, the cap protects consumers from excessive interest rates and supports affordable loans (Article 2 of the Prakas). The regulation was driven by concerns that microfinance lending rates were excessive and that some financial institutions were engaging in predatory lending behavior.¹⁸

Table 1: Key policies issued after the 2017 MAP Diagnostic

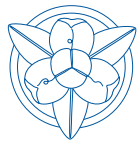
POLICY INITIATIVES	OVERVIEW
<ul style="list-style-type: none"> Sub-decree No. 65 S.E on the Implementation of Valued Added Tax on E-Commerce (8 April 2021, Ministry of Economy and Finance) 	The sub-decree defines special conditions and mechanisms for levying a value-added tax on digital goods and services provided from abroad by non-resident taxpayers without a permanent office in Cambodia. This helps ensure the effectiveness of tax collection in accordance with Article 75 of the taxation law.
<ul style="list-style-type: none"> Prakas No. B7-021-105 Pro Kor – Bancassurance Business of Banks and Financial Institutions (30 March 2021, NBC) 	This regulatory framework sets conditions for banks and financial institutions to conduct bancassurance businesses and promote financial inclusion by increasing access to formal insurance services and strengthening consumer protection.
<ul style="list-style-type: none"> Sub-decree No. 32 on the Social Security Scheme on Pensions for All Persons Governed under the Labour Law (4 March 2021, Ministry of Labour and Vocational Training) 	According to this sub-decree, employers or owners of all establishments and enterprises with at least one or more workers or employees have a duty to register with the National Social Security Fund (NSSF) pension scheme within 30 days of the date the sub-decree came into force, except for those who have already registered their health insurance scheme and employment injury scheme with the NSSF.
<ul style="list-style-type: none"> Non-bank Financial Services Authority Law (16 January 2021, NBFSA Council) 	The law created a specific regulatory body for the insurance sector and aims to regulate and supervise the non-banking financial sector, including the insurance and national social security sectors.
<ul style="list-style-type: none"> Prakas No. B7-020-230 Pro Kor (18 March 2020, NBC) 	This establishes a requirement for maintaining a reserve against commercial bank deposits and borrowing.
<ul style="list-style-type: none"> Circular No. B7-020 001 Sor.Ror.Nor.Nor (27 March 2020, NBC) 	This circular helps ensure that restructured loans maintain financial stability, support economic activity and ease the burden of debtors facing major revenue declines during the ongoing COVID-19 outbreak.
<ul style="list-style-type: none"> Letter No. B7-020-622 Chor Tor and Circular No. B7-020-002 Sor.Ror.Nor.Nor (13 April 2020 and 25 June 2020, NBC) 	This reduces the capital conservation buffer to 1.25% and recognises the temporary inclusion of quarterly audited profits into the net worth calculation until further notice, but banks and financial institutions shall not distribute the dividend.
<ul style="list-style-type: none"> Letter No. B7-020-657 Chor Tor (20 April 2020, NBC) 	Requested banks and financial institutions to waive other fees related to customer loans and/or exempt customers from other penalties.
<ul style="list-style-type: none"> Letter No. B7-020-868 Chor Tor (10 June 2020, NBC) 	This excludes Khmer riels (KHR) in the calculation of a net open position to promote the use of the national currency.



<ul style="list-style-type: none"> Prakas No. B7-020-352 Pro on Credit Reporting (26 June 2020, NBC) 	<p>The main objectives are to establish and enhance cooperation on the credit reporting system, aiming to reduce credit risk and enhance financial inclusion by:</p> <ul style="list-style-type: none"> Establishing a framework and cooperation for credit information sharing, Promoting responsibility, efficiency and fair competition in providing loans, and Reducing the credit risks of banks and financial institutions and enhancing financial inclusion.
<ul style="list-style-type: none"> Prakas on the Withholding Tax Rate Reduction for 2020 and 2021 (June 2020, Ministry of Economy and Finance) 	<p>For MFIs and banks, the withholding tax rates are reduced to 5% and 10% for 2020 and 2021, respectively, to increase cash flow within the banking system.</p>
<ul style="list-style-type: none"> Subdecree No. 140 ANKR.BK to establish the Credit Guarantee Corporate of Cambodia (1 September 2020, Ministry of Economy and Finance) 	<p>The Credit Guarantee Corporation of Cambodia Plc. (CGCC) is a state-owned enterprise established to improve financial inclusion and develop the growth of SMEs.</p>
<ul style="list-style-type: none"> Letter No. B7-020-1748 Chhor.Tor (18 November 2020) 	<p>In response to a request from the Association of Banks in Cambodia (ABC) and the Cambodia Microfinance Association (CMA) to loosen some conditions on restructuring loans during COVID-19, the letter allows loan restructuring for all sectors affected by COVID-19 or by flooding, preparation of restructured loans until 30 June 2021, and loan restructuring up to three times by maintaining the same grading.</p>
<ul style="list-style-type: none"> Prakas on Granting a Certificate to a Rural Credit Institution (25 October 2017, NBC) 	<p>The Prakas aims to enhance the effective supervision of institutions providing small amounts of credit. Furthermore, the NBC assumes more authority in determining interest rates and monitoring institutional operations.</p>
<ul style="list-style-type: none"> Prakas on the Resolution of Consumer Complaints (27 September 2017, NBC) 	<p>To further empower consumers, this Prakas seeks to establish a complaint mechanism and effective complaint resolution.</p>
<ul style="list-style-type: none"> Prakas on Cambodian Shared Switch Rules and Procedures and Their Soft Launch (20 October 2017, NBC) 	<p>The objective is to create a framework to manage and administer the operations of the Cambodian Shared Switch system, which allows interbank transactions using payment cards at ATMs and point-of-sale (POS) terminals.</p>
<ul style="list-style-type: none"> Interest Rate Cap on Microfinance Institutions (1 April 2017, NBC) 	<p>The NBC restricts the maximum interest rate to 18%, aiming to reduce over-indebtedness. Rates previously exceeded 18% especially for poorer customers with higher credit risks.</p>

OTHER POLICIES BEING REVIEWED

<ul style="list-style-type: none"> Solvency framework (under review by the NBC) 	<p>Reviews new Prakas on solvency calculation.</p>
<ul style="list-style-type: none"> Prakas on credit risk in banks and financial institutions Prakas on market risk in banks and financial institutions Prakas on operational risk in banks and financial institutions Prakas on the calculation of regulatory capital for banks and financial institutions (all under review by the NBC) 	<p>Covers assessing credit risk, market risk and operational risk in banks and financial institutions, and calculation of regulatory capital.</p>
<ul style="list-style-type: none"> Prakas on the supervisory response for weak banks and financial institutions (under review by the NBC) 	<p>Pertains to the supervision of weak banks and financial institutions</p>



Financial inclusion interventions and Cambodia's Financial Sector Development Strategy.

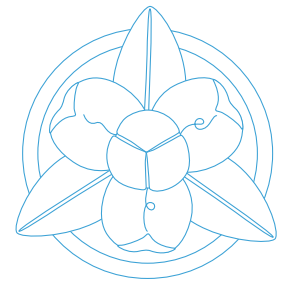
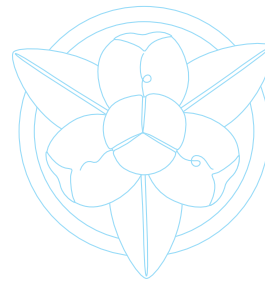
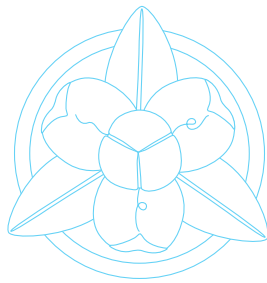
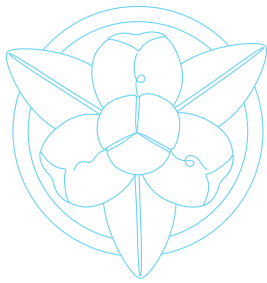
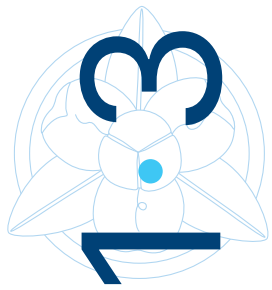
Most major donor-supported programmes on financial inclusion are coordinated through Cambodia's Financial Sector Development Strategy. The 2016-2025 strategy highlights the enhanced formulation of financial policies and regulation, client protection, financial inclusion programmes, improved diversification of financial services in the banking sector and social marketing to popularise financial inclusion.

The Asian Development Bank has assisted the NBC as the chair of the committee for the strategy through the Inclusive Financial Sector Development Program. Key financial inclusion interventions backed by donors to support the strategy have been in the following areas: improving development of the strategy, designing financial literacy programmes (for example, Women Entrepreneurs Act or WE Act of the United States Agency for International Development or USAID) and consumer protection initiatives, and improving access to finance, particularly for poor, rural households and SMEs.

The Korean International Cooperation Agency (KOICA) provided assistance to develop the equity capital market, while a consultant from the United States Treasury Department supported development of the Deposit Protection Scheme alongside significant assistance from the Asian Development Bank on associated policy reforms. The role of the International Finance Corporation (IFC) has involved advisory and investment services related to access to finance and value-chain initiatives. Other development partners such as the Green Climate Fund, OXFAM and USAID have focused on green financing. GIZ (German International Development Organisation) and Australia AID have helped develop an identification system for people in poverty. Known as IDPoor, it has proved instrumental in facilitating cash transfers during the pandemic.



The 2016-2025 strategy highlights the enhanced formulation of financial policies and regulation, client protection, financial inclusion programmes, improved diversification of financial services in the banking sector and social marketing to popularise financial inclusion.



Changes in financial inclusion in Cambodia

Formal financial inclusion on track to meet the 2025 target. The 2019-2025 National Financial Inclusion Strategy adopted by the NBC sets targets to increase access to quality formal financial services, from 59% of adults in 2015 to 70% by 2025. It also seeks to improve household welfare and support economic growth. Cambodia has made good progress in expanding formal financial services. Formal financial inclusion rose to 67% in 2021 and is therefore well on track to reach the target of 70% by 2025. This is due to an increase in the banked population from 17% to 30% between 2015 and 2021, and a rise in those who use other formal products from 52% to 63% over the same period.

Formal financial exclusion decreased from 41% to 33%. The proportion of adults excluded from formal financial services decreased significantly between 2015 and 2021, from 41% to 33%, due to an increase in the proportion of adults who use bank and other formal financial products. The share of adults who use other formal services but do not use banking products declined from 42% to 37%. These patterns indicate that more people are using multiple types of providers for their financial service needs.

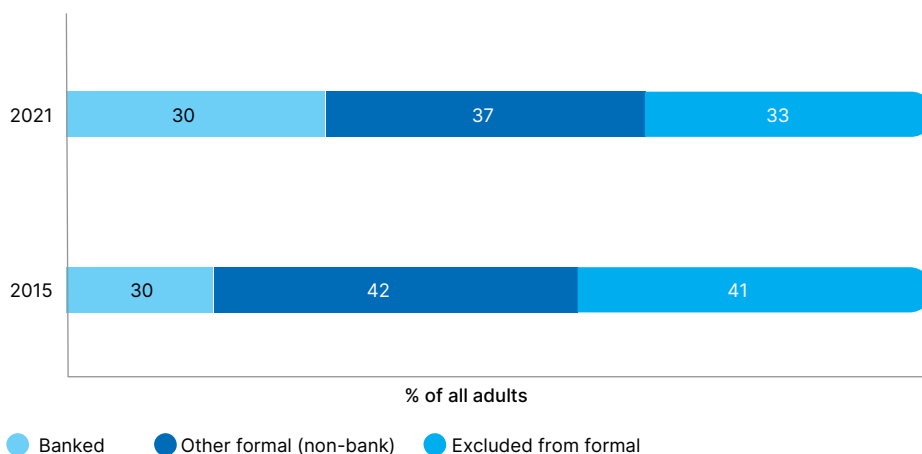


Figure 3: Varying avenues of financial access, percentage, 2015 and 2021

Source: Mobile Tracker Survey, Cambodia 2021, and FinScope Cambodia, 2015.

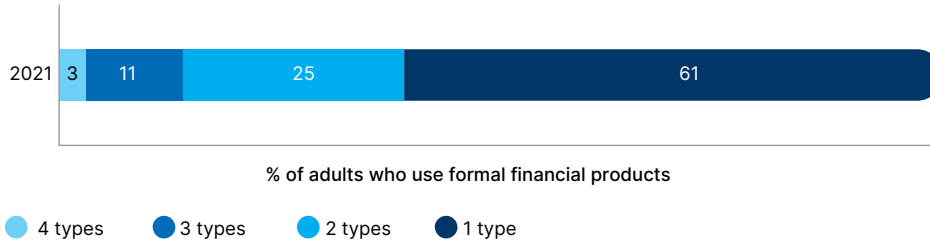
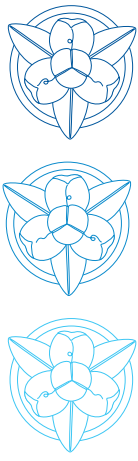


Figure 4: People using one or more formal financial product, percentage, 2021

Source: Mobile Tracker Survey, Cambodia 2021.

Most users of formal financial service only use one type of formal product.

Despite the increase in formal financial inclusion, the depth of formal financial product usage is fairly shallow, meaning that the proportion of people who have access to more than one type of formal financial service (for instance, credit, savings, payments or insurance) is fairly low. More than half of adults who have access to formal financial services only use one type of formal service.

Banks are used for payments and loans but most people with a bank account do not use it often. The increase in the banked population was largely driven by greater use of banks to facilitate payments (for instance, via debit cards) as well as for remittances and for credit. The share of adults using banks for saving, on the other hand, decreased between 2015 and 2021. In 2021, 43% of banked adults reported using their bank account monthly or more often but 57% are low or dormant users who report using their bank accounts once every three months or less.

Non-bank providers are used most for remittances. Despite the decrease in those only using other formal financial services (i.e., who did not also have a bank account), the proportion of adults who used any non-bank formal financial services increased from 52% to 62%. The rise was driven largely by remittances but savings and insurance also contributed. This indicates that non-bank providers are achieving greater success across a broader collection of product categories. Use of credit from non-bank providers decreased substantially, however. Non-bank financial services increasingly use digital services.

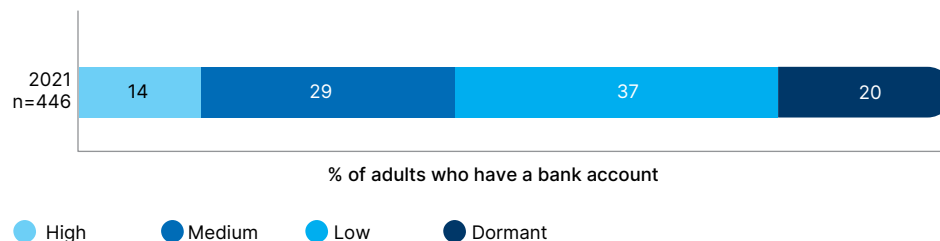
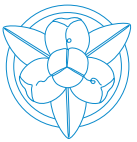
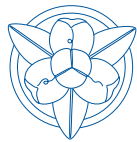


Figure 5: Frequency in the use of bank accounts among banked adults, percentage, 2021

Source: Mobile Tracker Survey, 2021.



Digital financial services remain comparatively limited. Overall, the use of digital financial services and particularly mobile money is still fairly low, given the high penetration of mobile phone ownership in Cambodia. Only 49% of adults use digital financial services, and mobile money services usage stands at only 47%. Nevertheless, the latter is an increase from 2015, when 36% of adults reported using mobile money services. As in 2015, only a fraction of people who said they use mobile money also reported being registered for mobile money (3% of all adults in 2015 compared to 11% in 2021).

There has been a substantial increase in bank credit while borrowing from other sources has fallen. The proportion of adults borrowing from banks increased from 6% in 2015 to 10% in 2021. This is a significant increase. Based on the absolute number of people borrowing from banks, there has been a 70% increase since 2015 to just over a million people in 2021. People are borrowing less from other sources, however, both formal and informal. The proportion of people

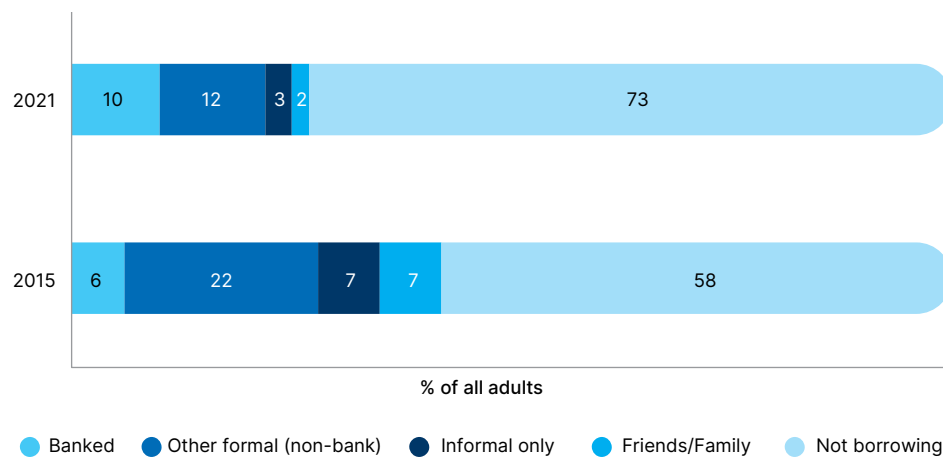


Figure 6: Sources of credit, percentage, 2015 and 2021
Source: Mobile Tracker Survey, Cambodia 2021, and FinScope Cambodia, 2015.

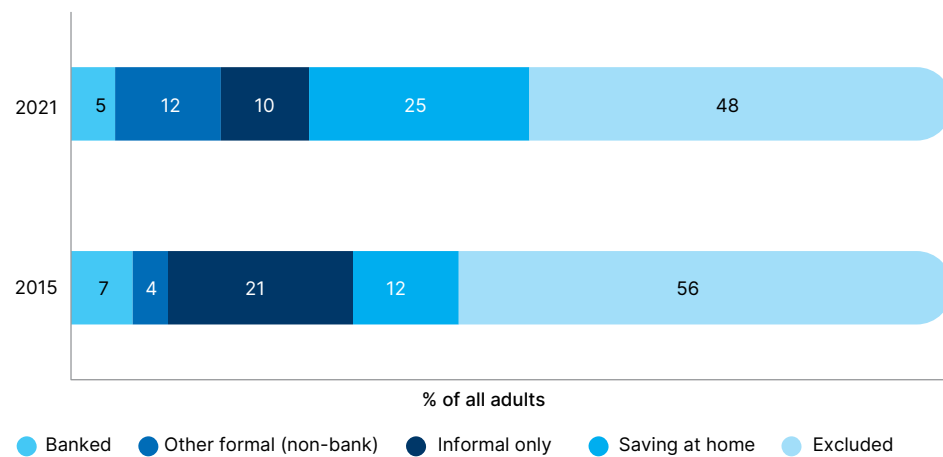
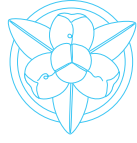
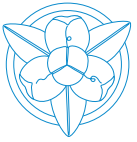
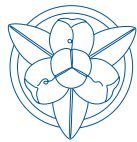


Figure 7: Avenues for saving, percentage, 2015 and 2021
Source: Mobile Tracker Survey, Cambodia 2021, and FinScope Cambodia, 2015.



not borrowing from any source has climbed from 58% to 75%, while the share of people borrowing from other formal sources has dropped from 23% to 14%. A smaller proportion of people reported borrowing in the previous 12 months from any source compared to 2015, while a larger proportion of people reported paying back a loan in the last 12 months. This could be a result of a general shift to longer-term credit, which would be good. It could also be due to a decrease in borrowing, perhaps related to greater hardship or financial uncertainty caused by the pandemic, which would be a temporary phenomenon.

Formal and total saving has increased but bank saving decreased. More people reported saving in 2021 compared to 2015, 52% compared to 44%. This includes more people saving through formal channels (17% compared to 11%) but the largest driver has been those saving through their own mechanisms, such as at home (27% of adults in 2021). Although formal saving increased, this was largely through non-bank saving, which increased from 5% to 13%, while the share of those saving through a bank decreased from 7% to 5%. Those saving through informal channels fell slightly from 25% to 22% but the proportion of people saving only in informal mechanisms dropped substantially from 21% to 10%. The share of those saving at home, using neither formal nor informal mechanisms, increased from 12% to 25%. These findings point to more people using only one type of saving mechanism and preferring to save at home, earning no interest on their cash. This is likely due to the pandemic limiting the ability or willingness to go out and meet savings group members or to visit a bank branch.

Good growth in the formal insurance market. Although 88% of Cambodians are still uninsured, growth in the insurance market is apparent, with 12% of adults now reporting being covered by formal insurance compared to just 4% in 2015. This growth came purely from the formal insurance sector, as only 1% of adults (2015 and 2021) reported that they have some type of risk coverage from an informal source (while not having any formal insurance coverage).



More people reported saving in 2021 compared to 2015, 52% compared to 44%.

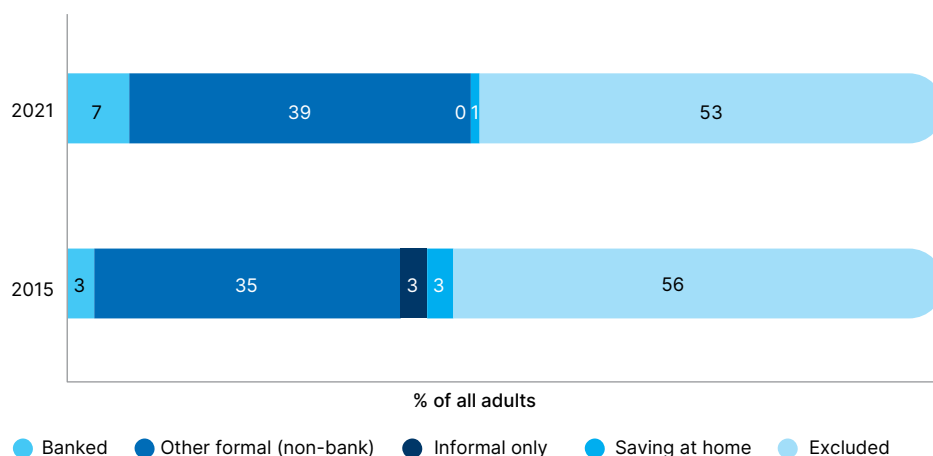
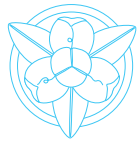
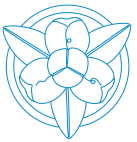
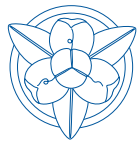


Figure 8: Avenues for remittances, percentage, 2015 and 2021

Source: Mobile Tracker Survey, Cambodia 2021, and FinScope Cambodia, 2015.



More people are remitting formally, through banks and mobile money. More people sent or received remittances in 2021 compared to 2015, up to 47% from 44%. The rise comes entirely from formal remittances. Informal remittances and remittances sent through self/friends/family decreased. The use of banks for remitting increased from 3% to 7% while the use of non-banks grew from 36% to 43%. As in 2015, most formal remittances happen through mobile money, with 88% of senders and 81% of receivers using this channel.

The increase in remittances may have been caused by the pandemic. A similar proportion of people are sending money domestically, 33% in 2015 compared to 34% in 2021. But more people are receiving money from domestic sources, 22% in 2015 compared to 30% in 2021. This is consistent with results seen in COVID-19 mobile tracking surveys in Africa. Those who can afford it were burdened with sending money to more people, typically in lower amounts.

Beyond just the proportion of adults remitting, the pandemic may have affected the ways in which people remit. For instance, a quarter of those using their mobile phones to send money to people they support claimed to do this in a different way before the pandemic. Almost half of those receiving money using their mobile phones said they do this differently. COVID-19 may therefore have propelled both a growth in remittances and a shift towards formal remittances.



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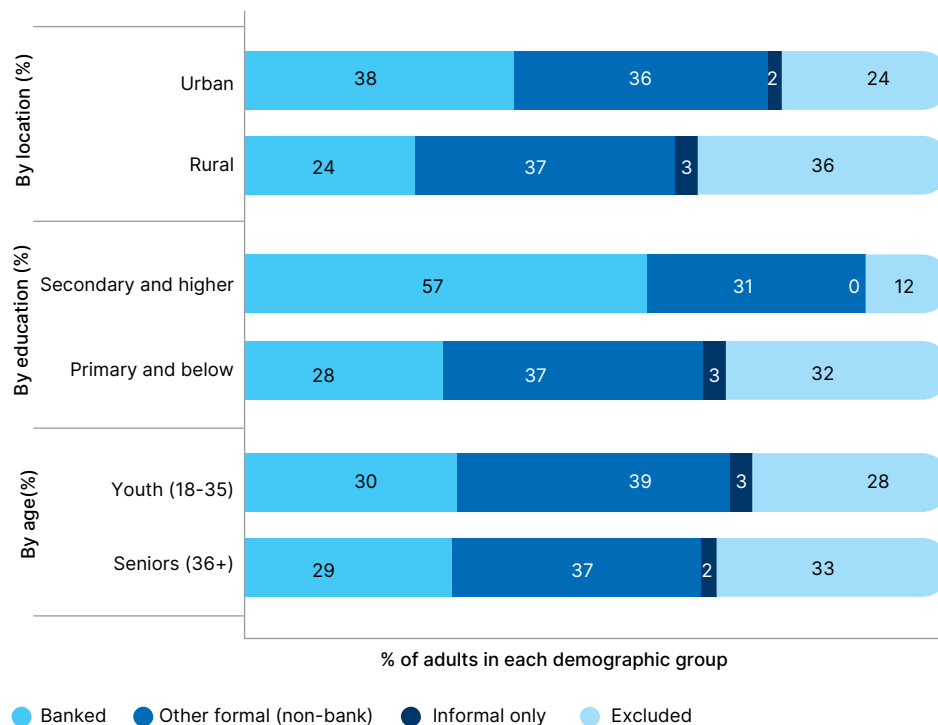
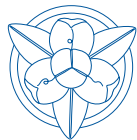
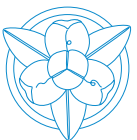


Figure 9: Types of financial access across different demographic groups, percentage, 2021.

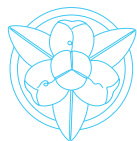
Source: Mobile Tracker Survey, Cambodia 2021.



Level of education and location have highest impact on financial inclusion. Key demographic indicators define significant variances in access to financial services. Level of education has the largest impact, while location and age also influence access to a degree. For instance:



- Education: Use of bank and total formal services are much higher for those with secondary or higher education.
- Location: The banked population is much greater in urban areas. But due to higher use of non-bank services in rural areas, exclusion is not pronounced between the two locations.
- Age: There are not a big difference in the banked population, but people aged 36 years and older do use slightly more formal as well as informal services, resulting in lower exclusion rates compared to youth.

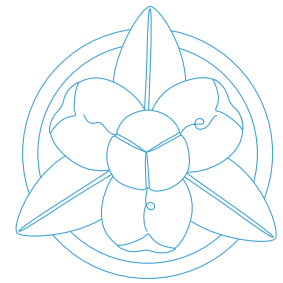
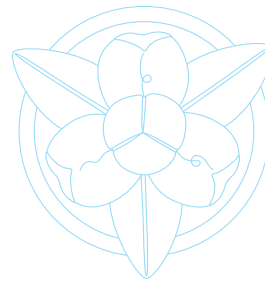
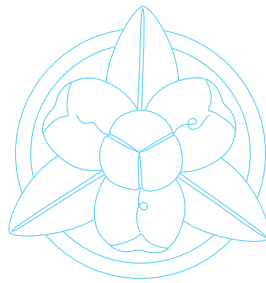
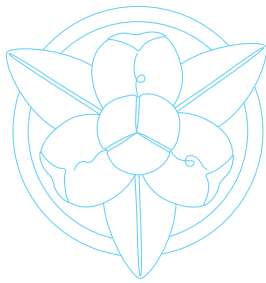
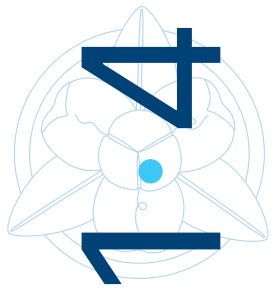


Financial literacy and protection for women during pandemic might have been effective. Despite an overall increase in female exclusion (to 38%), there are some notable trends in female inclusion. Firstly, the proportion of women that have access to formal financial services remained stable at 60% in both 2015 and 2021, while the proportion of women that are banked increased from 15% to 25% over the same period. Given that the pandemic would likely have had an adverse impact on financial inclusion, this is a notable achievement, and could reflect the effectiveness of financial literacy initiatives that the NBC and other stakeholder have implemented. Furthermore, while formal inclusion remained stable, the proportion of women who used only informal services (and not formal), decreased from 13% in 2015 to 2% in 2021. This could imply that measures to protect livelihoods and formal financial inclusion during the pandemic has been effective to some degree, given that informal financial services usage by women decreased substantially, while formal usage remained stable.

More work needed to achieve 2025 goal for women. Nevertheless, in 2021, less women have access to formal financial services compared to men (60% of women versus 73% of men) and similarly less women have access to any financial service (formal or informal) compared to men (62% of women versus 76% of men). This is in contrast to 2015, when women had a slightly higher rate of formal financial inclusion compared to men (60% for women compared to 57% for men) as well as a slightly higher rate of total financial inclusion (access to formal and informal financial services), at 73% for women versus 69% for men. This is largely due to formal financial inclusion increasing for men over the period, while for women it remained constant at 60%. In addition, there has been a decrease in women saving, borrowing and remitting informally, and some women have therefore become fully excluded from both formal and informal mechanisms as a result. This phenomenon is likely driven by the pandemic, which may have impacted the income of women more than those of men. For instance, the industries most impacted globally by the pandemic are typically those where women are “overrepresented” e.g., food services, entertainment. This will translate into women being impacted more by the pandemic in terms of their income and could therefore have contributed to women being less likely to remit and save in the 2021 sample survey. To mitigate this impact, extra effort would have to be given to female financial inclusion in the coming years up to 2025.



While women had a slightly higher rate of formal and total financial inclusion than men in 2015, this has reversed by 2021, and women now have lower rates of formal and total inclusion than men.



Links between financial inclusion, the real economy and human development

Links between financial inclusion, the real economy and human development have been identified in MAP research and verified by stakeholders. Financial services, like most services, are not used for their own sake but because people have an underlying economic need.

Financial services help them meet this need. In their daily lives, for instance, people purchase goods and services or send relatives money. They must make sure there is enough money over their income cycles to do this. They plan and save for unexpected expenses, to acquire durable goods or big assets and to support themselves in old age. Financial services help people meet these economic needs by allowing them to transfer value, manage liquidity and manage risks.

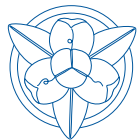
The extent to which formal financial services contribute to achieving economic and financial goals will depend on whether the services match underlying demand and individual/household/small business activities in a community, the real economy and the wider society. MAP cross-country data clearly demonstrate that vulnerable and excluded consumers “make a plan” to access required resources, even though this is not easy, and they access resources less often than their less-vulnerable peers. Often they pay more and get less; sometimes they pay less and get less. They use what they can – different financial services, formal and informal – to obtain what they need.

Ultimately, consumers are in control of their finances even if they sometimes need to resort to less-than-optimal financial mechanisms to meet their needs. Either way, they spend money on essentials such as education, health care and basic services such as energy to pursue employment and income. While people's money thus greases the wheels of national and global financing systems, in developing markets consumers are far removed from the financing system because they are more likely to be operating on the margins and in the informal sector. Their contribution or ability to contribute is often not recognised.

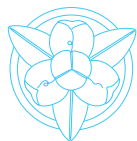
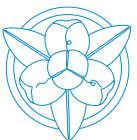
At a household or individual level, expenditure is also not enough to expand infrastructure. Households, in general, are not able to build a new school or clinic – and poor households even less so. As MAP data show, however, what



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they do spend adds up to substantial amounts. Although currently most of this expenditure is informal, with people relying on informal financial services to meet needs and spending occurring in informal markets, formal mobilisation could leverage it for growth.



Increasing people's access to resources requires governments, service providers, investors and donors to make additional investments in infrastructure such as education, health care and other essential services. But evaluating viable and sustainable business cases for leveraging existing household spending can also help governments in drawing on local financial systems to fund investment. To drive economic growth, the financial sector needs to contribute to building physical and human capital in the economy and/or support innovation in methods of production and technology, which in turn could spur future growth and productivity.

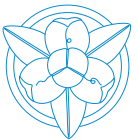
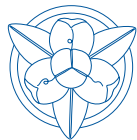
A well-functioning financial system that can enable inclusive growth in part requires financial service providers to understand how to meet consumers' real economic needs. If viable business cases cannot be established for reaching the financially excluded, the government should determine and define better public-sector provision based on need. In turn, understanding household expenditure, such as through representative demand side surveys, allows a government to determine the needs of households and segments of society. In countries where a significant share of people lack access to what the MAP considers the "four crucial needs" (basic services and infrastructure, education, health care and entrepreneurship opportunities), economic growth is hampered.

As an enabler of real economic activity, and by including those in the informal economy, financial inclusion can unlock domestic finance flows currently reticulated in the informal sector. These flows, already spent by households on education, health care, etc., can be directed through more formal channels, allowing aggregation. A renewed focus on a longer-term strategy to increase financial inclusion could mobilise this greater pool of resources and leverage it for investment. In short, more active financial inclusion can support greater domestic finance. Increasingly, financial inclusion is demonstrating a "triple impact" in the context of sustainable finance.



A well-functioning financial system that can enable inclusive growth in part requires financial service providers to understand how to meet consumers' real economic needs.

- A lack of financial inclusion is a sustainability risk. Actively including the low-income market can strengthen financial stability and promote more resilient economies.
- Financial inclusion initiatives achieve a range of primary and secondary positive social impacts that are often mutually reinforcing and result in environmental benefits.
- Financial inclusion changes the dynamics of finance and could shift sustainable finance in the future by empowering new actors.



Cambodia's Development Finance Assessment¹⁹ highlights domestic revenue as the biggest source of financing for the government, followed by FDI and remittances. It focuses more on tax revenue but an important source of domestic finance involves private sector loans and investment. These financial flows are not directly under government control although public policy can help coordinate or leverage them for specific development objectives. The Development Finance Assessment proposes that including domestic resource mobilisation, FDI and remittances in total available financing to support national development could result in financing of close to 70% of GDP.

There are already signs of change in Cambodia. Domestic resource mobilisation improved rapidly in the years before the pandemic. The domestic private sector has played a significant role in driving growth and job creation. Private sector finance is increasingly behind transformational investment in sustainable national development. With Cambodia having achieved lower-middle-income status, its development financing needs will continue to evolve along with available sources of finance. Some resources, such as grant-funded official development assistance (ODA), have fallen dramatically.

The following section provides insights into financial inclusion and broader human development, highlighting links to inclusive growth. Understanding these relationships can help enhance domestic financing to achieve better social outcomes.



Domestic resource mobilisation improved rapidly in the years before the pandemic. The domestic private sector has played a significant role in driving growth and job creation.

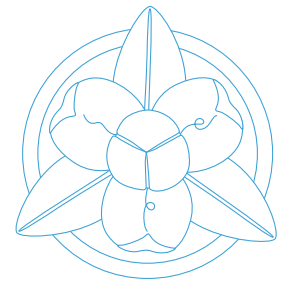
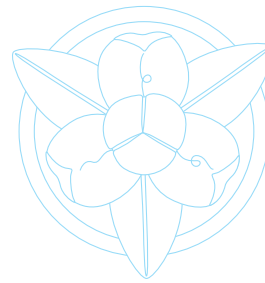
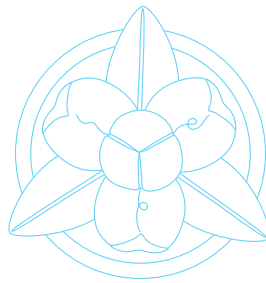
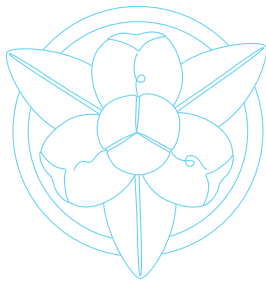
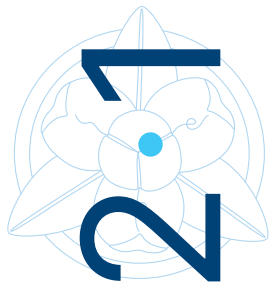
PART 1 NOTES

- 1 World Bank, 2019c.
- 2 World Bank, 2019c.
- 3 World Bank, 2021b.
- 4 World Bank, 2021b.
- 5 NBC, 2021b.
- 6 UNDP, 2020a.
- 7 UNDP, 2020a.
- 8 World Bank, 2020a.
- 9 IFC, 2020.
- 10 World Bank, 2020a.
- 11 NBC, 2020.
- 12 World Bank, 2020a.
- 13 ADB, 2017 and World Bank, 2020a.
- 14 World Bank, 2021a.
- 15 NBC, 2021a.
- 16 Amarthalingam, 2021.
- 17 Fontaine, 2021.
- 18 Chea, Heng and Heng, 2021.
- 19 UNDP, 2021c.



• 2

Financial
inclusion
and its links
to social and
economic
questions



Introduction

Given Cambodia's strong growth and potential for more, the government has an opportunity to leverage its pandemic recovery efforts to address some underlying development issues. These were present historically but acting on them now could accelerate recovery and engineer more inclusive growth.

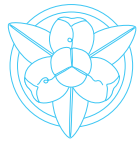
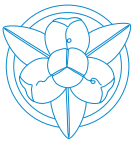
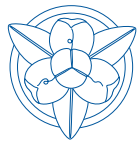
For instance, investments that would benefit growth and the population more broadly include those made in a young and growing workforce, an unskilled workforce, health care and education, and underdeveloped electricity and transport networks. Given Cambodia's current fiscal constraints and low levels of FDI, the financing agenda need to identify local streams of capital that could be leveraged for development objectives. Households already spend money that can add to investment in physical infrastructure, the expansion of businesses in key sectors of the economy, and human and social development that contributes to job creation. If formally intermediated, financial inclusion can therefore support broader growth objectives. Formal financial inclusion that aggregates and mobilises money flows ultimately increases the availability of domestic capital as a source of investment in national development objectives and SDG achievement alongside further inclusive economic development.

Based on international frameworks for inclusive growth, UNCDF has identified nine areas that a government can influence to make growth and economies more inclusive. Of these, one is financial inclusion. An additional six that can be supported through financial inclusion include education and skills development, basic services provision and infrastructure for basic service delivery, health and human development, asset building and entrepreneurship, fiscal transfers and social protection, and unemployment and inequality. UNCDF has found that households already prioritise these areas in their own household spending but the majority of this spending happens informally. Four expenditures stand out in household spending: education, health care, other basic services (like energy) and entrepreneurship.

To understand how financial inclusion can support inclusive growth objectives, it is necessary to understand key related social issues both from a household perspective, and how they are located within government objectives. To forge stronger links, the MAP Refresh therefore takes a deeper look at the main social and economic trends, gaps and opportunities in Cambodia and their relation to financial inclusion.

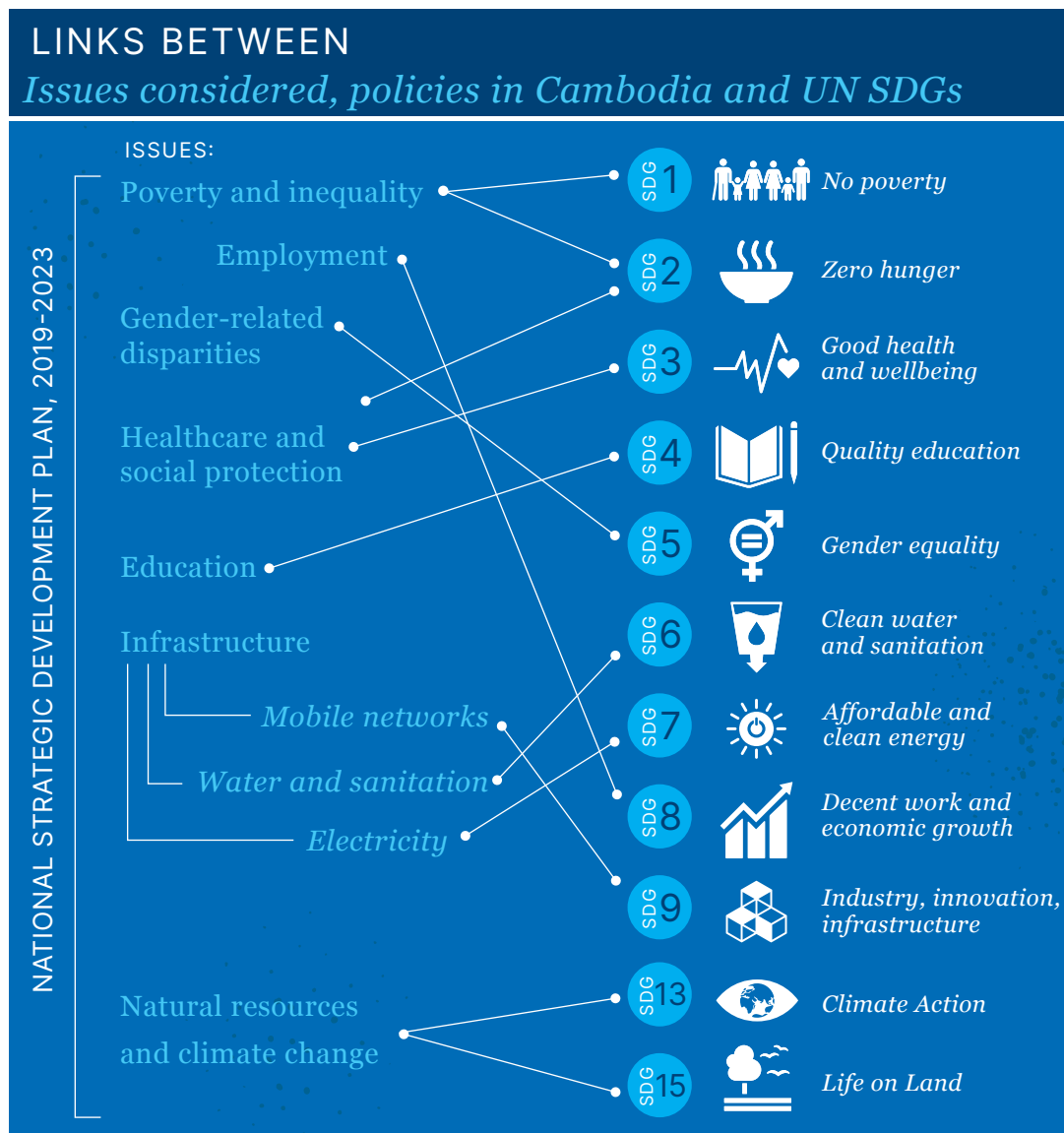


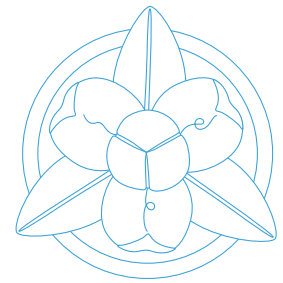
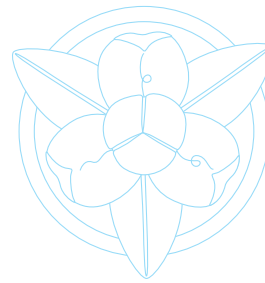
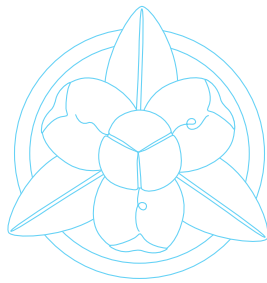
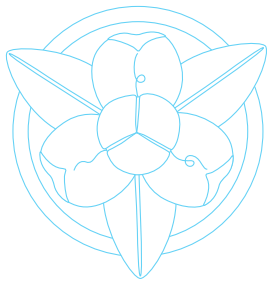
Based on international frameworks for inclusive growth, UNCDF has identified nine areas that a government can influence to make growth and economies more inclusive.



The topics reviewed were selected based on their impacts on individual human development and sustainable growth and their relationship to government policies. The policies include the Cambodia Industrial Development Policy 2015-2025; the medium-term targets of the government's Rectangular Strategy, Phase IV; the National Strategic Plan on Green Growth, 2013-2030; and the National Strategic Development Plan, 2019-2023, which integrates Cambodia's SDGs and links them to the global goals.

Financial sector development can play a significant role in poverty reduction. An inclusive financial sector has a particularly strong impact through links between financial sector development and more equitable growth, and broader access to economic opportunities, especially for poor, rural communities and women. An inclusive financial sector contributes to increased equality and equity in society as well, with more even consumption patterns. This section relates major current socioeconomic trends and events in Cambodia with financial inclusion to provide elements of an answer to the question: Where and how can financial inclusion support inclusive economic growth?





Poverty and inequality

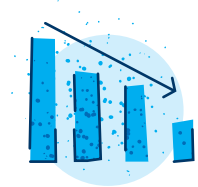
Despite overall poverty reduction, vulnerability to shocks remains high.

Cambodia's strong economic growth has been key to poverty reduction, with the national poverty rate down to 12.9% in 2018.¹ A significant 28% of the population remains highly vulnerable to falling back into poverty, however.² Many households have moved above the poverty line by only a small margin. This group is highly sensitive to any shock even as people in it tend to fall out of social welfare programmes such as IDPoor. The World Bank estimated in 2019 that a daily USD 0.50 reduction of per capita consumption would double the poverty rate.³

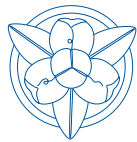
Employment earnings drive poverty reduction. The largest source of income for Cambodian households is employment earnings, at 95% in 2017 (53% from wages and salaries and 42% from self-employment). Only 5% comes from transfers. Wage and non-wage agricultural incomes were the main drivers of poverty reduction from 2009 to 2017.⁴ In urban areas, declining non-labour income increased poverty between 2009 and 2013, before rising and helping to reduce poverty from 2013 to 2017. Non-labour incomes rose from 2009 to 2017 in rural areas, contributing to poverty reduction. Remittances, an important component of non-labour income, cut poverty rates in both urban and rural areas. Net international remittances from workers reached about USD 1 billion in 2018; the share of remittances in total household income increased from 3% in 2009 to 12% in 2017 among the poorest households. The contribution of transfer programmes to poverty reduction was very small, reflecting weak public social protection.⁵

Working poverty is high. Cambodia is transitioning from a predominantly agriculture-based economy to one where manufacturing, mainly garments and construction, and services dominate. For the working population, competitiveness and productivity challenges in these sectors⁶ constrain poverty reduction. While Cambodia demonstrates a very high employment rate of close to 100%, in 2019, 82% of the working-age population could be classified as working poor.⁷ Even before the COVID-19 pandemic, over one third of Cambodia's workers were either extremely or moderately poor. In 2019, 8.3% were extremely poor, earning less than USD 1.9 per day, and another 28.6% were moderately poor, earning between USD 1.9 and USD 3.2 per day.

Urban areas are much better off. Internal migration from rural provinces to the capital, Phnom Penh, affects both income generation and wealth inequalities in rural and urban areas. On average, household income in rural regions is only 60% of that in urban areas. The rural-urban income gap is driven by differences



Cambodia's strong economic growth has been key to poverty reduction, with the national poverty rate down to 12.9% in 2018.



in income sources, with the average rural household deriving the largest share of income from self-employment, compared to salaries for the average urban household. The average salary in urban areas is almost double that in rural areas; income from self-employment is on average 1.13 times larger in urban areas.⁸ This income inequality translates into differences in human development. While human development has improved in all provinces, rates of change vary, producing considerable gaps. For instance, Phnom Penh maintains a large lead over other provinces with a Human Development Index score of 0.711, followed by the provinces of Takeo and Koh Kong at 0.608 and Bat-tambang and Pailin at 0.606. The lowest values on the index are in the north-eastern provinces (0.511 in Preah Vihear, Steung Treng and Kratie, and 0.513 in Rattanakiri and Monduliri).⁹ The Inequality-Adjusted Human Development Index fell to 0.475 in 2019, due to disparities in the distribution of sub-indices.¹⁰

Food is available but not always affordable. Severe food insecurity remains only in small and remote areas. But the affordability of nutrient dense foods poses a common challenge. Nearly 80% of people in the lowest wealth quintile work in agriculture and are vulnerable to shocks and food insecurity. Most agricultural households can meet their staple food needs, mainly for rice, but rely on income and foraging for other foods. While geographic access to markets is not a widespread concern, economic access to a nutritious diet is an issue in some regions. The average daily cost of the staple-adjusted nutritious diet in the provinces of Ratanakiri and Monduliri is nearly twice as high as the national average of USD 3.62. An estimated 66% of households in the north-east provinces cannot afford a nutritious diet.¹¹

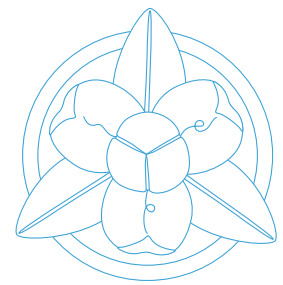
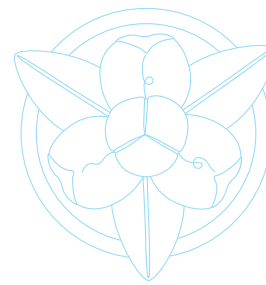
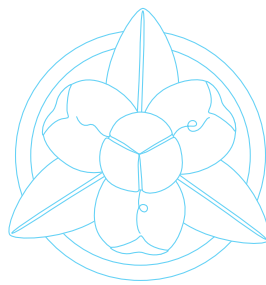
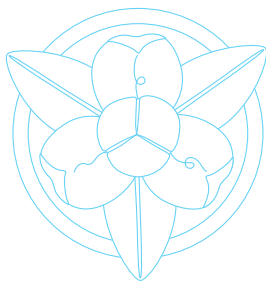
COVID-19 will push more people into poverty. Poverty will likely increase due to the pandemic. Key growth drivers, such as construction, tourism and merchandise exports, which together account for more than 70% of growth and 39% of total paid employment, have been severely affected.¹² Several analyses conducted by the government and the Asian Development Bank, International Monetary Fund (IMF), World Bank and UNDP suggest that considerable progress in reducing poverty in the last two decades is at risk. The poverty rate could rise between 14.2% and 17.6%, adding around 5 to 8 percentage points to the pre-COVID-19 rate. As many as 1.34 million persons may slip back into poverty. Remittances are also expected to decline, which will impact the poor given their high reliance on remittance income (see the remittances section below). Government support to affected populations, representing up to 5% of GDP, turned the budget from a surplus in 2019 into a deficit in 2020.¹³

Financial sector development has a significant impact on poverty alleviation and is inextricably linked to economic growth. It can increase the ability to smooth consumption, access opportunities, develop human capital and improve health. A more inclusive financial sector has both indirect and direct effects on poverty reduction. It propels more equitable growth and expands access to financing for the poor, rural areas and women.



Poverty will likely increase due to the pandemic.

Key growth drivers, such as construction, tourism and merchandise exports, which together account for more than 70% of growth and 39% of total paid employment, have been severely affected.



Employment

A labour market faces times of change. While unemployment in Cambodia is extremely low, at below 1% for the last decade, challenges come from very high employment informality, low employment for youth and declining global competitiveness. Cambodia has a work force of over 9.5 million people. The economy has become increasingly reliant on the industry and services sectors to absorb approximately 270,000 new entrants to the labour force every year, especially migrants from rural to urban areas.¹⁴ Some of the main trends shaping the labour market are ASEAN integration, the emergence of digital and knowledge-based economies, the increase of international competition and the drive to smart and higher value-added production. The Fourth Industrial Revolution is expected to reduce jobs for low-skilled workers, women, youth and less educated workers in the construction, retail and garment sectors.¹⁵

Informal employment is pervasive. Despite high labour market participation, labour informality is strikingly high. The overall informality rate was estimated at 93.1% of employment in 2018 with almost half in the agriculture sector, 20% in industry and 32% in services.¹⁶ Such extensive informality constrains the capacity of employees to use their salary track record to borrow from financial institutions. One in five Cambodians works in a non-farm household enterprise. There are 1.4 million of these, such as one-person grocery vendors, tailor shops, street vendors and motorcycle repair shops. They are the main source of income for 17% of the workforce. More than half of urban households own one of these enterprises as do 23% of rural households. Around 60% are in rural areas.



Cambodia has a work force of over 9.5 million people. The economy has become increasingly reliant on the industry and services sectors to absorb approximately 270,000 new entrants to the labour force every year.

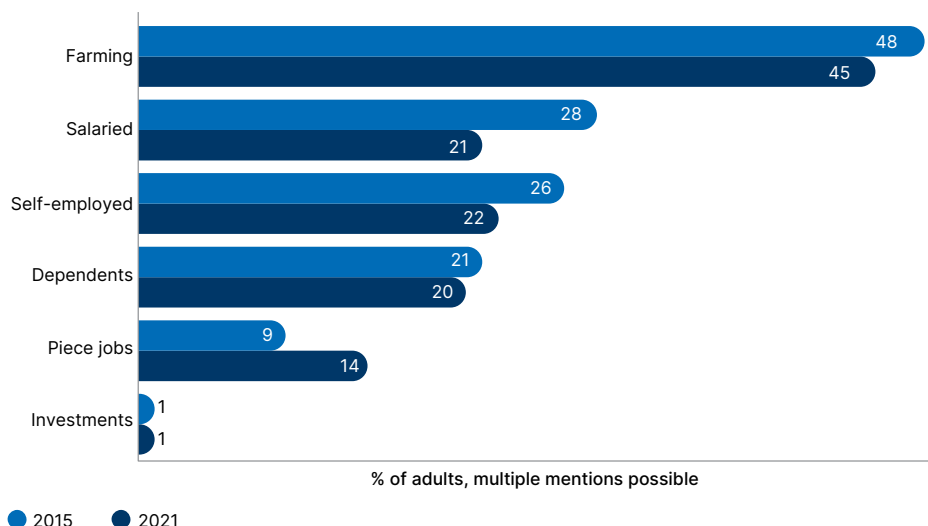
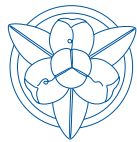
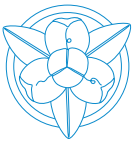


Figure 10: All sources of income, 2015 and 2021

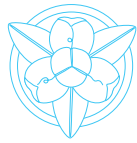
Source: Mobile Tracker Survey, Cambodia 2021, and FinScope Cambodia, 2015.



Piece work is on the rise. From 2015 to 2021, the share of people reporting they were salaried or self-employed declined. The share that reported piece jobs as their main source of income increased. Given strong economic growth from 2015 to 2019, this drop-off in formal and self-employment can largely be attributed to the impact of the pandemic.



Gaps in youth employment. Each year, an estimated 270,000 young people leave school or college to join the labour market. Youth joblessness and vulnerable employment are widespread; young people are three times more likely to be unemployed than adults. A skills shortage is a major challenge with only 31% of youth having qualifications for their occupations while 23% are overeducated and 46% are undereducated. Underqualification is most severe in industry. The share of youth in vulnerable employment as unpaid family workers and own account workers has decreased over the years but remains at a substantial 40%.



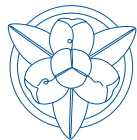
Garments and tourism are major employment sectors. The latest employment estimates from the Asian Development Bank and International Labour Organization show the tourism industry absorbs 750,000 workers.¹⁷ The garment sector, a subset of the larger manufacturing sector, has 800,000 workers, formal and informal. In June 2020, more than 13,600 factories, including 1,200 garment factories, were registered and had more than 1.37 million workers.¹⁸

Table 2: Major employment sectors

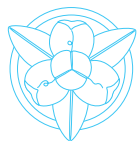
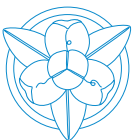
SECTOR	NUMBER OF EMPLOYEES, 2019	PERCENTAGE OF THE WORKFORCE
Agriculture hunting, forestry, fishing	2,999,000	32.3
Mining and quarrying	22,000	0.2
Manufacturing	1,719,000	18.6
Electricity gas and water supply	50,000	0.5
Construction	902,000	9.7
Wholesale, retail trade and household goods	1,278,000	13.8
Hotels and restaurants	415,000	4.5
Transport, storage and communication	511,000	5.5
Financial intermediation	88,000	0.9
Real estate, renting and business activities	532,000	5.7
Public administration, defence, compulsory social security	308,000	3.3
Education, health and social work, other community social and personal services	463,000	5
Total	9,287,000	100

Source: ADB, 2019b. Employment and poverty impact assessment: Cambodia.

COVID-19 may increase unemployment. A recent joint analysis by the IMF, Asian Development Bank and Ministry of Economy and Finance (MEF) forecasts that some 390,000 to 570,000 jobs may have been lost in 2020, compared to previous projections for the year.¹⁹ The sectors losing the most jobs, namely, construction, manufacturing, hotels and restaurants, transport, storage and communications,²⁰



accounted for approximately 60% of value added and nearly 45% of employment in 2019. UNDP modelling suggests unemployment in the post-COVID-19 period may increase to 4.8% of the total labour force or higher. The COVID-19 crisis has also highlighted the precarious situation of non-farm household enterprise owners and their exclusion from the larger policy framework. In May 2020, 81% of these owners reported a reduction in or no income over the previous month; income losses were particularly strong among urban owners.²¹



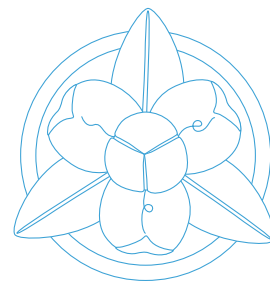
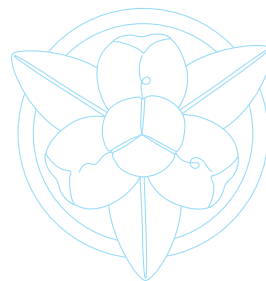
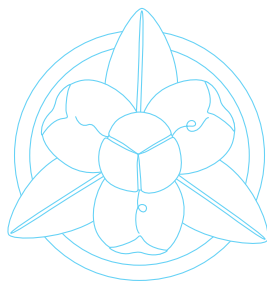
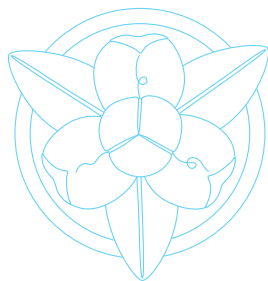
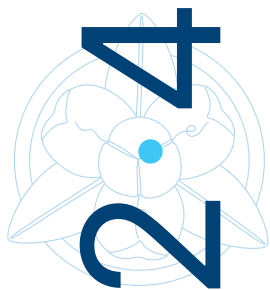
Agriculture, garments and tourism are facing major challenges. The garment sector has been a mainstay of employment and poverty reduction, especially for women. But it is experiencing challenges related to productivity, increased labour costs and competitive access to markets. Revenue generated by tourism rose from a few hundred million dollars to more than USD 4 billion before the pandemic. This sector has made a tremendous contribution in terms of low- and medium-income jobs but the COVID-19 pandemic has strongly curtailed growth. Agriculture's share of GDP has been declining for several years. It cannot, in its current state, provide sufficient and sustainable income for the large rural population.

A mixed picture on productivity and global competitiveness. In 2020, Cambodia ranked 144 out of 190 countries on the World Bank's Doing Business index, behind Viet Nam (115) and Thailand (47).²² While it ranks very high, at 25, in access to finance, this position is undermined by other factors such as difficulties in starting a business, enforcing contracts and accessing electricity. To maintain its high growth, Cambodia must evolve from the low-cost, low-skill position that has been its strength during the last two decades. It will need to move into global value chains to develop more value-added activities as neighbouring countries have done. Despite a low rank in the skills category of the index, Cambodia improved its overall global competitiveness position slightly to 106 in 2019 from 110 in the previous year.²³ Access to finance for SMEs with growth potential and FDI inflows are two critical factors to boost productivity.

Financial inclusion contributes significantly to reducing unemployment. It opens avenues for generating income through access to credit or improved risk mitigation mechanisms.



The garment sector has been a mainstay of employment and poverty reduction, especially for women.



Gender equality is improving but not all dimensions

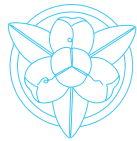
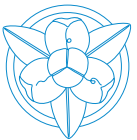
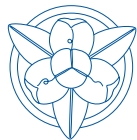
Limited progress on international benchmarks of gender equality. At first glance, women's economic participation appears to be quite high. The Global Gender Gap Index compares national gender disparities across four dimensions: economic participation and opportunity, educational attainment, health and survival and political empowerment. Cambodia performs well on the first criteria, ranking 25 out of 153 countries. It scores much lower on the other three criteria, at 124, 73 and 119, respectively. Scores have all dropped since 2006. As a result, Cambodia ranks 89 on the combined index. To quantify this disparity further, the Gender Development Index value for Cambodia was 0.922 in 2019,²⁴ placing it in the fourth of five country groupings, with Group 1 being the closest to gender parity and Group 5 the furthest away. Cambodian women face high rates of gender-based violence along with discriminatory stereotyping. Low educational attainment and political empowerment, along with high economic engagement, imply that women are obliged to work but not for the same pay or decision-making authority as males. Women's subordinate role is seen in a variety of domains, including political participation, labour markets, business and financial access.

More women are in the labour market but not necessarily on equal terms. The rapid growth of the Cambodian economy over the past two decades has been accompanied by a significant increase in women's participation in the labour market. The expansion in manufacturing and services jobs, primarily in the garment and hospitality sectors, has propelled a threefold increase in female wage employment in less than a decade.²⁵ In 2016, 42% of working women held paid occupations, almost half in the garment sector. More participation has not led to similar conditions for men and women, however. Women earn substantially less. Many young women are hired on short-term contracts that do not include maternity benefits.²⁶ In the civil service workforce, women's presence in leadership posts has improved but not at the highest levels. In 2018, women held only 15% of secretary of state and undersecretary positions, only 20% of seats in the National Assembly, and 4 of 26 provincial governorships.

Women drive business and yet have less access to finance to grow enterprises. Women own the majority of businesses in Cambodia, including 61% of microenterprises (310,000 microenterprises, of which almost 200,000 are formal²⁷) and 26% of SMEs (over 4,000 are formal²⁸). Banks surveyed in 2019



Cambodian women face high rates of gender-based violence along with discriminatory stereotyping.



estimated that approximately 80% of borrowers in the micro- and small business segments were women. Women-owned SMEs have very limited access to formal credit, however, at only 3%, despite 90% of these firms being profitable. Around 84% expect growth or at least stable development²⁹ (see Section 5 for more details). A lack of collateral is a barrier for women-owned SMEs, leading to the rejection of 58% of their loan applications, and a financing gap estimated at between USD 1 billion and USD 4.2 billion for women-owned MSMEs.³⁰ The 2021 Mobile Tracker Survey found that financial exclusion for women increased between 2015 and 2021, despite the target in the National Financial Inclusion Strategy to decrease it from 27% to 13% between 2015 and 2025. In 2021, 40% of women reported having no access to formal financial services.

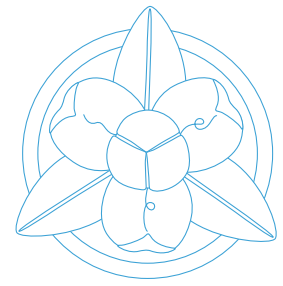
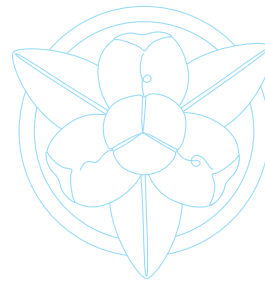
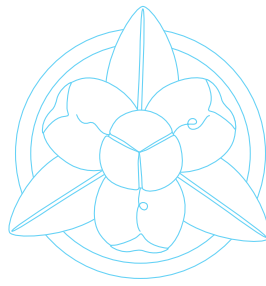
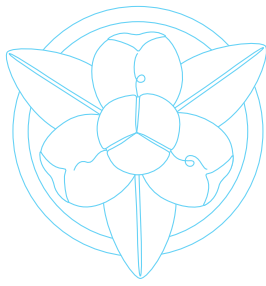
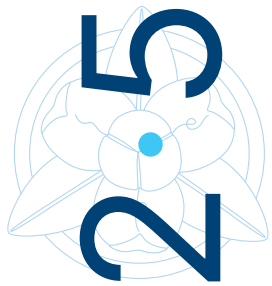
Education is key to overcoming entrenched stereotypes and catalysing change.

Women have very low levels of education. Deterioration on this indicator is worrisome because it is likely to solidify disadvantages for many years to come. The earnings gap narrows with the attainment of upper-secondary and tertiary education, underscoring the importance of raising women's enrolment and graduation at these levels.³¹ Female economic participation as a quantitative indicator has progressed over the last decade but qualitative improvements in other measures, including education, will be crucial for women to reach true equality in Cambodian society.

Financial access for female-owned SMEs remains very low. Uptake is mostly driven by MFIs and savings and credit co-operative societies. The government has put in place measures to extend women's access to financial services but given the increase in the proportion of financially excluded women, Cambodia will likely miss its target to reduce financial exclusion for women by 2025.



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Health care and social protection

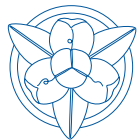
Health has improved in recent years but gaps remain. Health expenditure declined from 6.7% of GDP in 2014 to 6.0% in 2019 although per capita health expenditure rose from USD 73 to USD 91 over the same period. Average life expectancy increased from 68.6 years in 2015 to 69.5 years in 2018.³² The infant mortality rate declined from 27.2 per 1,000 in 2015 to 22.8 in 2019.³³ Improved health metrics are a longer-term trend but with gaps in coverage and significant inequities, evident in neonatal mortality being twice as high for the poorest households compared to the richest ones. Child malnutrition and stunting remain widespread, with geographical variations, and stunting prevalence in the poorest quintile being more than double that of the richest quintile. With growing migration, health-related vulnerability among left-behind elderly people has become more visible. Adolescent reproductive and sexual health needs are poorly addressed, and decreased knowledge on protection from sexually transmitted diseases and HIV, especially among migrant workers, is an emerging health risk.³⁴

Basic health care is improving for formal sector and poor households, but the majority remains uncovered. Since 2016, the NSSF has provided health insurance coverage to formal sector workers. Poor households are covered by the Health Equity Fund, the co-financing mechanism of the government and development partners. The government plans to extend the NSSF health insurance system to the rest of the population by 2025. In December 2017, approximately 31% of Cambodians were covered either by NSSF health insurance or the Health Equity Fund. Nearly 70% of the population is not covered by health insurance.³⁵

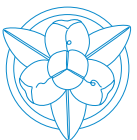
The cost of health services remains a problem. Cambodia has committed to universal health coverage, which requires that all citizens have access to health services they need without the risk of financial hardship. An essential component is removing financial barriers and ensuring that people are not impoverished in seeking health care. Out-of-pocket expenditure was approximately 60% of total health expenditure or USD 43 in 2014, a relatively large amount for low-income groups. This can be a source of debt. In 2016, approximately 6.3% of the population endured catastrophic health-care spending and 3.1% incurred debt to pay for care.



Health expenditure declined from 6.7% of GDP in 2014 to 6.0% in 2019 although per capita health expenditure rose from USD 73 to USD 91 over the same period.



The impact was even greater for the elderly and disabled; 8.6% and 13.4%, respectively, experienced catastrophic spending.³⁶ Despite the expansion of IDPoor, many Cambodians still seek health care at costly private providers.³⁷ Health-related expenditure is higher among rural households, likely related to generally worse health conditions caused by factors such as larger gaps in sanitation and nutrition.³⁸



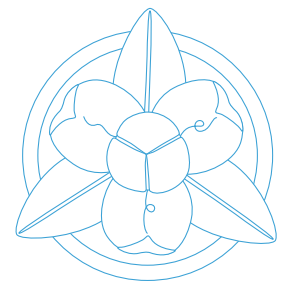
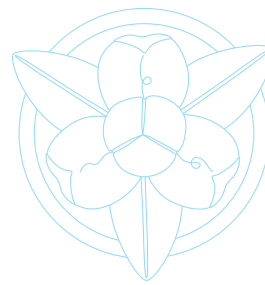
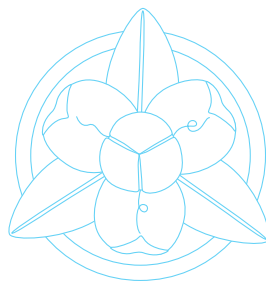
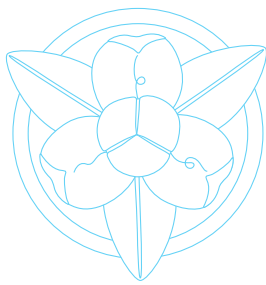
Financing health care often requires borrowing. The average household debt due to health-care borrowing was estimated at USD 125 in 2019. For those who paid interest on their loan, the average debt rose to USD 200. More than a quarter of households borrowed to pay for health care with 55% of these subjected to distress financing, which is strongly associated with household poverty. The poorer the household, the more likely it is to borrow, fall into debt and be unable to pay off the debt. This holds even for members of the Health Equity Funds. Other determinants of distress financing are household size, use of inpatient care, and outpatient consultations with private providers or with both private and public providers.³⁹

The National Social Protection Policy Framework is a significant step. The Government adopted the framework in 2017. The National Social Protection Council, chaired by the MEF, met for the first time in March 2018.⁴⁰ The framework outlines the government's commitment to providing social assistance to the country's most vulnerable citizens and to gradually extending social security – including health insurance and pensions – to the entire population.

Financial inclusion helps households cope with unexpected medical expenses, including by reducing out-of-pocket expenses, and provides an additional avenue for social protection. In turn, social protection programmes create additional needs for financial services among the poor, which must be met for such programmes to have a greater impact.



More than a quarter of households borrowed to pay for health care with 55% of these subjected to distress financing, which is strongly associated with household poverty.



Infrastructure

Expanding urban social service infrastructure to meet the needs of a growing population of city dwellers will require increasing investments.

So far, urban infrastructure development to address higher density and spatial concentration has been hindered by the lack of an integrated approach, limited institutional coordination, and poorly defined jurisdictional and administrative boundaries. Rapid expansion in construction partly fuelled by demand in cities such as Phnom Penh and Sihanoukville has exacerbated already limited urban and municipal services. Provincial governments remain heavily reliant on central government transfers and subsidies to support recurrent expenditures, including on asset maintenance and renewal.⁴¹ Substantial infrastructure gaps remain between urban and rural areas.

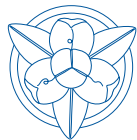
Water, hygiene and sanitation

The private sector is filling gaps in public water infrastructure. Nearly 3.4 million people in Cambodia do not have access to safe drinking water, or 20% of the population, down from 40% in 2005. Another 21% cannot get safe drinking water in under a 30-minute round trip. In 2017, 11% of people were still relying on surface water like ponds, springs and rivers.⁴² Presently, public water supply utilities provide piped water services in Phnom Penh and other large secondary cities, servicing approximately half of the population.⁴³ Public utilities do not have sufficient capacity to supply water in all parts of urban areas, however, let alone rural areas. Private water operators fill a portion of this gap.⁴⁴ Traditional financing sources for water, hygiene and sanitation have been insufficient, with only 20% of total financing coming from ODA, leaving an annual deficit of USD 191 million. With the government prioritising access to piped water financed by alternative sources, including private ones, an estimated 300 to 800 private water operators now supply water to approximately 1.5 million Cambodians. Among those that are licensed, 70% plan expansion and require finance⁴⁵ but face significant challenges obtaining it.

Progress towards targets on water, hygiene and sanitation is falling short. The government has ambitious targets to achieve universal coverage of water, hygiene and sanitation by 2025, as set out in the National Strategic Plan for Rural Water Supply, Sanitation and Hygiene 2014-2025 and the SDGs. But progress has not been adequate in terms of open defecation, access to clean water, hygiene risk awareness, and related services in schools and health-care facilities, including for menstrual hygiene management.



Nearly 3.4 million people in Cambodia do not have access to safe drinking water, or 20% of the population, down from 40% in 2005.



Market access

Major transport infrastructure deficits constrain access to markets. Only 10.5% of Cambodian roads are paved, which is low compared to regional peers.⁴⁶ Despite considerable investment in transport infrastructure, 95% of rural roads and 70% of provincial roads remain unpaved. Cambodia ranked 98 out of 160 countries on the World Bank's logistics performance index in 2018. Limited transport infrastructure strongly impacts the capacity of rural agricultural MSMEs to send products to urban centres quickly and at low costs. It also affects intercity trade and domestic markets.

The government is giving new emphasis to investment in transport infrastructure. The government in 2020 approved the Interim Master Plan on Intermodal Transport and Logistics Connectivity. It includes policies, strategies and investment plans for roads, urban transport, railways, inland waterway transport, seaports and logistics. With large investments needed to upgrade infrastructure, different financing options are on the table, such as a build-operate-transfer structure for the first expressway from Phnom Penh to the port city of Sihanoukville.

Telecommunication

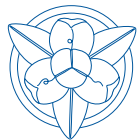
Mobile and Internet connectivity are very high. Cambodia's mobile connectivity is the highest in South-East Asia and one of the highest in the world – 96% of people aged 15 to 65 own a mobile phone and 40% have a smartphone.⁴⁷ Cambodians have 20.8 million mobile connections, enough for 124% of the population, and are major consumers of social media with 10.8 million Facebook users by mid-2020.⁴⁸ The World Bank reported in 2021 that intense competition has brought the cost of data down to one of the world's lowest levels, from USD 4.56 per gigabyte in 2013 to USD 0.13 in 2019. This has spurred data consumption to 6.9 gigabytes per capita per month, the level of any low- or lower-middle-income nation.

A competitive market with high concentration. Five telecommunications firms operate, with three, Metfone, Cellcard and Smart, accounting for 90% of users. Cambodia's Ministry of Post and Telecommunications suspended or revoked the licenses of 17 telecommunications operators in 2020; media reports suggested they had failed to pay required revenue shares to the government. Service providers first introduced 4G technology in 2016. While leading operators, notably Cellcard and Smart, have been in a race to roll out 5G, the Telecommunication Regulator of Cambodia announced in October 2020 that 5G will not be operational until at least 2021 given high investments costs.

A start-up environment and banks are leveraging high connectivity. An estimated 300 technology start-ups are active in e-commerce, transportation, health technology and agricultural technology. Fintech is the most active sector with over 50 active start-ups. Leveraging this technology, online banking is growing fast. Banks with a higher degree of local information technology (IT) autonomy are leading the way in digital banking.



Cambodia's mobile connectivity is the highest in South-East Asia and one of the highest in the world – 96% of people aged 15 to 65 own a mobile phone and 40% have a smartphone.



Electricity

Electricity powers greater productivity. Access to electricity unlocks access to information and communications technology, education and health care. Without electricity, it is difficult to expand these services in rural areas. Energy poverty has a major impact on social development, particularly among vulnerable groups such as women and youth. Without modern sources of energy, they depend on biomass for fuel, which poses risks to health and relies on resources increasingly at risk from climate change. Electricity also increases opportunities for businesses, with MSMEs more likely to succeed with a reliable electricity supply. It is a critical input for agriculture, food processing, water piping and irrigation. It affects access to mobile phone services and financial inclusion. Developing the electricity supply therefore assists in the growth of a range of productive activities.

Energy access has improved dramatically. Between 2010 and 2019, electricity consumption grew on average by 18.8% annually. During the same period, household connections increased from 22.9% to 74.8%, and the electricity supply rose on average by 19.1%. Most electricity (86.5%) is generated domestically from hydropower (50.2%), coal (32.3%), renewable energy (0.7%) and diesel fuel (3.3%).⁴⁹ The power market is liberalised, with a number of independent power producers that generated 98.5% of domestic power in 2019. Cambodia relies on energy imports from neighbouring countries during the dry season in particular.

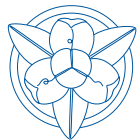
Cost and distance to the grid are the main remaining barriers. A reliable and affordable electricity supply is the most important input for manufacturing. While grid extension and reduced reliance on diesel are helping to lower the cost of generation, electricity prices are still high. Cambodia had the third highest prices in Asia after Japan and the Philippines in 2019⁵⁰ despite price reductions in the previous three years. Prices are generally higher in rural areas than in towns and cities because of limited grid connectivity. The main barrier to access for urban households is the ability to pay connection fees. In rural areas, distance from the grid infrastructure is the major obstacle although affordability is also likely an issue. Only 67% of the population in rural areas has access to electricity.⁵¹

Female-headed households have lower access to electricity for most technologies. Nearly 13% of female-headed households have less than four hours of electricity a day, compared with 8% of male-headed households. Affordability compounds the difficulties that female-headed households face. The gender gap is more pronounced in rural areas.⁵²

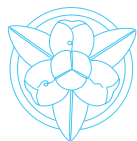
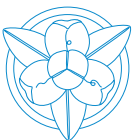
The renewable energy market faces constraints. Solar photovoltaic and biomass represent marginal shares of the power supply given several challenges in promoting and financing renewable energy investments. One is the insufficient regulatory framework, in particular a lack of official targets for renewables. The absence of standardised power purchase agreements and information on geographical grid extension plans also creates uncertainties regarding market access and prices. The government of Cambodia has entered into long-term agreements with coal and large hydropower plants, thus restricting large-scale opportunities for non-hydro renewable energy.



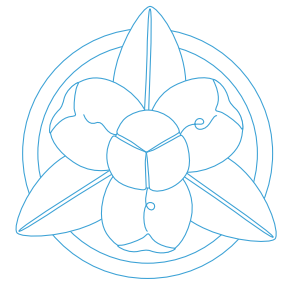
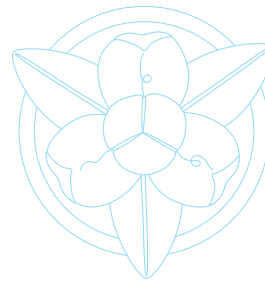
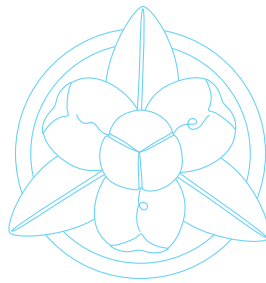
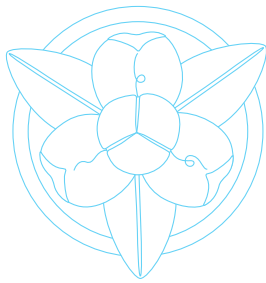
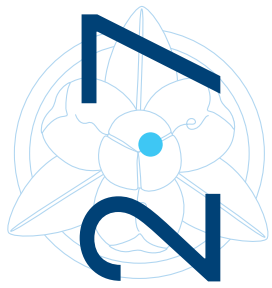
A reliable and affordable electricity supply is the most important input for manufacturing. While grid extension and reduced reliance on diesel are helping to lower the cost of generation, electricity prices are still high.



Household renewable energy appliances. Among households, 32.9%, including 77.1% in urban areas, use a clean fuel for their primary stove. A much lower rate of clean fuel use in rural areas is likely because firewood is easily accessible and free. This illustrates that affordability and not just access to the grid has a big impact on the choice of energy for higher intensity uses like cooking. The market has clearly realised that rural areas offer an opportunity; 99.7% of households using any kind of solar device live there.⁵³ Yet only 15.5% of rural households use home solar products; 13.2% use rechargeable batteries. A government or international donor intervention could incentivise the adoption of clean energy appliances in rural areas, starting with those requiring higher energy. Currently, LPG stoves are the most popular type of clean fuel stove, although two thirds of households using a clean fuel stove as their primary stove also use a biomass stove. While 79.6% of households are willing to pay about KHR 20,000 (USD 5) for an improved cook stove, only 36.6% are willing to pay KHR 160,000 (USD 39.31) for a higher-performance stove.



The government of Cambodia has entered into long-term agreements with coal and large hydropower plants, thus restricting large-scale opportunities for non-hydro renewable energy.



Education

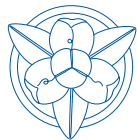
In 2018, 3.2 million children were enrolled in public schools from pre-primary to upper-secondary levels; 50.9% were girls.⁵⁴ Cambodia's formal education system is organised into pre-primary, primary, lower secondary, upper secondary and higher education. Education is nominally free for primary and lower-secondary levels. The official language of instruction is Khmer.

Primary enrolment is high but quality and retention need to increase to support labour productivity. Cambodia has achieved strong progress in basic education with almost universal access to primary school. Enrolment in 2018 to 2019 was 98%. Further progress is threatened by low-quality learning and inconsistent access for specific population groups, however. The World Economic Forum ranks Cambodia at 110 out of 140 countries in terms of the quality of primary education. According to a survey carried out by the Ministry of Education, Youth and Sports (MoEYS) in 2018, students performed below ASEAN average scores in reading, mathematics and science. Less than 2% performed at the average competency level of Organisation for Economic Co-operation and Development (OECD) countries.⁵⁵ Strengthening education is central to developing a skilled workforce that can adjust to changes in industry, such as new technologies, and increases diversification and innovation within industry.⁵⁶ Only 30% of Cambodia's working-age population has completed lower-secondary education.

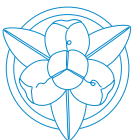
Unequal access for rural areas and the poor. Access to improved education is unequal, with remote rural areas lagging considerably behind. In primary education, the average pupil-teacher ratio is high (47 to 1), reaching close to 100 to 1 in the poorest areas. The number of districts achieving the targeted primary gross completion rate is continuously decreasing. The net enrolment rate in lower and in upper secondary schools is considerably lower among children from poor families, and lower among girls than boys from poor families. Only 6% of children from the poorest families reach upper-secondary school, compared to 43% of children from the richest families. The higher the level of education, the higher the expenses for private tuition and school fees.⁵⁷ Students in urban schools strongly outperform those in rural schools in reading, with a performance difference of 42 score points, the equivalent of more than a year of schooling.

30%

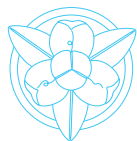
Only 30% of Cambodia's working-age population has completed lower-secondary education.



Education costs remain a constraint. Direct costs for education as well as related costs such as for books, transport and household labour remain a constraint. A 2018 survey showed that the additional cost for teaching and learning materials for both primary and lower-secondary school is a central financial barrier to consistent school attendance for boys and girls from poorer households.⁵⁸



Domestic public financing for education has increased substantially. The absolute education sector allocation grew by 273% between 2014 and 2019 but the MoEYS budget as a share of total public expenditure remained below the 20% target, at 14.2%, in 2019. According to the 2020 Budget Law, spending in nominal terms in education nearly tripled from USD 343 million in 2014 to USD 848 million in 2019 but this increase was mainly for government personnel.⁵⁹ Education expenditure as a share of GDP increased only slightly from 1.9% in 2014 to 2.1% in 2019.⁶⁰



Technical and vocational education and training is scarce and quality is insufficient. Vocational skills training and non-formal education are vastly underutilised. Out of 250,000 post-secondary graduates in 2014, only 3% are from technical and vocational fields such as agriculture, science and engineering. Underqualification affects more women than men, with women expected to limit vocational training to fields such as sewing, cooking, hospitality and mechanics. Technical and vocational education infrastructure is poor, training methods and equipment are outdated, and trainers lack direct industry experience. Negative perceptions lead to low enrolment with young people viewing it as a second option, or as education for the poor, marginalised groups or school dropouts.⁶¹

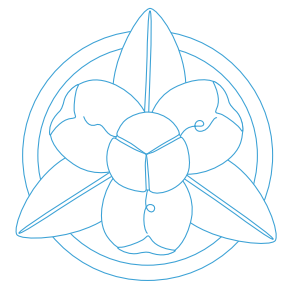
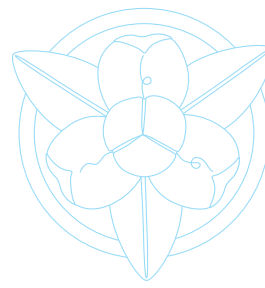
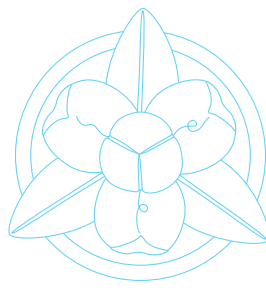
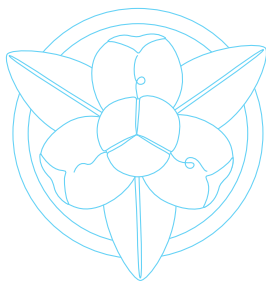
Financial education and literacy remain low. A recent study in Cambodia followed the OECD International Network on Financial Education methodology to review the main determinants of financial literacy. Financial literacy and general education levels are positively and significantly correlated with formal and informal savings activity. Financial literacy has an independent positive effect even when comparing groups with similar education levels.⁶² Cambodia's overall financial literacy score was 11.8 out of 21, much lower than the methodology's 30-country average score of 13.3 and the scores of some other developing Asian economies such as Thailand (12.8) and Malaysia (12.3). Only 12% to 14% of Cambodian respondents considered themselves to have a better understanding of financial matters than other adults. The main determinants for financial literacy were overall educational level, income, age and occupational status. Younger, urban, more educated and higher-income respondents had higher financial literacy scores. Women had slightly lower financial literacy scores than men (11.74 compared to 11.85).

The government is prioritising financial literacy. The NBC has taken some important steps to improve financial literacy with the launch of the "Let's Talk Money" campaign and the integration of financial education in the formal education curriculum. In 2018, the NBC announced a joint scheme with MoEYS, supported by the Asian Development Bank, World Education Cambodia and Good Return, to teach basic financial skills to Cambodian students from grades 1 to 12.

Financial inclusion can help households manage the cost of education, including through appropriately targeted savings, credit and educational insurance products.



Out of 250,000 post-secondary graduates in 2014, only 3% are from technical and vocational fields such as agriculture, science and engineering.



Natural resources and climate change

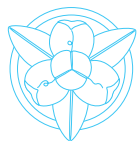
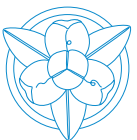
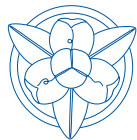
High exposure to climate change and natural resources depletion. Cambodia ranks in the top 10 out of 171 countries in being most exposed to climate risks, with limited capacity to adapt. Climate change projections anticipate an increased rate and severity of natural disasters, along with impacts on agricultural production and national infrastructure. Cambodia's successful growth has to a large extent been based on its natural resources,⁶³ leading to environmental problems including deforestation, loss of biodiversity and ecosystems, land degradation, natural hazards and disasters such as floods and droughts, and water pollution. Despite the value of Cambodia's forests and natural resources, forest coverage has been declining for decades, shrinking from 57.07% in 2010 to 46.86% in 2016. Deforestation comes from illegal commercial logging as well as the use of community forests for firewood.

Climate and resource risks will affect livelihoods and agriculture. Forest losses threaten people living near or in them. Many depend on mostly non-timber forest resources for food, medicine, agricultural inputs and fuel, for both subsistence and commercial purposes. Agriculture will be strongly affected by climate-related drought and flood patterns. Under a high-emission scenario, the wet season rain-fed rice yield is continuously expected to decrease until 2080 and could fall by up to 70% of current levels. For the dry season, irrigated rice yields could decline by 40%.⁶⁴ Negative impacts on agricultural production may lead to breakdowns in food systems, putting vulnerable groups at risk of further deterioration in food security and nutrition.

An updated emissions target but shortfalls in finance. Cambodia's emissions reduction target has recently been updated to a cut of 42% by 2030 from a 2016 baseline. The largest carbon dioxide emitter by far is land use. Agriculture, forestry and other land use, and the waste and energy sectors require the greatest investments in mitigation, with total funding for all mitigation actions expected to cross USD 5.8 billion. Total funding for adapting to climate fallout is just over USD 2 billion.



Agriculture will be strongly affected by climate-related drought and flood patterns. Under a high-emission scenario, the wet season rain-fed rice yield is continuously expected to decrease until 2080 and could fall by up to 70% of current levels.



Key role for sustainable finance and the private sector. The private sector has key roles in climate adaptation and emission reductions, such as through developing less carbon-intensive production. This will require new equipment, knowledge and capacities for all producers, from microenterprises to large corporations. It represents an opportunity and a challenge for the financial sector. The opportunity is to tap into new market trends and finance new productive assets adapted to climatic conditions and with reduced emissions. The challenge is to integrate new production models and develop internal capacity to assess and support SME growth in these areas. A majority of Cambodian banks have adopted the Cambodian Sustainable Finance principles since 2018, which were developed by the ABC with the NBC and the Ministry of Environment, with support from international donors. The Cambodia Sustainable Finance Initiative has devised guidelines and provides technical assistance to banks (with donor support) in implementing them and developing environmental and social management systems. The Green Climate Fund is assisting the Ministry of Environment, with Mekong Strategic Partners, in designing a green finance facility for local banks and green projects.

Financial services tailored to the poor may enable them to make affordable investments in environmentally beneficial practices, thereby mitigating environmental damage. The poorest people are most vulnerable to threats to health and livelihoods posed by climate change. They also lack tools to adapt.



The poorest people are most vulnerable to threats to health and livelihoods posed by climate change.

PART 2 NOTES

- 1 UNDP, 2020a.
- 2 SIDA, 2019.
- 3 World Bank, 2019b.
- 4 There are no recent statistics on the poverty rate in rural areas. The latest statistics from the World Bank indicated that 90% of the poor lived in rural areas in 2014.
- 5 World Bank, 2019b.
- 6 United Nations in Cambodia, 2019.
- 7 While poverty rates refer to the overall population, working poverty rates refer to the employed population.
- 8 Hansen and Gjonbalaj, 2019.
- 9 Global Data Lab, 2019.
- 10 There is no recent GINI coefficient for Cambodia.
- 11 WFP, 2017.
- 12 World Bank, 2020a.
- 13 ADB, 2020a.
- 14 United Nations in Cambodia, 2017.
- 15 ILO, 2019.
- 16 ILO, 2018.
- 17 ADB, 2020a.
- 18 World Bank, 2020a.
- 19 ADB, 2020a. Analysis of the employment impact is based on the forecast released recently by the IMF for Cambodia's GDP growth in 2020 as well as a recent joint modelling exercise by the Asian Development Bank and the MEF to forecast and estimate sectoral employment elasticities.
- 20 ADB, 2020a.
- 21 World Bank, 2020a.
- 22 World Bank, 2020b.
- 23 Covering 141 economies, the Global Competitiveness Index 4.0 measures national competitiveness, defined as the set of institutions, policies and factors that determine the level of productivity.
- 24 The Gender Development Index, based on a sex-disaggregated Human Development Index, is defined as the ratio of the female to male Human Development Index. UNDP, 2020a.
- 25 World Bank, 2017.
- 26 OECD, 2017.
- 27 Cambodia Inter-censal Economic Survey, 2014 last data available, cited by IFC, 2019.
- 28 SMEfinance.org country profiles.
- 29 IFC, 2019.
- 30 IFC, 2019.
- 31 ADB, 2019b.
- 32 World Bank, 2021a.
- 33 World Bank, 2021a.
- 34 SIDA, 2019.
- 35 Nakamura et al., 2020.
- 36 KfW, 2020.
- 37 Asante et al., 2019.
- 38 Antunes et al., 2018 and World Bank, 2017.
- 39 Ir et al., 2019.
- 40 BMZ, 2021.
- 41 ADB, 2019.
- 42 Joint Monitoring Program, 2021.
- 43 World Bank, 2020c.
- 44 The General Directorate of Potable Water Supply under the Ministry of Industry and Handicraft regulates and licenses private water operators.
- 45 USAID, 2018.
- 46 Hansen and Gjonbalaj, 2019.
- 47 IFC, 2019.
- 48 Mekong Strategic Partners, 2021.
- 49 ADB, 2020a.
- 50 World Bank, 2020b.
- 51 CIA Factbook, 2019.
- 52 SIDA, 2019.
- 53 World Bank, 2018.
- 54 Universal Management Group, 2019.
- 55 MoEYS, 2018.
- 56 World Vision, 2019.
- 57 SIDA, 2019.
- 58 Save the Children, 2018.
- 59 World Bank, 2020a.
- 60 World Bank, 2021a.
- 61 Save the Children, 2018.
- 62 Trinh and Morgan, 2019.
- 63 World Bank, 2017.
- 64 Government of Cambodia, 2020.

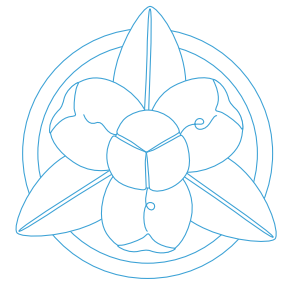
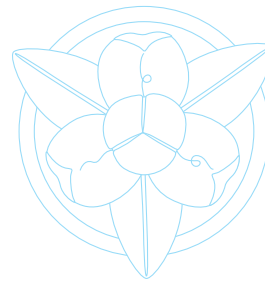
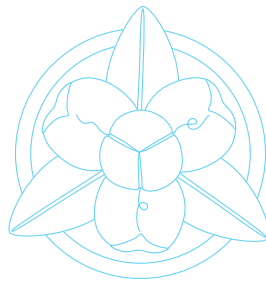
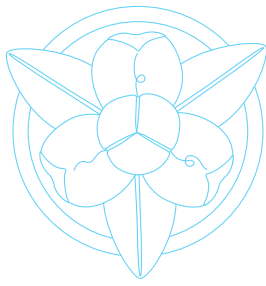
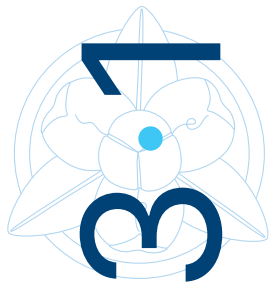
National financial inclusion strategy achievements



Reflecting on progress against the 2017 MAP Diagnostic and the ongoing 2019-2025 Cambodia Financial Inclusion Action Plan helps gauge the current situation, identify remaining gaps and prioritise future interventions.

The financial services sector today is much better positioned to expand financial inclusion, especially through low-cost branchless banking, physical bank branches and digital financial services. It is equipped to provide targeted lending products for SMEs and enhanced payment systems allowing greater interoperability among financial institutions.

Increasing support for financial literacy has complemented new regulations to empower consumers. At the same time, progress remains limited in several areas, including around unregulated for-profit financial service providers. Pawn shops still lack registration, monitoring and enforcement.



Progress on the MAP 2017 diagnostic study

There has been considerable progress since 2018 on various recommendations in the MAP Diagnostic. The Financial Sector Development Strategy 2016-2025 adopted by the Council of Ministers has supported progress on various activities.

The 2019-2025 National Financial Inclusion Strategy adopted by the NBC synthesises the main findings and recommendations from comprehensive demand side, supply side and regulatory analysis, and proposes action areas. Targets in the strategy include to increase access to quality formal financial services, reduce the financial exclusion of women by 50% (from 27% to 13%), and diversify use of formal financial services from 59% to 70% by 2025. While the financial exclusion of women has increased since 2015, access to formal financial services grew to 67% by 2021. The strategy also aims to improve household welfare and support economic growth through six priority action areas:

Priority 1: Encourage savings in formal financial institutions

The main objective is to motivate adults to save in formal financial institutions for key needs and emergencies, and to facilitate mobilisation of these savings for better financial management and capital formation.

Priority 2. Promote innovative credit products for SMEs and MSMEs

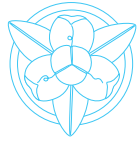
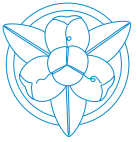
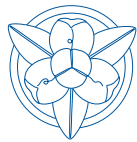
The main objective is to develop new credit products targeting these enterprises by promoting cash-flow-based lending, especially for firms with high potential but a lack of financing, and expanding credit in focused areas of non-collateralised lending for MSMEs and value-chain financing.

Priority 3. Enable the expansion of payment system capabilities

This priority is focused on modernising the payment system by providing faster and more affordable, convenient, reliable, accessible and secure systems that unlock broader access to formal payment services and enhance financial inclusion for people in rural areas.



The 2019-2025 National Financial Inclusion Strategy adopted by the NBC synthesises the main findings and recommendations from comprehensive demand side, supply side and regulatory analysis, and proposes action areas.



Priority 4. Prioritise the development of a well-functioning insurance market

The primary objective is to expand market penetration through diversification of micro-insurance and low-premium personal insurance products. This could entail exploring cost-effective distribution channels, developing index-based crop and cattle insurance to support agricultural insurance products, and introducing a self-regulatory code of conduct for insurance and micro-insurance companies.

Priority 5. Strengthen the capacity of financial sector regulators

The primary objective is to ensure financial sector regulators have sufficient resources and technical skills to effectively monitor and regulate the sector.

Priority 6. Increase consumer empowerment and sector transparency

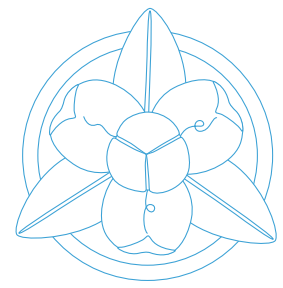
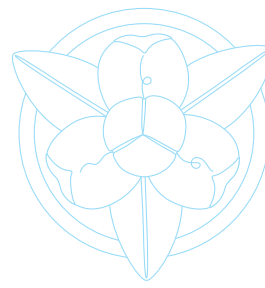
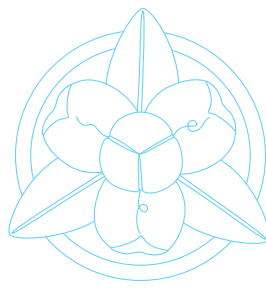
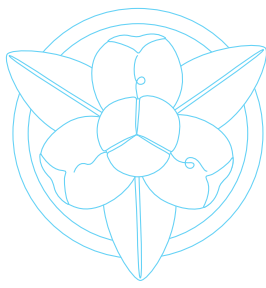
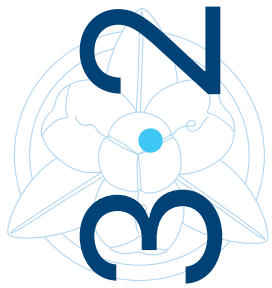
The primary objective is to empower consumers to make well-informed financial decisions by promoting greater financial literacy, and to strengthen consumer protection for security purposes and recourse against abuses in the provision of financial services.

The Interministerial Working Group on Financial Inclusion Strategy Formulation has been coordinating implementation of the Financial Inclusion Road Map with the NBC, which chairs the group and coordinates with other relevant government agencies on implementing the six priorities.

Table 3: Six priorities for Financial Inclusion Road Map implementation

PRIORITY AREA	LEAD GOVERNMENT AGENCY	SUPPORTING GOVERNMENT AGENCIES
Priority 1: Encourage savings in formal financial institutions	NBC	MEF, Ministry of Women's Affairs
Priority 2: Promote innovative credit products for SMEs and MSMEs	NBC, MEF	Ministry of Agriculture, Forestry and Fisheries; Ministry of Industry, Science, Technology and Innovation (MISTI); Ministry of Commerce; Ministry of Social Affairs, Veterans and Youth Rehabilitation; Ministry of Women's Affairs
Priority 3: Enable expansion of payment system capabilities	NBC	MEF, Ministry of Post and Telecommunications
Priority 4: Prioritise the development of a well-functioning insurance market	MEF, NBC	Ministry of Agriculture, Forestry and Fisheries; MISTI; Ministry of Planning; Ministry of Women's Affairs
Priority 5: Strengthen the capacity of financial sector regulators	NBC, MEF, Securities and Exchange Regulator of Cambodia	
Priority 6: Increase consumer empowerment and sector transparency	NBC	MoEYS, Securities and Exchange Regulator of Cambodia, Ministry of Commerce, MEF

The NBC established a dedicated [Financial Inclusion Team](#) in 2020 after restructuring its Directorate General of Banking Supervision into four departments. The team was established under the Supervisory Data Management and Macro-surveillance Department, which is responsible for coordinating, implementing, monitoring and evaluating the National Financial Inclusion Strategy. The department provides oversight on consumer protection.



Summary of progress

To implement the road map, the National Financial Inclusion Strategy Action Plan outlined 115 activities in the short term (2019-2020), midterm (2021-2022) and long term (2023-2025).

Of the 40 short-term activities, 25 have been completed or are in progress; 15 have not seen any progress. Among the 50 medium-term activities, 37 have been completed or are in progress; 13 have not seen any progress. Nine of the 25 long-term activities have been completed or are in progress; 16 have not seen any progress. In total, 71 activities have been completed or are in progress while 44 activities remain to be completed under the current MAP Refresh.

Several notable achievements occurred during implementation.

Priority 1: Encouraging savings in formal institutions

The NBC has signed a memorandum of understanding with Maybank to implement a cross-border payment and remittances scheme between Cambodia and Malaysia. This is part of efforts to promote inbound remittances-linked savings products. Although the proportion of adults who save through banks decreased between 2015 and 2021, the overall proportion who save through formal providers rose.

Priority 2: Promotion of innovative credit products targeting SMEs and MSMEs

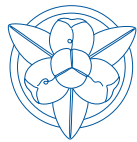
A significant number of activities have been rolled out to increase access to credit for SMEs. These include the establishment of the SME Bank with loan schemes targeting underbanked segments; the first credit guarantee scheme, the Business Recovery Guarantee Scheme, which targets priority sectors; and an SME co-financing scheme. All were designed to facilitate greater access to finance for SMEs.

Priority 3: Enhancement of payment systems

The NBC has made significant progress in modernising its payment systems through regulation to incentivise their development. It has implemented the Cambodia Shared Switch (CSS), Retail Pay and the Fast & Secure Transfer (FAST) Payment System to enhance interoperability between financial service providers. This has accelerated adoption of digital payments and increased the number of payment service providers and operators. The NBC also launched the Bakong system, a block chain technology, to provide greater accessibility and convenience to customers. Work with relevant financial institutions has standardised the QR code to ease transactions among financial institutions in the country and interconnectivity with financial institutions in the surrounding region.



In total, 71 activities have been completed or are in progress while 44 activities remain to be completed under the current MAP Refresh.



Priority 4: Development of a well-functioning insurance market

One key development has been the establishment of the Law on the Organization and Functioning of the Non-Banking Financial Services Authority (the NBFSA Law). It created a new independent regulatory authority for the non-bank financial system, including the insurance system (see Section 1.2). A single supervisory authority facilitates timely implementation of new regulations as well as more efficient supervision as the insurance market expands. The insurance market responded positively, with insurance penetration increasing from 4% of adults in 2015 to 12% in 2021. To enhance access to capital markets, the Mobile Trading System (MTS) was launched in 2019, allowing investors to perform online trades on their smartphone or tablets.

Priority 5: Strengthening the capacity of financial regulators

NBC supervisors have received regular training on new regulations, enforcement and technical skills, which enhances knowledge of risk-based supervision. This has been in addition to training on central banking operations. To monitor emerging trends in financial inclusion, the NBC is a member of the Working Committee on Financial Inclusion. In the non-bank financial sector, the NBFSA Law announced in January 2021 created the establishment of a regulatory body, namely the NBFSA which will be managed by the NBFSA Council composed of representatives from MEF, NBC, MOJ, MOC and the Council of Ministers. The NBFSA comprises, and has oversight of eight specialized entities, including the Insurance Regulator of Cambodia (IRC). This should facilitate greater cohesiveness in supervisory authority and oversight in the non-bank financial sectors.

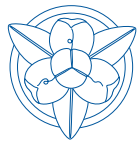
Priority 6: Increasing consumer empowerment and consumer protection

The government has made considerable efforts to promote financial literacy. Activities include conducting workshops with MFIs to enhance understanding of their products; collaborating with the MoEYS to incorporate financial management courses in the national curriculum, promoting financial literacy through social media campaigns and radio programmes, and providing capital market training courses through the Securities and Exchange Regulator of Cambodia. The Law on Consumer Protection was enacted and a hotline established to strengthen implementation of the Prakas on the Resolution of Consumer Complaints. In 2018 and 2019, the hotline reported 276 cases and 383 cases, respectively, especially from rural areas regarding credit-related issues such as interest calculations, informal lending and penalties.

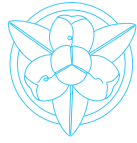
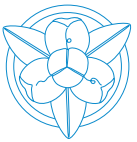
Some activities, despite their importance, have not achieved targets, especially under Priority 4. No progress has been made to revise taxation rules on insurance premiums, simplify claims processes and increase transparency for micro-insurance providers. In terms of unregulated for-profit financial service providers, there has been no increase in pawnshop monitoring and reporting nor any increase in registrations of unlicensed pawnshops, despite related guidelines and Prakas. There has been limited activity in institutionalising gender-disaggregated data collection and analysis, with the NBC looking for potential development partners for capacity-building support in that area.



The government has made considerable efforts to promote financial literacy.



Cambodia National Financial Inclusion Action Plan (2019-2025), progress highlights



ACTION PLAN PRIORITY 1: ENCOURAGE SAVINGS IN FORMAL FINANCIAL INSTITUTIONS

Activity 1: Develop incentives for savings mobilisation: The NBC has signed a memorandum of understanding with Maybank-Malaysia to enhance collaboration on cross-border payments and remittances. An agreement with the central bank of Thailand on QR codes is expected to promote speed and use of local currency for transfers and reduce costs.

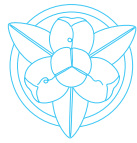
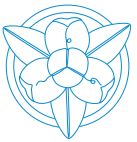
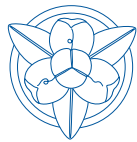
The MEF has supported the NBC to establish a deposit protection scheme based on the Pay Box Plus model. The NBC has initiated a draft law on deposit protection, which is being drafted by the Deposit Protection and Bank Resolution Unit. The draft will be submitted for review by relevant committees within the NBC. With technical assistance from the IMF, the NBC has been conducting a feasibility study for a deposit protection scheme and is seeking comments on developing a legal framework and institutions to implement the scheme along with a special resolution framework.

The NBC has been promoting financial inclusion especially towards mobilising savings. It celebrated the ASEAN savings day and encouraged all banks and financial institutions to post this celebration on social media. The day takes place each year on 31 October to promote public awareness on the importance of saving.

Activity 2: Enhance the accessibility of savings products: Banks and financial institutions, especially microfinance deposit-taking institutions (MDIs), have implemented many approaches to promote savings and enhance access to savings products by their customers, such as:

- Opening additional branches targeting customers in remote areas to facilitate convenience in accessing banking services;
- Introducing ATM use so customers can access accounts when needed, 24/7;
- Introducing mobile banking services to allow access for customers everywhere, especially transfers across different institutions under the national hub, such as through the FAST system, Bakong or Retail Pay;
- Expanding the presence of banking agents in rural areas to support low-income households in receiving, sending money and saving money, paying bills and other service in their community; and
- Rolling out financial education campaigns, especially by MDIs, on the importance of saving for the future.

Customer deposits in the banking system have increased despite a decrease in people using banks for savings.



ACTION PLAN PRIORITY 2: PROMOTE INNOVATIVE CREDIT PRODUCTS FOR SMES AND MSMES

Activity 1: Increased access to credit for SMEs: The NBC has signed a memorandum of understanding with the IFC to develop a supply chain finance market for SMEs and to strengthen value chains. The engagement aims to strengthen the capacity of financial institutions to develop new and innovative lending products secured by receivables and inventory, diversify their loan portfolios, support the growth of SME financing and promote financial inclusion. To identify good practices in non-collateralised lending, the NBC and the United Nations Economic and Social Commission for Asia and the Pacific are conducting research on catalysing women's entrepreneurship.

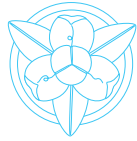
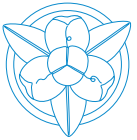
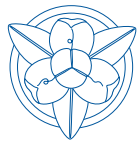
Activity 2: Increase access to and offer targeted lending products for micro- and small enterprises: A significant number of activities have been rolled out. In February 2020, the SME Bank was granted a license with a USD 150 million capital investment. It is dedicated to supporting SMEs and providing low-interest loans (see Section 5). In March 2021, the first credit guarantee scheme offered by the CGCC was launched (see Section 5).

ACTION PLAN PRIORITY 3: ENABLE THE EXPANSION OF THE PAYMENT SYSTEM CAPABILITIES

Activity 1: Incentivise development of payment infrastructure: Substantial strides have been made in expanding the payment system. The NBC has rolled out Prakas on the management of payment service institutions, providing the legal framework for regulating and supervising payment service institutions. The CSS introduced in 2017 facilitates interbank transactions such as cash withdrawals, fund transfers, and balance inquiries across banks and MDIs. Currently, 52 institutions are members of the system. The FAST Payment System, with fund transfer and payment services in KHR across institutions, was launched in 2016; 55 banks and MDIs are members of it. Some service providers have extended the FAST system via online and mobile banking. Both CSS and the FAST system have played significant roles in promoting financial inclusion in two ways: interoperability between member ATMs and points of sale (POS), and accelerated access to financial services for people in rural area through the ATM networks of MDIs. According to NBC data, the number of ATMs and POS terminals offered by CSS members in 2020 increased 15% and 5%, respectively, compared to 2019. To further encourage digital payments, the government has adopted digital channels for government-to-person (G2P) payments.

In October 2020, the Bakong system was introduced as an additional choice for customers to access and use digital financial services via mobile applications, especially where ATMs or POS terminals are not in place. Under Bakong, all financial institutions and payment service providers are connected under a single payment platform that processes funds transfers on a real-time basis without needing a centralised clearing house. To facilitate larger interbank transactions, the NBC is developing a real-time gross settlement system.

Activity 2: Strengthen supervision and oversight of payment system and services: A supervisory framework for oversight of the payment system has been adopted while supervisory procedures for payment service institutions (PSIs) are being drafted. By the end of 2020, the numbers of PSIs had increased to 28 from 21 in 2019 and 14 in 2018, with a total of 58.9 million payment operations equal to USD 5.6 billion. The number of PSI agents expanded from 25,400 in 2019 to 31,600 in 2020 while the number of registered e-wallets rose from 1.3 million in 2019 to 3.6 million in 2020.



ACTION PLAN PRIORITY 4: PRIORITIZE THE DEVELOPMENT OF A WELL-FUNCTIONING INSURANCE MARKET

Activity 1: Unregulated for-profit financial service providers: In January 2021, the NBFSA Law established a new independent regulatory authority for the non-bank financial system, including the insurance system (see Section 1.2). In March 2021, the NBC implemented the Prakas on Conditions for Bancassurance Business (Prakas No. B7-021-105) as a regulatory framework for banks and financial institutions. It is aimed at enhancing financial inclusion by increasing access to insurance services and strengthening consumer protection.

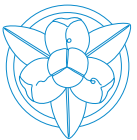
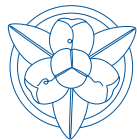
Activity 2: Capital market developments: In 2019, the Cambodia Securities Exchange (CSX) launched the MTS to offer online trading around the clock. Traders can obtain instant up-to-date information on their stocks, and place or cancel orders. This facilitates increased market liquidity, improves efficiency and enhances order execution speeds. The online platform also allows investors to view current and historical market data as well as trading account data via a smartphone or tablet.

ACTION PLAN PRIORITY 5: STRENGTHEN THE CAPACITY OF THE FINANCIAL SECTOR REGULATORS

Activity 1: Increase sector monitoring, enforcement and innovation: Central bank officials at various level are regularly trained on new regulation, enforcement and technical skills. The NBC has started to provide various specialised training courses, such as the FSI-Connect online course organised by the Bank for International Settlement, and training courses on IFRS9 implementation and liquidity risk management.

The NBC and the Bank of Indonesia currently co-chair the Working Committee on Financial Inclusion. It seeks to reduce the financial exclusion rate from 44% to 30% and increase the financial inclusion infrastructure rate from 75% to 85% in ASEAN. The NBC is cooperating with the Alliance for Financial Inclusion to implement the action plan of the National Financial Inclusion Strategy and other activities to increase financial literacy, especially for digital financial inclusion. It is proposing to use green financing and advance the collection of sex-disaggregated data.

Stress testing the solvency and liquidity coverage ratio of banks and financial institutions was incorporated in the NBC's supervision method to assess resilience during the pandemic. This is in addition to onsite examination targeting governance, loan restructuring, asset quality, credit risk and IT risk. The NBC continues to strengthen data quality in the financial reporting of banks and financial institutions through online meetings to clarify and resolve mistakes in a timely manner. It has issued penalties for those that do not fully comply with laws and regulations.



ACTION PLAN PRIORITY 6: INCREASE CONSUMER EMPOWERMENT AND SECTOR TRANSPARENCY

Activity 1: Increase financial literacy: The NBC has carried out various activities to enhance financial literacy in partnership with national and international organisations. In 2020, it conducted eight MFI meetings with around 2,000 participations to promote awareness of the microfinance sector to local authorities and residents, and provide opportunities for participants to raise challenges, suggestions and questions related to financial services. The workshops delivered basic knowledge on banking and finance and enhanced understanding of MFI products. The NBC also launched the “Let’s Talk Money Campaign”, which produced various educational videos on financial literacy. A new campaign, developed by the NBC in partnership with Good Return, is called “Let’s Talk Money: Little by Little”. It will help increase awareness of financial issues in daily life.

The NBC and MoEYS have worked together to include financial management courses in the national curriculum for Grades 1 to 12. As of 2020, a financial education framework had been developed and subjects related to financial management determined. Other NBC programmes include “Pop Song Money” and 3-2-1 Financial Education via social media platforms, and a radio programme focused on stimulating more awareness among women. A new financial literacy app, “NBC-Edu”, features content from the “Let’s Talk Money” comic series and includes interactive questions and answers to help children learn about finance in a fun and engaging way.

In addition, the NBC are in the process of implementing additional initiatives aimed at improving financial accessibility for women specifically. These include 1) cooperation between the NBC and the Ministry of Woman’s Affairs in conducting joint trainings and seminars, aiming to educate women to be more aware of using financial services and increase the usage of formal financial services; the Catalyzing Women’s Entrepreneurship project in cooperation with UNESCAP, to enhance financial management knowledge and financial accessibilities and usage for women and women owned enterprises; and 3) the NBC has been supporting initiatives of Pact Cambodia, which aims to improve financial literacy of the public, and especially for young entrepreneurs.

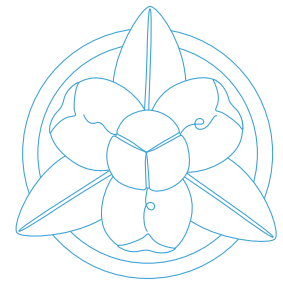
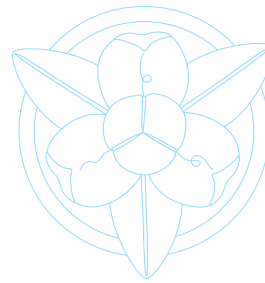
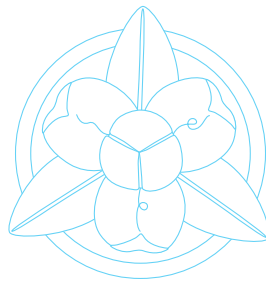
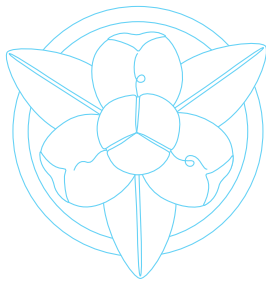
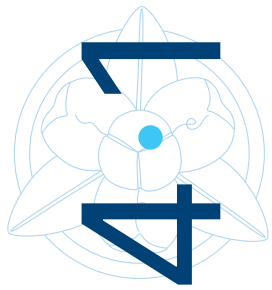
Activity 2: Securities market promotion: The Securities and Exchange Commission of Cambodia in partnership with the Asian Development Bank has launched various training programmes on the securities market. It piloted the investor ID online programme to encourage public participation in the CSX. Through the programme, potential investors can obtain a training ID. To expand the securities market, an ongoing study is assessing a mechanism for lending and borrowing securities. A collective investment scheme is expected to be launched in 2021.

Activity 3: Increase consumer protection: To standardise interest rate calculation and enhance effective public communications, the NBC issued a Prakas on MDIs, MFIs and RCIs. It stipulates that they shall set interest rates not exceeding 18% per annum for any maturity of loan. A Law on Consumer Protection enacted in November 2019 allows the NBC to establish banking consumer protection regulations. The bank has enforced the Prakas on the Resolution of Consumer Complaints and set up 5 hotlines in its head office and 21 in provincial branches to handle consumer complaints and inquiries.



4

Demand- and
supply-side
analysis and
findings



Introduction

The financial sector has experienced significant expansion since the original MAP Diagnostic. The number of financial service providers increased with the exception of RCIs, which declined due to stronger monitoring by the NBC. The overall increase in access to formal financial services (see Section 1.3) also testifies to financial sector development. The 2020 launch of the SME Bank reflected the government's intentions to enhance access to finance by targeting both registered and unregistered enterprises. The conversion of two MFIs to commercial banks provides opportunities for more product diversification and offerings.

Financial leasing companies increased from 11 in 2017 to 15 in 2020. The number of payment institutions doubled from 12 in 2017 to 24 in 2020. The numbers of ATMs and POS terminals grew significantly, by 89% and 75%, respectively, from 2017 to 2020. Debit and credit card adoption also rose sharply over the same period, by 52% and 77%, respectively. Modernisation of the payment infrastructure saw greater interoperability and new payment systems. Overall, the growth in banking institutions and systems has provided more banking channels and options for Cambodians to access financial services and engage in a range of transactions, online and in person. The proportion of adults who report having a bank account rose from 17% in 2015 to 30% in 2021.

Several defining trends bring new opportunities for financial inclusion. Strategic partnerships between traditional lenders and new players, such as payment services providers, will accelerate digital payment offerings. The decline of RCIs, the increase in MFIs and expanded ATM and POS networks should transform and modernise the rural credit landscape. Consolidation and mergers in the banking sector coupled with a lower loan portfolio growth rate and banks' search for increased return on equity open opportunities to upgrade SME lending practices and develop a broader range of SME financial services.

The commercial banking landscape has expanded due to increased foreign bank ownership. Since the MAP Diagnostic in 2017, changes in the banking sector include: 14 more commercial banks, 3 fewer specialised banks, 1 fewer MDI, 11 more microfinance non-deposit-taking institutions, 68 fewer RCIs, 4 more financial leasing companies, 4 more third-party processors, 12 more payment service institutions, no change in the number of credit reporting system service providers, 1 fewer representative office and 635 more money changers.¹ Commercial banks continue to dominate the sector with the majority of assets relative to MFIs and financial leasing companies.



Overall, the growth in banking institutions and systems has provided more banking channels and options for Cambodians to access financial services and engage in a range of transactions, online and in person.

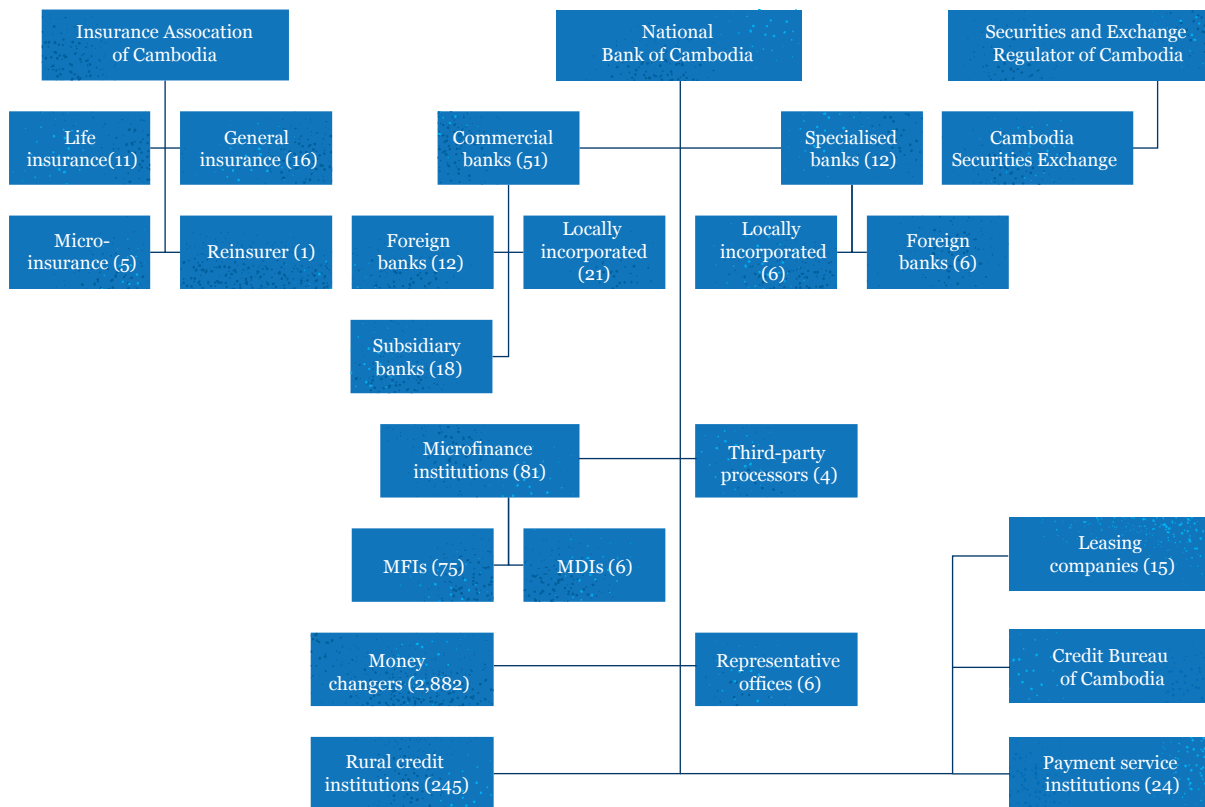
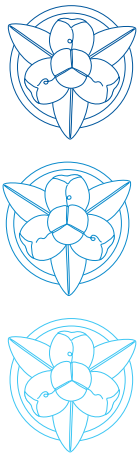


Figure 11: Landscape of financial sector providers

The rise in the number of commercial banks from 39 in 2017 to 51 in 2020 can be attributed to an increase in seven foreign-owned local banks, subsidiary banks and foreign bank branches. Five more local majority-owned banks created over the same period included the conversion of two specialised banks in 2018 and two MFIs that became locally incorporated commercial banks. In April 2021, a leading mobile financial service provider was granted a commercial bank license. This reflects a greater opportunity for financial inclusion through additional product offerings and services targeting SMEs.

Continued consolidation and mergers and increasing assets in the banking sector. The number of banks remains very high in relation to Cambodia’s GDP. While the five largest banks accounted for 50% to 60% of market revenue each year over the last five years, the smallest 30 banks accounted for less than 10% altogether. Small market shares and low returns on equity and assets in this segment are expected to lead to continued consolidation and mergers. From 2016 to 2020, assets showed impressive growth of 111% for banks, 120% for MDIs and 159% for financial leasing companies.

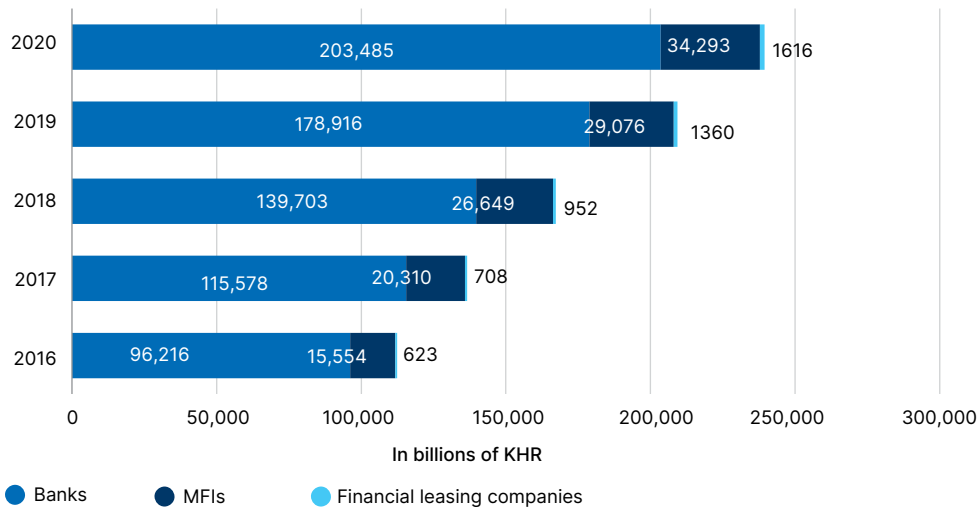
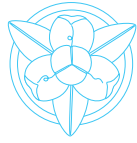
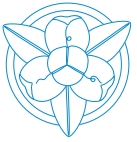
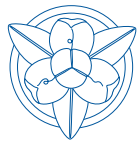


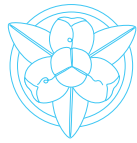
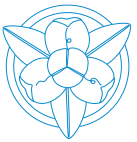
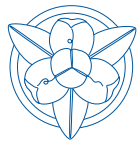
Figure 12: Assets of banks and financial institutions

Source: NBC Annual Supervisor Report, 2020.

Establishment of the SME Bank and potential to extend SME lending further.

Consumer lending has been the biggest driver of loan growth, principally through retail mortgages. Bank lending to the private sector reached USD 32 billion by 2020 or 120% of GDP. While this trend is expected to continue, the 20% and up lending growth rate of the last five years is likely unsustainable. A lower growth rate might lead banks to give increased attention to their SME lending portfolios. In 2020, the NBC licensed the SME Bank to provide savings and credit products for registered and unregistered firms. It has offered different loan schemes like the Cambodia SME Scheme targeting enterprises across all economic sectors except agriculture, based on the definition of SMEs in the national Industrial Development Plan. Registered firms are given preference through interest rates of 5.88% to 6.88% per annum. Unregistered SMEs may be considered for loans but at a higher interest rate of 10% to 12% per annum, reflecting their higher risk. There is no indication that collateral is needed for either type of SME. Registered and unregistered SMEs in food processing, manufacturing and R&D segments that require working capital due to the pandemic can apply for a loan under the SME Co-Financing Scheme. This requires collateral, including different properties determined by the financial institution offering the loan.

PSIs doubled from 12 in 2017 to 24 in 2020, providing more payment options, especially cashless payments. By the end of 2020, PSIs had generated 58.9 million payment operations equal to USD 5.6 billion. The number of PSI agents increased from 25,400 in 2019 to 31,600 in 2020, while the number of registered e-wallets climbed from 1.3 million in 2019 to 3.6 million in 2020.² The growth in PSIs facilitates greater business synergies across mobile apps and payment systems and opens new opportunities for SMEs and larger businesses and e-commerce platforms to use digital payment platforms and e-wallets to transfer money, pay bills, pay staff or receive funds from clients without needing to hand over physical cash.



A decline in RCIs is due to improved monitoring. The number of RCIs fell from 313 in 2017 to 245 in 2020. The reduction reflects increased NBC monitoring and the revocation of licenses for institutions that failed to abide by regulations.³ In 2019, the NBC terminated 28 RCIs for charging high interest rates without legitimate authorisation and mobilising public deposits under the promise of lucrative interest payments.⁴ This is a positive development demonstrating enhanced monitoring and greater protection of consumers.

Money changers are expanding in rural areas. The number of money changers increased from 2,779 in 2018 to 2,882 in 2020 in 122 provincial locations. Phnom Penh saw a reduction of 19 money changers. There are three types: licensed money changers, authorised money changers and unofficial money changers. The Prakas (Directive) on Money Changer Licenses or Authorisation (October 2009) stipulates that licensed and authorised money changers can sell and buy foreign currency banknotes and buy traveler checks. One of the unique features of the Cambodian foreign exchange market is that the NBC deals directly with licensed money changers who are entitled to participate in the bank's KHR auctions. Authorised money changers are exempt from compulsory deposits and do not have access to the NBC auctions. One of the reasons for the increase in money changers is their role in the currency exchange market to support domestic MSMEs, which frequently experience currency mismatches and need currency exchanges.⁵ A study by the Japan International Cooperation Agency in 2019 found that enterprises with a higher proportion of cash payments tend to use money changers rather than banks. Cash is the most common means of payment among MSMEs.



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Ease of access to banking infrastructure has largely increased since the MAP Diagnostic. Banks and financial institutions expanded their networks to 2,542 locations and 3,177 ATMs in 2020,⁶ up from 2,345 branches and 2,223 ATMs in 2018.⁷ This eases access and broadens use of financial services. Financial infrastructure, especially in the banking sector among commercial and specialised banks, has developed progressively. In 2020, they opened 341 new branches (up 35% from 2019) and set up 519 new ATMs (up 23%) and 22,928 POS terminals (up 24%). Debit and credit card usage continue to show growth at 4% and 17%, respectively, from 2019 to 2020. Cambodia's ATM growth from 2016 to 2019 increased faster than in other countries in South-East Asia (see Table 4) with a 62.7% increase, but in terms of the number of ATMs, Cambodia lagged behind.

Table 4: Number of ATMs, POS terminals, debit cards and credit cards of commercial and specialised banks

	2017	2018	2019	2020	PERCENTAGE CHANGE, 2017 TO 2020	PERCENTAGE CHANGE, 2019 TO 2020
ATMs	1,490	1,818	2,299	2,818	89%	23%
POS	13,128	15,476	18,564	22,928	75%	24%
Debit cards	1,813,435	2,172,263	2,649,595	2,759,453	52%	4%
Credit cards	74,130	102,151	111,739	131,077	77%	17%

Source: NBC Annual Bank Supervisor Reports, 2017, 2018, 2019 and 2020.

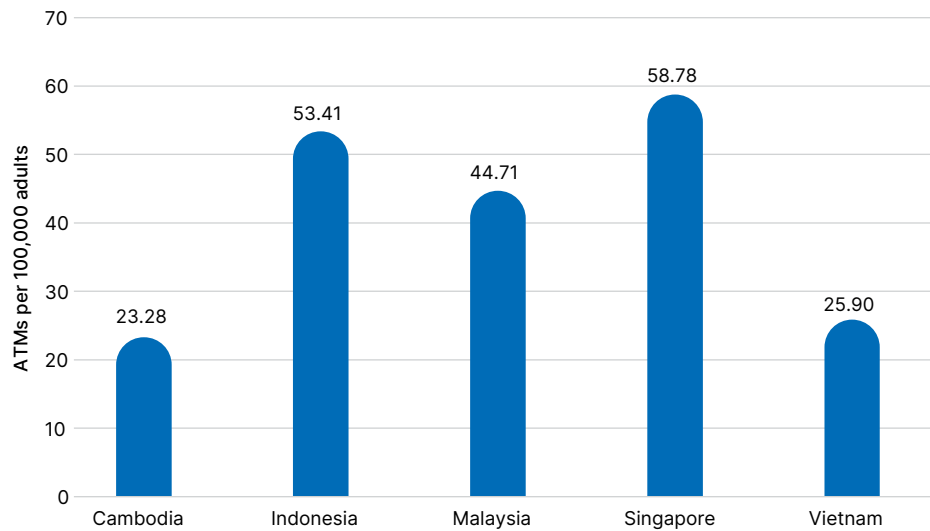
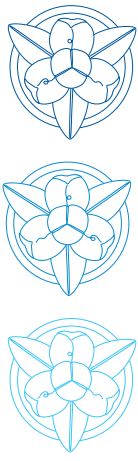


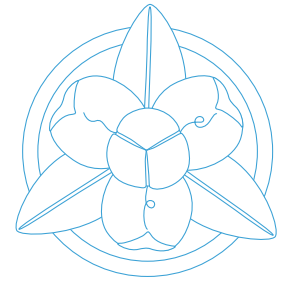
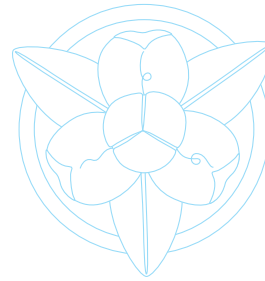
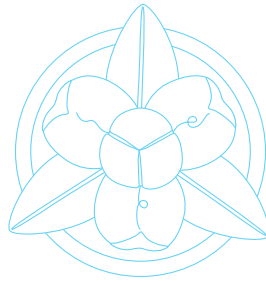
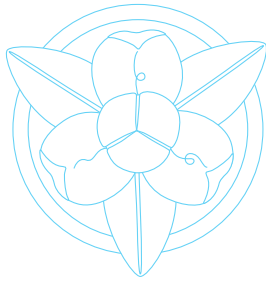
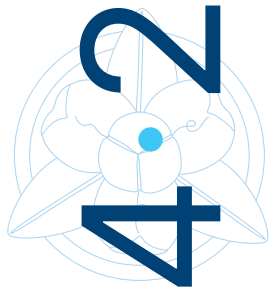
Figure 13: ATMs per 100,000 adults, 2019

Source: World Bank Development Indicators database, 2021.

Note: No data are available for Lao People's Democratic Republic in 2019.

Further expansion of ATM access is expected in provinces without additional branches. The top four commercial banks with the largest ATM footprint increased their network from 826 to 1,684 ATMs between 2017 to 2020, predominantly in rural areas. ACLEDA added the most ATMs but the Advanced Bank of Asia (ABA) and Sathapana Bank saw the highest proportional increases. Wing Bank's POS expansion from 4,471 terminals in 2017 to 11,738 in 2020 represents a 162.5% increase. It continues to target the unbanked population with agents covering every district and almost every commune. Among Wing agents, 80% are women, many earning a second income for their families.⁸ With ATM and POS expansion targeting rural areas, the unbanked and underbanked have more access to the banking sector.

Banks and financial institutions have increasing depositor and borrower accounts. Amid expanding access to banking services, the number of depositor accounts grew to 8.9 million and borrower accounts to 3.2 million in 2020, up from 6.3 million and 2.7 million, respectively, in 2018.⁹ Given the decline in the proportion of adults who reported saving with a bank, however (see Section 1.3), the increase in the number of deposit accounts is likely driven by existing bank clients opening multiple savings accounts. Debit and credit card growth was also evident over the past four years as more and more Cambodians adopted these products.



Payments

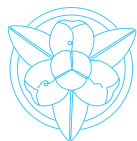
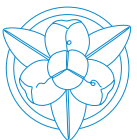
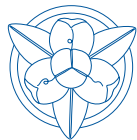
Cambodia has mainly been a cash-based economy. The banking system facilitates cash-based transactions with KHR used simultaneously with USD for daily financial activities. The NBC has been actively promoting use of KHR for several years, however, towards “de-dollarising” the economy. It has made some progress by instituting various initiatives such as compulsory loan portfolios in KHR of at least 10% and the Liquidity Providing Collateralised Operation (LPCO) facility to supply more KHR to the banking system. It has encouraged price tags, credit and corporate bond issuance in KHR, and modernised the electronic payment system to lower the cost of KHR payments and facilitate cross-border transactions. While these developments are encouraging, the level of dollarisation remained high at 83.7% by the end of 2020 compared to 84.1% in 2019.¹⁰

Payment systems are the backbone of formal financial services; their development directly affects the financial sector’s ability to provide more and better value services. Over the past four years, the expansion and modernisation of payment infrastructure to support the clearing and settlement of interbank transactions has continued to facilitate more affordable, safer and faster means of payments. Payment system initiatives have sought to develop more integrated payment infrastructure, facilitate greater financial inclusion and improve the usability of digital financial systems. Initiatives include the following:

- **Four different payment mechanisms launched by the NBC.** The FAST system that began in 2016 allows real-time settlements. The CSS introduced in 2017 facilitates card payments across banks and MDIs, and has promoted financial inclusion by enabling the interoperability of ATM and POS systems. The Bakong system launched in October 2020 uses block chain technology to facilitate interoperability, raising speed, allowing digital transfers across financial service providers in Cambodia and internationally, and increasing security and efficiency.¹¹ Finally, the Retail Payment System that began in January 2021 with support from KOICA facilitates cashless transactions and boosts use of electronic payments by providing safe, efficient and fast payments that facilitate timely trade settlement while allowing cross-currency transfers in KHR and USD (see Section 1.2). The system integrates three components: the Real-Time Fund, the Mobile Payment System and the QR-Code Payment System. It enhances financial inclusion by facilitating access for those in rural areas without a smartphone; even basic phones can access it.



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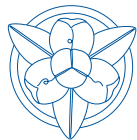


- **Standardisation of QR codes and launch of the interoperable QR payment linkage.** In mobile banking and digital technology, the NBC has worked with relevant financial institutions to standardise the QR code to ease transactions between institutions in the country and interconnectivity with financial institutions in the surrounding region. A memorandum of understanding with the Bank of Thailand in February 2019 sought to expand cooperation in financial innovation and payment systems to promote efficiency, the safety of cross-border payment transactions and national currency use. It has steered implementation of a Cambodian-Thai QR code-based payment system with three Cambodia banks (June 2019), and the launch of an interoperable QR payment linkage between the two countries (February 2020) to advance the use of local currencies and financial inclusion, facilitate retail payment activities and boost tourism.
- **Introduction of the EMV payment method.** In August 2019, the ABC and VISA signed an agreement enabling the use of Europay, MasterCard and VISA (EMV) payments to strengthen digital transaction security. EMV is the global standard for chip-based credit and debit transactions, helping to maximise security and prevent cards from being counterfeited and used by someone else if lost or stolen. The agreement applies EMV to chip-enabled cards, ATMs and POS terminals. It will help the interbank CSS network accelerate the migration of magnetic stripe payment cards to secure EMV chip technology. A third of Cambodians have shown interest in making payments by scanning a QR code, a technology VISA launched in Cambodia in late 2018 in partnership with various banks, including ABA Bank, ACLEDA Bank, AEON Specialised Bank (Cambodia) PLC., Canadia Bank and the Cambodian Foreign Trade Bank. QR payments will allow consumers to use their mobile phones to scan to pay with VISA. QR payments are now accepted in more than 1,320 outlets, twice as many as when the technology was launched.¹²
- **Innovative mobile apps platform to enhance access to finance in the agricultural supply chain.** In the microfinance sector, two leading MDIs, AMK and Amret, have been working with different stakeholders on mobile applications to target specific customer needs, mainly in agriculture. The apps seek to address gaps in value-chain financing while creating marketplace platforms. Specifically, AMK's TONLESAP mobile app and Amret's CAMAgriMarket app help farmers make links to buyers, sellers and suppliers while offering access to financial services such as loans or money transfers through MFIs.

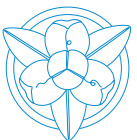
Cambodia's current environment continues to be conducive to digital financial services. Acceleration of the acceptance of digital payments has been underpinned by the rise of e-commerce, convenience offered by contactless and QR payments, a young population demographic and high Internet penetration. Electronic payments and mobile banking expansion increased considerably in 2018, with 25 banking and financial institutions providing Internet banking services and 20 banking and financial institutions offering mobile banking services.¹³ Debit card adoption saw steady growth of 78.2% from 2016 to 2020 but has slowed likely due to the pandemic. Credit card adoption increased 174.8% from 2016 to 2020 according to the IMF Financial Access Survey in 2020. Mobile



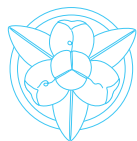
QR payments are now accepted in more than 1,320 outlets, twice as many as when the technology was launched.



money providers such as Wing are issuing ATM cards, contributing significantly to broader adoption. An ATM card is now seen as a social status symbol, likely pushing uptake.¹⁴



Increasing interoperability across banking and mobile money systems. A positive development has been increasing partnerships between mobile money operators like Wing Bank (formerly Wing Specialised Bank) with its extensive agent banking network of approximately 9,300 agents in every commune. In 2020, Wing signed several partnership agreements with banks including ABA, Canadia Bank, Chief Bank, Philips Bank, Hattha Kaksekar, JC Finance and the Agricultural and Rural Development Bank of Cambodia (ARDB). These provide further opportunities to enhance financial inclusion as bank customers can now repay their loans easily without visiting bank branches via Wing's extensive network of cash express agents.¹⁵ Wing and MasterCard have partnered to establish Wing MasterCard as the former seeks to enlarge its product offerings. Commercial banks like ABA entered into strategic partnerships in 2020 with major payment service providers including TrueMoney, Wing and eMoney. These will allow loan borrowers to deposit funds through any of over 25,000 agents across the country.¹⁶

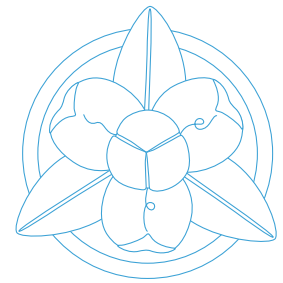
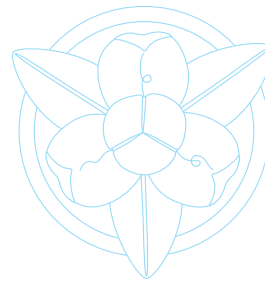
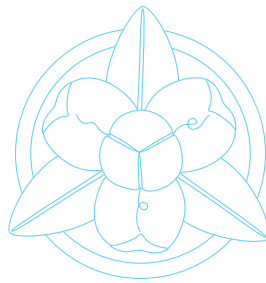
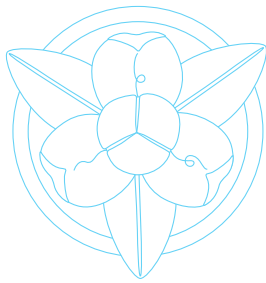
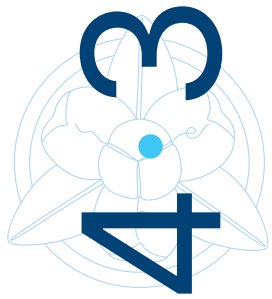


Emerging innovations are accelerating interoperability and the migration of government payments to electronic channels. Wing Bank is reshaping its approaches to financial services as it seeks to become a hybrid digital bank instead of a traditional “brick and mortar” bank. It is also tailoring products and services specifically to SMEs, such as through hassle-free payroll services, online payments and the Wing Money mobile app.¹⁷ Another emerging trend has been the migration of government payments to electronic channels, with the pandemic accelerating the delivery of cash transfers via digital G2P channels. In June 2020, G2P transfers worth USD 23 million went to approximately 530,000 households identified by the IDPoor programme. Recipients were able to obtain cash at any Wing agent.

A lack of identification is problematic for G2P transfers. G2P transfers have highlighted a key challenge since 30,000 households were unable to claim cash transfers, despite qualifying for the IDPoor scheme, because they lacked digital IDs. A fragmented approach to social protection has each ministry maintaining its database of beneficiaries, which entails risk of overlaps and exclusion. For example, beneficiaries of the cash transfer under the Ministry of Labour and Vocational Training for garment factory workers laid off due to factory closures may also be covered by the cash transfer programme under MoSAVY for those in the IDPoor category. While Wing has facilitated G2P transfers through its agent networks, progress is underway to establish a digital ID as laid out in the National Strategic Plan for Identification (2017-2026). This will require significant infrastructure investment.¹⁸



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Remittances

International remittances fell due to COVID-19, following a rise since 2010.

International remittances climbed starting in 2010, reaching USD 1.52 billion in 2019, equivalent to 5.6% of GDP. By the end of 2020, however, remittances were USD 1.2 billion, a sharp 17% drop. The top source countries for remittances were Thailand, the Republic of Korea, Japan and Malaysia, with shares of 73%, 16%, 6% and 1.4%, respectively. All saw year-on-year drops of 11%, 30%, 4% and 51%,¹⁹ respectively, due to the pandemic. This has impacted economic activity, especially businesses, and reduced demand for labour. Pre-COVID-19, 3 in 10 households had a migrant sending money home through a remittances service. Since the pandemic began, 30% of migrants have returned to Cambodia and more than 60% of migrant households have reported declines in the migrant's income by as much as 42%.²⁰ The 2021 Mobile Tracker Survey found that 5% of adults in Cambodia reported receiving remittances from abroad. Rural households rely relatively more on net income transfers than urban households and will be more affected by the decline in remittances.

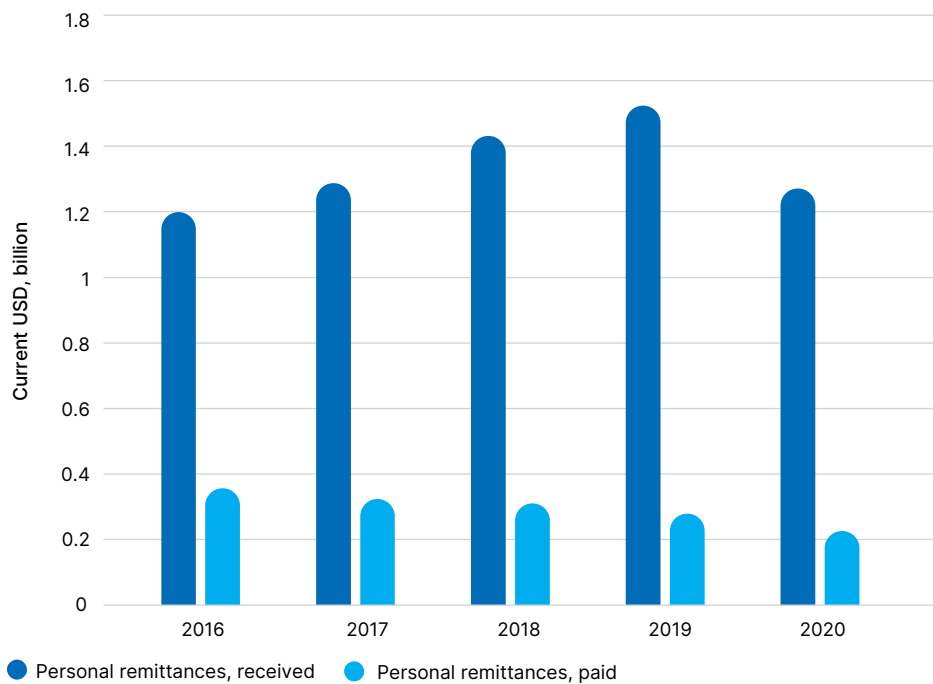
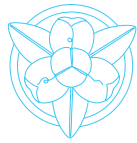
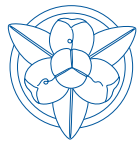


Figure 14: Migrant remittances, 2016-2020

Source: World Bank Development Indicators database, 2021.



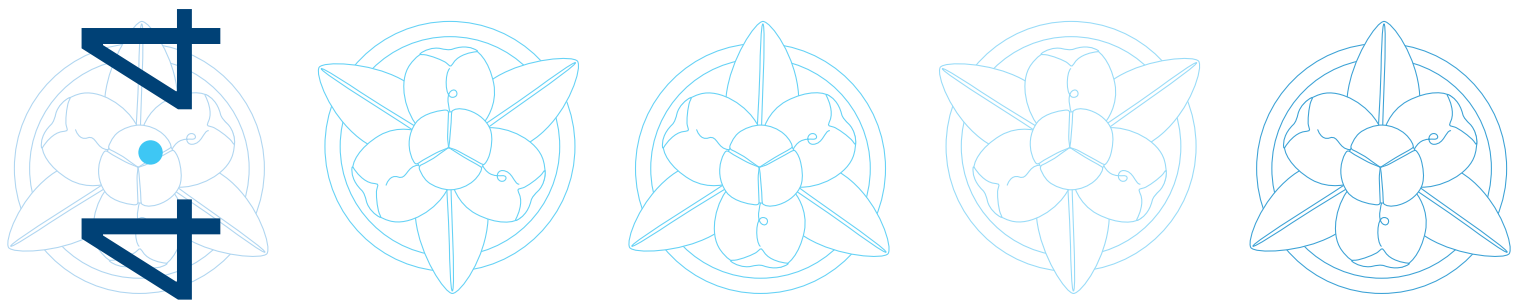
The cost of remittances remains high. Average transaction costs for low-value remittances of USD 200 are still high at 11%, a long way from the 3% global target.²¹ Yet money transfer operators that offer digital remittance channels can have rates lower than 3%.²² Recent agreements between the central banks of Cambodia and Thailand on the use of QR codes for cross-border remittances are expected to promote speed and use of local currency for transfers, enabling cost reductions.²³ Maybank, a Malaysian owned commercial bank, signed a memorandum of understanding with the NBC in October 2019 to facilitate cross-border payments. Both NBC and Maybank say they are implementing these payments using the Bakong system towards a larger goal of helping Cambodian migrant workers remit money from Malaysia to Cambodia.

Remittance partnerships among banks and MFIs have increased. In 2020, ABA offered both domestic and international transfer services via its mobile app. It introduced domestic transfers through the National Clearing House and Bakong system, which now allow money to move between local banks conveniently and quickly. The VISA Direct service means ABA VISA cardholders can send money instantly to any VISA card issued by banks in Cambodia and eight other countries in the region. ABA also struck agreements with eRia and MoneyGram, two of the most popular money transfer services globally, so customers can perform international instant money transfers in the ABA app. The number of instant transfers significantly increased by 57% year on year.²⁴ MFIs like AMK have partnered with Thunes, a leading global cross-border payment provider, to facilitate international remittances, targeting Cambodians in remote areas. With AMK reaching approximately 90% of all villages in Cambodia, this new partnership enables it to expand its footprint as a remittance provider²⁵ and provide benefits to its 900,000 customers. Remittances are disbursed through direct transfers into bank accounts or via cash pick-up centres operated by a network of 5,500 agents in 25 provinces.

Driving digital inclusion. Despite the pandemic, channels for remittances have increased since the original MAP Diagnostic. Recent agreements between financial institutions, payment providers and money transfer operators suggest that the market for international digital remittances has significant growth potential as economic activity and migration return to pre-pandemic levels.²⁶ One such initiative is Wing's January 2021 announcement that it will continue to expand its inbound transactions to Cambodia through a partnership with Ria Money Transfer, a global leader in the cross-border money transfer industry and a subsidiary of Euronet Worldwide, Inc. Customers can now use Ria services to send money into Cambodia, where recipients can obtain cash through any Wing Cash Xpress Agent branded with the Ria logo. Receivers pay no fees, making the process easy and accessible to all. Over the past year, Wing has announced a new line of remittance services with partners like MoneyGram, Western Union and many others that now allow customers to send and receive money from more than 200 countries.²⁷



The number of instant transfers significantly increased by 57% year on year.



Credit

Credit in Cambodia is offered through a range of providers, from formal institutions such as banks, MFIs, RCIs and financial leasing companies to informal providers such as village savings and loan associations, Tong Tin and local money lenders.

Since the last MAP Diagnostic, the credit portfolio has continued to expand strongly, particularly for banks, where it was up 25% in 2019. On the demand side, the 2021 Mobile Tracker Survey found an increase in the proportion of adults with credit at a bank, from 6% in 2015 to 10% in 2021. Those with access to non-bank formal credit decreased over the same period, however (see Section 1.3). While growth is positive in principle, such high growth, particularly consumer lending, may be unsustainable. The pandemic is expected to slow credit growth at least temporarily.

Business loans continue to be the largest product of the credit portfolio, with a share of more than 80%, although personal loans for education, medical care and vehicles are available. Borrowing costs have declined with the weighted average interest rate on KHR new-term loans decreasing from 14.91% in 2017 to 10.15% by the end of 2020 while the weighted average interest rate on USD new-term loans declined marginally from 9.92% in 2017 to 9.11% by 2020.²⁸ The sharper decline in borrowing costs for KHR loans for both banks and MFIs reflects ongoing de-dollarisation in the financial sector, according to the NBC.



While growth is positive in principle, such high growth, particularly consumer lending, may be unsustainable. The pandemic is expected to slow credit growth at least temporarily.

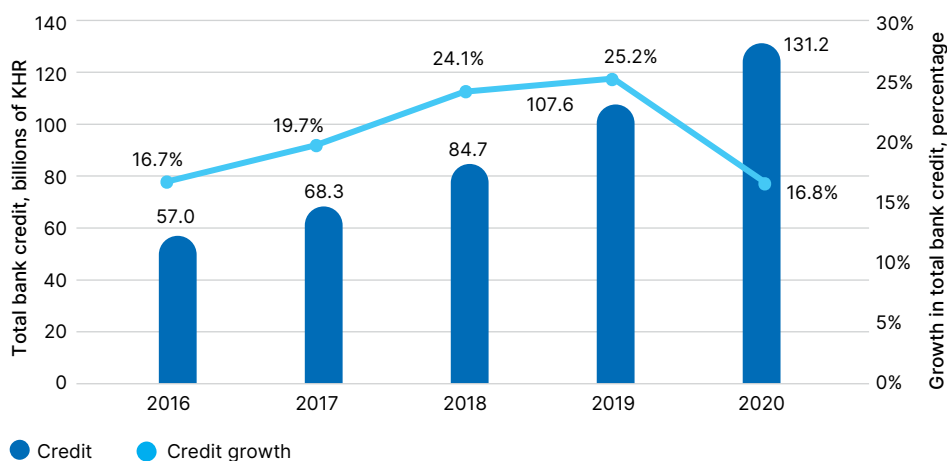
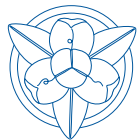


Figure 15: Total bank credit and credit growth, billions of KHR

Source: NBC 2020 Annual Supervisory Report.



Bank credit has grown. The amount of domestic credit provided by the financial sector (banks and other formal providers) grew annually by 16.7% to 25.2% from 2016 to 2020.²⁹ In addition, NBC loan restructuring measures during the pandemic in 2020 applied to approximately 10.6% of total loan portfolios. Banks and MFIs were able to maintain a low non-performing loan ratio of 2.1% and 1.8% in 2020, respectively. In addition, the NBC lowered the reserve requirements for banks and offered minimum interest rates under the LPCO. Total credit as a percentage of GDP has increased despite the moderation in domestic credit growth.

The credit-to-GDP ratio rose sharply from 120.6% at the end of 2019 to 140% at the end of 2020.³⁰ The increase largely reflects the decline in GDP due to the economic downturn rather than a significant increase in credit levels. Concerns remain regarding the current level of lending, however, and the impact of excessive credit relative to the real economy.

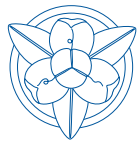
MFIs are increasingly profit driven. The scale and extent of Cambodia's MFI sector, which is a close competitor to the banking sector and more relevant to most rural and small companies that dominate the economy, is particularly notable. Many development partners that formed MFIs have sold their shares to foreign private sector investors in the last few years. This has included MFIs at the "bottom of the pyramid", such as AMK and World Vision, which are now under Chinese investors. According to some observers, this change in ownership has been accompanied by a shift in mission with a greater emphasis on profit. While this does not necessarily exclude the original social mission, it has caused concern. Credit in the microfinance sector shows household loans accounting for 31.2% of all loans outstanding at the end of 2020. These have consistently been the largest share of loans in MFI portfolios since 2017. Agriculture loans were slightly down in 2020 to 19.2% from 20.3% in 2019. The number of depositor and borrower accounts rose to 2.7 million and 1.9 million, respectively, indicating greater financial inclusion.³¹

The market for financial leases has been steadily growing since the previous MAP Diagnostic, providing alternative financing for customers with no other access to cash³² or collateral. According to the NBC, in 2017, 11 financial leasing companies had total assets of up to KHR 707.9 billion and total financial leases of up to KHR 525.3 billion, with 64,252 customer accounts. By 2018, four new leasing companies had been established, reflecting further growth. The NBC noted that increases in living standards and household demand led to greater demand for moveable assets. Low-income groups and younger Cambodians (aged 20 to 30 years) who have no borrowing history or no collateral have viewed leasing as an affordable service.³³ SMEs have used leasing companies to finance agricultural equipment and small machineries. Leases for agricultural equipment increased from 7.5% in 2018 to 14.8% in 2020.

The Credit Bureau of Cambodia continues to play a vital role in developing credit market infrastructure. Through its credit information-sharing system with banks and financial institutions, the Credit Bureau of Cambodia (CBC) provides



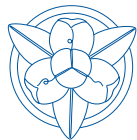
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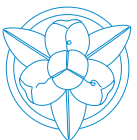
information on borrowers that helps in mitigating credit risk and minimising over-indebtedness. This has enabled banks and MFIs to improve risk management and credit allocation practices. Since the previous MAP Diagnostic in 2017, the CBC has expanded its member base from 138 to 168 financial service providers, including 54 commercial banks, 12 specialised banks, 79 MFIs, 15 leasing companies and 8 RCIs by the end of 2020.³⁴ Of these, the largest increase has been in the number of commercial banks. This is a positive development in managing and assessing risk in the credit market although a number of RCIs have not become members. Nonetheless, the database of credit records has grown from 4 million customers in 2016 to more than 7 million by the end of 2020, representing more than 60% of the adult population and more than 22,000 commercial entities with 62 member financial institutions reporting commercial data. With the onset of the pandemic, the CBC enabled reporting and tracking COVID-19-related loan restructuring and offered credit enquiries for free on restructured loans. As of December 2020, more than 260,000 loans had been restructured.³⁵

New credit information products are aimed at business credit records and better credit scoring analysis. In 2019, the CBC launched its Commercial Credit Reporting System. It compiles credit histories on companies that banks and financial institutions can review as part of loan applications. In 2020, the CBC launched new products to enhance value for service providers and improve accessibility for consumers. The K-Score feature factors in market trends, incorporating positive and negative information on borrowers. A second version of a business intelligence suite, the Data Analytics Report, enables member financial institutions to perform wider and deeper analysis of their performance across loan management cycles compared to the industry. With rapidly rising adoption of smartphones and mobile banking, the CBC also launched an app to enable convenient and smart access to financial health checks. These are all encouraging developments that can help reduce or mitigate information asymmetry as more financial service providers use the credit reporting systems. They empower banks and MFIs to know their customers well.

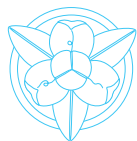
Issues remain around classifying enterprises. The classification of commercial entities by company size (large, medium and small) to determine the number of SMEs using the Commercial Credit Reporting system still needs to be aligned with the government definition of SMEs. The latter is based on assets, number of staff and turnover, as established by the MISTI. But the majority of banks do not use this definition, preferring loan size to classify the loan in the SME category. As a result, further development is needed to facilitate the CBC's efforts to acquire appropriate data to assess loan disbursements to SMEs. The CBC continues to inform other parties working on SME access to finance and believes further discussion with relevant stakeholders is needed to establish a clear benchmark regarding the definition. Since the MAP Diagnostic, no significant developments have occurred in finalising the Secured Transactions Law and



improving the operations of the Secured Transactions Registry. A meeting in 2017 with the Minister of Commerce and representatives of the MEF, the Ministry of Justice and the NBC discussed challenges and solutions in drafting amendments to the law. But more work is needed to enhance the registry.



Government interventions are enhancing access to finance for SMEs. Over the past two years, three key government initiatives have supported lending products for SMEs:

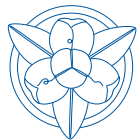


1. The formation of the SME Bank in 2019 and its subsequent roll-out of the SME Co-Financing Scheme as a joint venture³⁶ in April 2020 enabled SMEs to borrow USD 200,000 for working capital and USD 300,000 for investment capital at a 7% annual rate with a four-year payment term. Totalling USD 100 million, the scheme was fully subscribed by mid-October 2020, benefitting 753 SMEs, according to the bank. The bank is also developing the Cambodian Women Entrepreneurs Scheme to bolster access to financing for women.
2. The 2020 establishment of the CGCC, a state-owned enterprise, was followed by the launch of its first guarantee scheme in March 2021. The Business Recovery Guarantee Scheme is designed to support businesses, including SMEs and large firms, to enhance their access to formal loans for both working capital and investment or business expansion. The scheme acts as a form of collateral or security for 70% to 80% of the loan amount borrowed by businesses from participating financial institutions. This reduces the physical collateral required from borrowers.
3. In January 2021, the ARDB anticipated disbursing USD 300 million in low-interest loans to SMEs in the agro-processing, agro-industrial and agricultural sectors over the year. In 2020, it disbursed about USD 245 million to rice millers, exporters, and livestock and agricultural SMEs, a 45% increase from 2019. In a show of support for farmers and investors in the agricultural sector, the ARDB in May 2020 lowered the annual interest rates from 6% to 5% for working capital and from 6.5% to 5.5% for capital investment, free of service charges.³⁷ The bank has also offered targeted lending products with movable collateral for agricultural SMEs. Specifically, farmers who need financing for rice, corn and other agricultural products can access a recent loan scheme initiative by the ARDB that allows borrowers to use movable collateral such as their products or a debt-guarantee certificate from a buyer or exporter. Loan schemes like this will increase the availability of credit and should reduce its cost.



In a show of support for farmers and investors in the agricultural sector, the ARDB in May 2020 lowered the annual interest rates from 6% to 5% for working capital and from 6.5% to 5.5% for capital investment, free of service charges.

Donor funding in credit markets targets underserved groups. A recent agreement in June 2021 between Women Entrepreneurs Act (WE Act), funded by USAID and implemented by PACT, and Wing Bank and Boost Capital aims to provide loans at competitive rates to underserved young women entrepreneurs. The scheme focuses on micro and small unregistered businesses adversely impacted by the pandemic, with no collateral and that do not meet eligibility criteria at formal financial service providers. This suggests that donor agencies are seeking to fill gaps in capital for groups that are vulnerable and outside the formal financial sphere.



Private sector initiatives are facilitating access to finance. MDIs such as Amret are seeking to address challenges in access to finance faced by clients like women microentrepreneurs with no collateral. A new loan product developed in 2020 called the Fast Emergency Loan targets small businesswomen selling in markets who do not have collateral. The loan application, approval and disbursement can be finalised within 24 hours³⁸ in conjunction with trainings that focus on digital and financial literacy. AMK has also developed a value-chain financing product targeting SMEs, offering both unsecured loans (no collateral required) and secured loans (collateral can be soft or hard title land deeds).³⁹ LOLC (Cambodia) Plc offers inventory loans up to USD 100,000 without home or land collateral needed, which have been popular among business clients. Rai Capital introduced a digital peer-to-peer (P2P) lending marketplace platform to provide flexible financing solutions for SME entrepreneurs in November 2020. Accessible via a mobile app, the platform eliminates the need for borrowers to travel long distances to obtain financing from banks or financial institutions.⁴⁰

Despite overall growth and development in the credit market, important challenges remain.

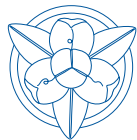
Over-indebtedness continues to be a concern especially in the microloan sector. Cambodia is commonly known for having very high debt levels in rural households, which is concerning given that many are poor or only marginally above the poverty line. Loan sizes in Cambodia have continued to rapidly grow over the years, spurring over-indebtedness and becoming a serious problem in the microloan sector. Client protection is uneven without clear policies on aggressive sales and debt collection practices. Seizure of collateral, which most commonly is land, features regularly in collection practices. Substantial strengthening is needed in client protection regulation to ensure long-term market sustainability.⁴¹

Access to non-financial data sources continues to be limited. According to the CBC, a significant population share has no or only a limited formal credit history. This group includes many youth and individuals with MSMEs who have not accessed formal financial services due to a lack of financial literacy, or who have no valid identity in line with lender requirements. Without a traditional credit history, alternate data points such as telecom/mobile data and electricity data can be used to assess the creditworthiness of an individual, especially for those who have never taken out a loan.⁴² This can fill the information asymmetry between lenders and new borrowers and enable access to credit. The CBC currently does not have access to alternative data, however.

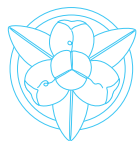
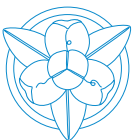
Without a standard SME definition, it is not possible to determine the number of these firms using the CBC's credit reporting system. Further support to the CBC's efforts to acquire appropriate data is needed to assess loan disbursements to SMEs. Discussion with relevant stakeholders would help establish a shared definition.



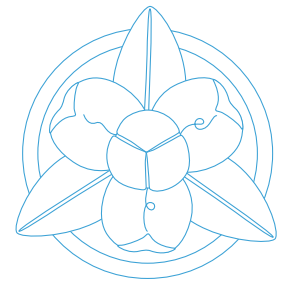
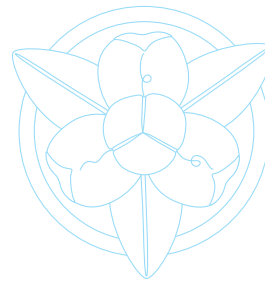
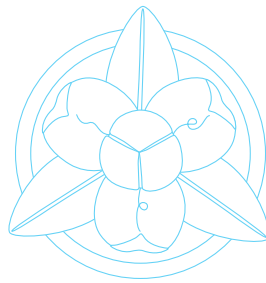
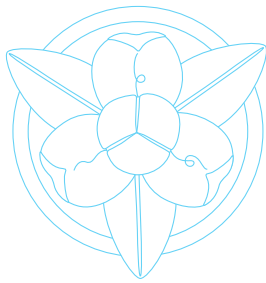
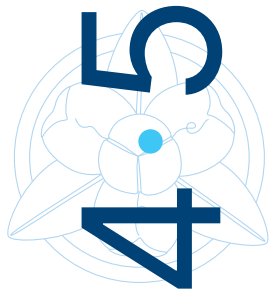
Cambodia is commonly known for having very high debt levels in rural households, which is concerning given that many are poor or only marginally above the poverty line.



The lack of a unified ID has prompted discussions on a digital ID. The CBC reported that MFIs accept multiple forms of identification, including a passport, birth certificate, family book, national ID cards and others, making it challenging to identify whether the person is a unique individual using multiple forms of identity. The need for a digital ID is being discussed through an interministerial working group, since different ministries would be involved in devising an electronic “know your customer” solution. Key regulations are needed to facilitate further financial inclusion, according to the ABC.



The interest rate ceiling has had a mixed impact. In March 2017, the NBC introduced an 18% cap on the annual interest rate for microfinance loans denominated in both KHR and USD. This step sought to alleviate borrowers’ repayment burdens and improve the efficiency of the microfinance sector. After the cap was introduced, however, MFIs resorted to charging higher non-interest rate fees to offset the interest income loss. Loan-related commission fees have tripled on average, across all MFIs. In addition, the number of borrowers declined even as total microfinance loans continued to grow.⁴³ Some MFIs have turned away from small borrowers and shifted towards larger ones. The impact of the cap on the number of borrowers has varied across financial institutions, depending on operations and funding costs, and the client segment. Going forward, the IMF has recommended that if the interest rate cap is to be maintained to protect consumers from usurious rates, a non-binding cap coupled with stronger consumer protection safeguards would offer a better alternative.



Savings

Historically, low use of formal savings products has been due to poor access and the high cost of savings accounts, and low incomes limiting any surplus, as identified in the Map Diagnostic.

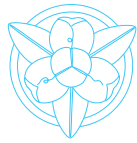
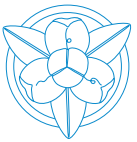
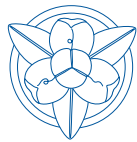
Cambodians predominantly have saved in cash or other assets, including livestock, as a safeguard against uneven income due to seasonality, since the majority are engaged in agriculture. Holding savings in these forms offers high liquidity, convenience, low transaction costs and security of value, as confirmed by the 2021 Mobile Tracker Survey. It found low formal saving and higher informal saving, with the dominant form of saving being at home in cash or through livestock, etc.

Deposits have grown significantly at both banks and MFIs over the last five years. Total customer deposits in banks increased by 14.5% in 2020. The number of depositor accounts grew to 6.3 million, with individual deposits continuing to lead the growth and now constituting 55.5% of depositor accounts. The remainder is as follows: business entities at 22.3%, local and overseas banks at 11.6%, non-residents at 6.4% and other institutions at 4.2%.⁴⁴ Microfinance sector deposits saw particularly high growth of 53.2% from 2017 to 2018. Savings as a percentage of GDP has jumped from 20.3% in 2016 to 27.1% in 2019 before falling to 25.9% in 2020, likely due to the pandemic's impact on income. While the 2021 Mobile Tracker Survey found an increase in formal savers, from 11% of adults in 2015 to 17% in 2021, this was driven solely by the non-bank sector. The share of those who reported saving with a bank declined from 7% to 5% over the same period.

Growth is supported by the NBC's concerted efforts to mobilise savings. The government's effort to incentivise savings was a top priority in the 2017 MAP Diagnostic. The NBC's new digital application, "NBC-Edu", became available in 2018. It was part of a financial literacy campaign and a partnership with the MoEYS and development partners to design a curriculum to teach students about savings, loans and financial management. The NBC, MoWA and VISA have jointly organised a workshop, "Financial Literacy in Cambodia", to promote financial inclusion by providing financial literacy to women and women entrepreneurs in communities. In 2020, the NBC conducted eight MFI meetings with around 2,000 participants,⁴⁵ delivering basic knowledge on banking and MFI products.



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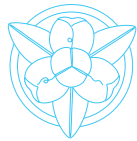
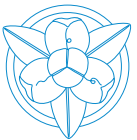
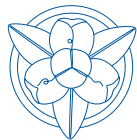


Banks and MFIs expanded savings and deposit products in line with diverse customer needs and eased access through mobile apps. For example, Cambodia Post Bank has three types of savings accounts: a basic savings account (no minimum balance), a savings VIP account (USD 500 minimum balance) and a savings with tier pricing account (a higher interest rate based on the outstanding balance in the account). J-Trust Royal (formerly ANZ Bank) and Wing Bank announced the J-Trust microsavings account designed specifically for unbanked Wing customers. They can open savings accounts with just USD 5, enjoy higher interest rates through the Wing Money App, and access accounts using the app and Wing network of agents. A special initial interest rate was 1.35% per year. The newly established SME Bank created a women's savings account with benefits that include cash back. These accounts can be opened by a woman individually or as a primary holder in case of a joint holding. AMK has created a family of flexible deposit products, including an easy savings account, lucky savings account, fixed deposit account and future account, that are showing greater uptake among its remote customer base. As a result, AMK's deposit balance increased 15% from 2019 to 2020 while the number of depositors grew by 6% during that same period, ending at 962,335. Growth came from both low-income depositors (with balances lower than USD 300) and better-off clients who sought higher returns and largely parked their funds in longer-term fixed deposits. Approximately 94% of AMK's deposit clients had a balance of less than USD 100 at the end of 2020; however,⁴⁶ and 95% are in rural areas, so AMK is reaching many lower-income customers. All of these efforts appear to be facilitating greater use of savings products.

Increasing product sophistication is due to customers' growing familiarity with savings. In recent years, more Cambodians have become familiar with life insurance. As a result, product focus has shifted towards protection,⁴⁷ with children's education being a central emphasis. Through partnerships with the insurance industry, banks, MFIs and MDIs have developed products that combine savings with free life insurance targeting education needs. For instance, Amret MFI launched an *innovative savings product in August 2020 called the kmeng chhlat (smart child) account as part of its campaign to encourage parents to start saving early for their children's future higher education needs.* Customers can begin saving with as little as KHR 1,500 (USD 0.36) per day or USD 11 a month depending on the age of the child, and enjoy free life insurance coverage of up to USD 4,000 during the course of the account.⁴⁸ AMK also provides a "smart kids" account starting with a USD 1 deposit that incorporates protection with personal accident insurance for the account holder with the maximum payout up to 300% of their saving balance (capped at USD 200,000) and/or life insurance up to USD 5,000. AMK offers a savings retirement option called the "happy old age" account starting with a USD 5 deposit; the account holder receives accidental death and permanent disability insurance.



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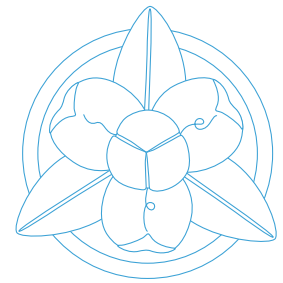
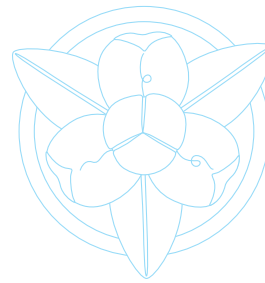
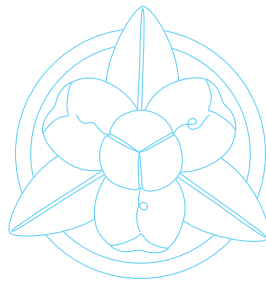
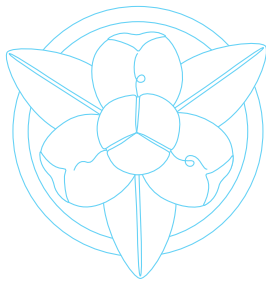
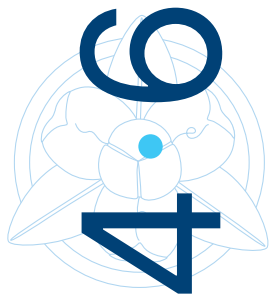


Channels for savings have been enhanced as digital financial services have increased. Digital deposits through ATMs and cash deposit machines have accelerated in particular. Aceda Bank, which has the largest branch network in Cambodia, has redesigned its mobile app so users can make deposits (current, savings and fixed term) immediately and get higher interest rates. The bank has also enhanced its self-banking facilities to provide term deposit machines where customers can open term deposits and print certificates by themselves. ABA in July 2021 announced a flexi deposit account, fixed deposit account and instant loan features for its instant account holders. Deposits and loans can be opened instantly in the ABA mobile app at no charge. Starting in 2019, ABA mobile app users could use existing savings, current or current-plus accounts opened in ABA branches, either in USD or KHR, as a source of funds for up to three mobile savings accounts in each account currency.

Insurance companies are offering savings products. Since the MAP Diagnostic, several insurance companies have started offering savings products, mostly for middle-income households. In 2018, Prudential Cambodia noticed a growing awareness of life insurance among Cambodians and launched eduCARE, which helps customers protect their families by paying off loans, providing for children's education and offering support if the breadwinner is not around.⁴⁹ Japan's Dai-ichi Life Holdings teamed up with Vattanac bank in April 2019 to offer long-term financial protection and savings products, seeing potential in a growing Cambodian insurance market.⁵⁰



Since the MAP Diagnostic, several insurance companies have started offering savings products, mostly for middle-income households.



Insurance

Until 2010, the insurance market was limited to non-life insurance businesses such as general insurance and reinsurance. In 2011, the government, seeing the extension of insurance to the rest of the population as a priority, passed a temporary ministerial order to start micro-insurance.

The MEF granted the first micro-insurance license to BIMA and seven other organisations in quick succession from 2014 to 2017. Most products were for health and life insurance, often in partnership with MFIs.⁵¹ By the end of 2017, 27 licensed insurance companies included 11 general insurers (non-life insurance), one reinsurer, seven life insurance companies and eight micro-insurers.⁵²

Many new entrants to the insurance market. In 2018, insurance companies focused on increasing the scale of their operations and expanded customer outreach, particularly through bancassurance partnerships.⁵³ Since then, the insurance sector has exploded with more players coming into the market. There are currently 33 licensed insurance companies: 16 general insurers, 11 life insurers, five micro-insurers and one reinsurer.⁵⁴ Growth in the sector, especially in life insurance, comes from greater public awareness of insurance and its benefits, in addition to the bancassurance partnerships. The first micro-insurers played a very strong role in promoting insurance using three approaches. Namely, they promoted policies using MFI networks, selling to companies and factories, and retailing through mobile technology.⁵⁵ Positive developments in the market have accelerated insurance penetration, with 12% of adults reporting insurance coverage in 2021, up from 4% in 2015.

Life insurance premiums surpassed general insurance in 2018 for the first time.

This followed an increase in the number of operators as well as rising consumer demand,⁵⁶ with steady growth year-on-year. That growth has now slowed to 5.8% year-on-year from 2019 to 2020, relative to general insurance at 10.5% year-on-year from 2019 to 2020. Micro-insurance premiums fell sharply by 24.6% in 2020 from the previous year, impacted by COVID-19, and given exposure to low-income households with few savings. Current penetration and premiums suggest that the insurance market is still underdeveloped. Moreover, insurance intermediation has also grown very slowly. Until 2007, only one insurance agent and one insurance broker were duly registered.



Growth in the sector, especially in life insurance, comes from greater public awareness of insurance and its benefits, in addition to the bancassurance partnerships.

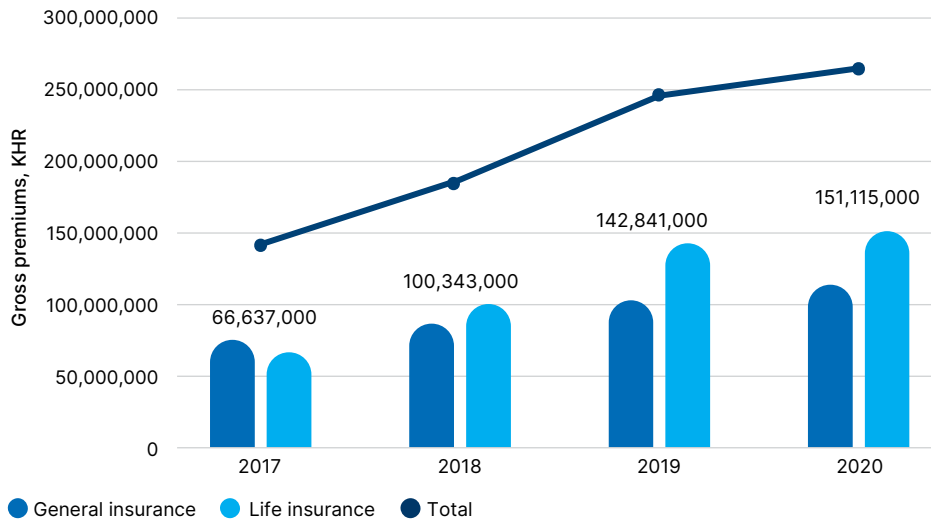
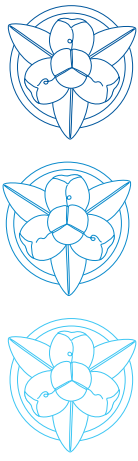


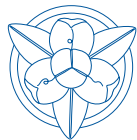
Figure 16: Gross premiums, KHR, 2017-2020

Source: Insurance Association of Cambodia, Life and general insurance statistics publications, 2017 to 2020.

But since 2015, there has been an increasing flow of new brokers. In 2020, about 80 insurers and other insurance operators were registered with the MEF.⁵⁷ Although bancassurance suffers from inconsistencies between banking and insurance regulations and practices, many banks, MFIs, financial leasing companies and telecommunication operators have been granted insurance agent licenses. The number of agents where insurance is the main activity remains very low, in contrast, and has even decreased given onerous legal requirements.

Insurers need to increase their value offering to deepen penetration. Gross claims paid for general and life insurance experienced sluggish growth during the pandemic. General insurers paid out around USD 29.2 million in claims in 2020, reflecting a marginal increase of 0.2% compared to USD 29.1 million in 2019. The total gross claims to total gross premiums ratio has averaged 13.3% between 2017 and 2020, which is on the low side, indicating that consumers derive very little value from insurance. To expand overall insurance penetration from the current 12%, insurers would need substantially to increase their value offering to consumers, including through improving claims ratios.

Development of index-based crop insurance has been slow but solutions are emerging. Since 2015, Forte Insurance has been pioneering a crop insurance project that benefits 200 households, collecting approximately USD 5,200 in premiums each season and paying out about USD 7,000 in claims during the same period. The company has partnered with Agribuddy, a digital platform connecting rural agricultural ecosystems to assist 7,000 farmers in five provinces⁵⁸ who are focused on rice production. They also provide forestry insurance for crops such as rubber, cashews and corn. Since weather forecasting infrastructure is limited, it is difficult for Forte to predict outcomes, however. Farmers also have limited access to weather information.



Digital platforms are opening doors to innovation. New solutions have developed since AGRIBEE, a technology platform that connects all key players to boost the agriculture value chain, signed a partnership agreement in June 2020 with Arbol, a United States-based weather contracts company. Arbol's software platform connects end users with innovative weather risk management solutions at lower cost. By December 2020, AGRIBEE was providing crop coverage for 2,000 active farmers in 15 provinces around Tonle Sap Lake. It covers floods and droughts with a premium of USD 15 and a maximum pay-out of USD 150 per hectare.⁵⁹

In October 2020, Global Parametrics, a provider of parametric protection against climate risks in emerging markets, announced its support for the AGRIBEE pilot. If the pilot is successful, AGRIBEE will scale it up to approximately 20,000 farmers in 2021.

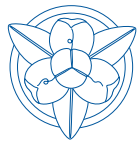
Increasing partnerships between banks, MFIs and insurance companies. More than 20 commercial banks are partnering with insurance companies to cross-sell insurance products. With the rise in digital financial services, Acleda and ABA facilitate customer payments of insurance premiums to various insurance companies, including the micro-insurer BIMA via its mobile apps. Wing Bank claims to partner with 17 insurance companies and uses its own agents to collect premiums through its mobile app. Prudential Cambodia has sold over 300,000 insurance policies through its strategic long-term partner Acleda Bank. It is now leveraging this partnership to further enlarge its footprint, aiming to provide affordable and accessible health care to all Cambodians through its health and wellness app, Pulse by Prudential. A bancassurance partnership between Prudential Cambodia and PPC Bank announced in February 2021 will make Prudential life insurance products accessible to Cambodians through the bank's extensive network and branches. Among MFIs, in 2018, Amret announced it had partnered with the insurance firm AIA to offer insurance policies to its more than 400,000 customers, giving them access to AIA's life and major illness policies.⁶⁰

MFIs and MDIs have been instrumental in implementing a MAP Diagnostic recommendation to diversify micro-insurance and low-premium products, including for health, pregnancy, hospitalisation, house, fire, etc., via their agent networks. AMK has partnered with Forte insurance to provide micro-insurance to AMK loan clients since 2014. In 2018, 285,646 micro-insurance health and accident policies were offered to AMK customers at their offices or through their agent network in rural areas. AMK offered micro-insurance to over 328,968 people in 2019, before the number fell to 289,924 as of May 2021. In 2020, about 75% of AMK's loan clients also bought insurance policies.⁶¹ While this has been a positive development, it has also resulted in unexpected competition for micro-insurers from non-bank affiliate general insurance companies like Forte.

Competition in the micro-insurance segment. After facing competition in their own markets, micro-insurers began to compete in the general insurance market by selling group personal accident and group health insurance policies to companies and factories to cover their employees. The viability of this has been impacted by the NSSF, which in 2017 made it compulsory for every employer to contribute to NSSF accident and health schemes for their employees. Micro-



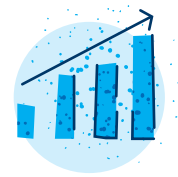
More than 20 commercial banks are partnering with insurance companies to cross-sell insurance products.



insurers then shifted to telecommunications operators to sell insurance products using mobile technology. BIMA has partnered with Smart Axiata, a telecom operator, since 2014, but has faced challenges in communicating the importance of insurance to its low-income target group.⁶² When a subscriber stops using Smart's network, BIMA can no longer collect fees from them. Further, the lack of products within BIMA's insurance portfolio has resulted in a lack of growth. To address these challenges, BIMA signed an agreement in 2018 with PiPay, a Cambodian cashless payment app, to reach a younger market segment. Since users do not require an agent to introduce products, it has been easier for BIMA to integrate services into the app. In 2020, BIMA and Smart Axiata announced an upgrade to the Smart Life Insurance plan to meet the needs of a growing middle class. Targeting Cambodia's young population demographic and position as having the fastest growing middle-class in ASEAN reflected opportunities highlighted in the MAP Diagnostic.

Positive developments in the regulatory market. The NBFSA Law promulgated on 16 January 2021 created a specific regulatory body for the insurance sector and aims to regulate the non-banking financial sector (see Section 1.2). In March 2021, the NBC issued a Prakas outlining the regulatory framework to facilitate more bancassurance partnerships between insurance companies and financial institutions. This is expected to enhance financial inclusion by increasing public access to insurance services and strengthening consumer protection.

Requirements for insurance agents, brokers and loss adjusters have not changed since the original MAP Diagnostic. The MEF is drafting a new ministerial order on licensing insurance agents and brokers that would take a positive step by providing licenses for an unlimited period.



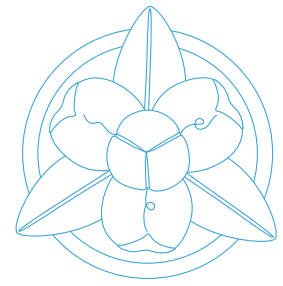
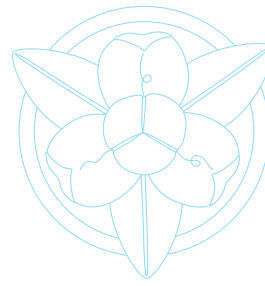
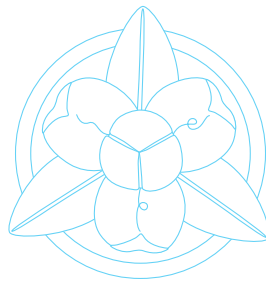
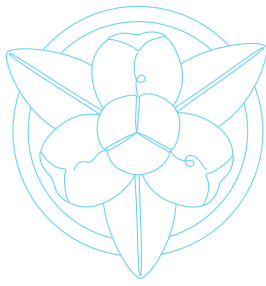
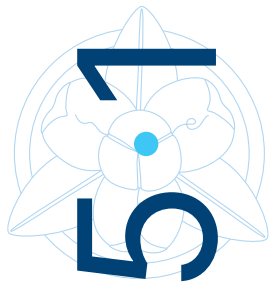
Targeting Cambodia's young population demographic and position as having the fastest growing middle-class in ASEAN reflected opportunities highlighted in the MAP Diagnostic.

PART 4 NOTES

- 1 NBC, 2021b.
- 2 NBC, 2021b.
- 3 Kunmakara, 2018.4 NBC, 2021b.
- 5 Kubo, Sam and Chea, 2019.
- 6 NBC, 2021b.
- 7 NBC, 2019.
- 8 The Fintech Times, 2020.
- 9 NBC, 2021b.
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Economic
sectors that
can drive
growth and
employment



Introduction

Financial inclusion can only do so much to address Cambodia's key social questions. Ultimately, the country must reignite its good economic growth track record to regain lost jobs and increase government revenues, which in turn could empower the government and households to alleviate most of the social issues highlighted in this MAP Refresh.

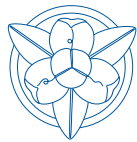
Financial inclusion can support the real economy, however, contributing to growth. Such support should be targeted to sectors that can amplify employment creation and growth while enlarging sources of revenue such as exports. This would enhance the efficiency of financial inclusion in reducing poverty.

To increase the focus on developing the real economy by building stronger links with financial inclusion, the MAP Refresh reviewed priority sectors based on their: (i) contribution to the GDP, (ii) identification as high-growth or high-employment sectors, (iii) potential for value-added opportunities under the government's Rectangular Strategy, Phase IV and (iv) recognition as key to further economic opportunities along with SME development in the government's Industrial Development Policy, 2015-2025.

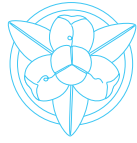
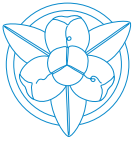
Cambodia's economic growth in recent years has predominantly come from industry and services, including construction, in particular, rather than agriculture. Employment in agriculture decreased significantly from 57.28% in 2010 to at 31.15% in 2020, while industry and service jobs increased. Agriculture's contribution to GDP declined from 26.6% in 2015 to 20.8% in 2019. Industry, including construction and manufacturing, grew as a share of GDP from 27.7% in 2015 to 33.8% in 2019. Garments and footwear are subsectors of manufacturing. The garment sector has been the government's biggest direct revenue contributor, representing 17% of GDP in 2019 and employing over 754,000 workers. Growth rates trended upward from 6% in 2016 to 17% in 2018. The services sector remained fairly stable between 2015 and 2019, declining slightly from 39.8% to 39.1%. It includes tourism and hospitality, Cambodia's second largest growth driver in 2019, contributing 21% of GDP and generating nearly 2.3 million jobs.¹



Cambodia's economic growth in recent years has predominantly come from industry and services, including construction, in particular, rather than agriculture.



The agriculture, garments and tourism sectors as well as SMEs specifically offer opportunities for financial inclusion to support development of the real economy, and in doing so to help unlock achievement of broader domestic and international development goals.



Key sectoral assessment

2015-2019

AGRICULTURE

1%

AVERAGE GROWTH RATE

24%

CONTRIBUTION TO GDP

43%

2015
PEOPLE
EMPLOYED

32%

2019
PEOPLE
EMPLOYED

RECTANGULAR STRATEGY
PHASE IV:

- Promotion of agriculture and rural development

INDUSTRY

11%

AVERAGE GROWTH RATE

31%

CONTRIBUTION TO GDP

25%

2015
PEOPLE
EMPLOYED

29%

2019
PEOPLE
EMPLOYED

RECTANGULAR STRATEGY
PHASE IV:

- Garment and footwear sector
- Improve competitiveness
- Create supporting industries
- Develop value chain

SERVICES

7%

AVERAGE GROWTH RATE

40%

CONTRIBUTION TO GDP

33%

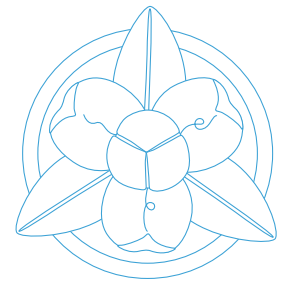
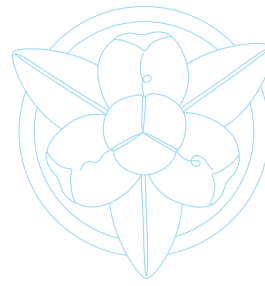
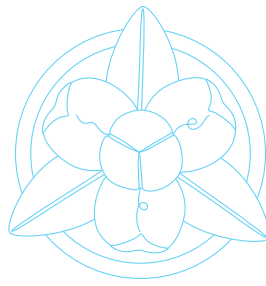
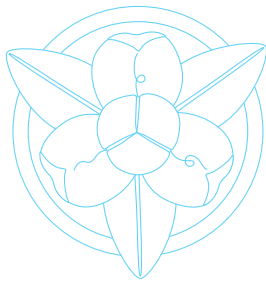
2015
PEOPLE
EMPLOYED

39%

2019
PEOPLE
EMPLOYED

RECTANGULAR STRATEGY
PHASE IV:

- New sources of growth
- Diversification of tourism products and destinations



Agriculture

The continued importance of agriculture. Despite its declining share of GDP, agriculture, which includes farming, fishing and forestry, has played a crucial role in economic growth. It is the biggest source of rural livelihoods, and 60.6% of the population lives in rural areas.² Agriculture is important for food security with nearly 80% of the lowest wealth quintile working there. They are also among the groups most vulnerable to shocks and food insecurity. Agriculture remains a pillar of exports as well with the total value of agricultural exports more than tripling since 2010.³ Agricultural raw materials exports are on the decline, however, falling from 3.7% in 2011 to 1.7% in 2019 as a percentage of merchandise exports.⁴ Agricultural products have been exported to more than 60 countries with ASEAN destinations as the biggest recipients.⁵ The sector benefits from favourable climate conditions for key cash crops such as milled rice, rubber, corn, cashew nuts, peppercorn, bananas, chilies and mangoes,⁶ all of which contribute significant revenues.

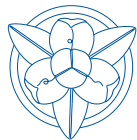
Barriers to agricultural growth. Agriculture's slower GDP growth in recent years can be attributed to limited expansion of cultivated land, low investments in agro-processing with only 10% of total agricultural outputs processed within the country, lack of competitiveness given lower labour productivity compared to Thailand and Viet Nam,⁷ and low productivity due to declining production yields in paddy rice and rubber and extreme weather events intensified by climate change.⁸ To address these challenges, the government has set a target to modernise agriculture by 2030, aiming to make it more competitive and sustainable.⁹

Initiatives to catalyse growth. Various initiatives have sought to enhance agricultural development and achieve further growth. The Agriculture Information Market Services, a digital platform launched in 2018, provides updated information on agricultural and commodity prices and offers access to an online market and price reports from the Office of Agricultural Marketing. Agribuddy, a mobile app, facilitates access to capital, and Agribee offers innovative crop insurance solutions. Initiatives like Sustainable Assets for Agriculture Markets, Business and Trade have focused on improving land and labour productivity to reduce rural poverty and enhance food security.

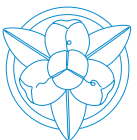
Going forward, higher growth is expected. This can be attributed to greater investment as approved FDI projects in agriculture in 2020 rose to USD 100 million¹⁰ from USD 34 million in 2019, due to the increasing focus on agricultural



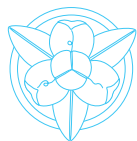
Agriculture's slower GDP growth in recent years can be attributed to limited expansion of cultivated land, low investments in agro-processing with only 10% of total agricultural outputs processed within the country.



development and diversification.¹¹ Rising demand from the global recovery, expected growth in rice production, exports of new crops, new trade agreements and new value-chain opportunities are anticipated to generate further growth. The COVID-19 pandemic increased labour availability in agriculture given the number of workers laid off in services and industry.



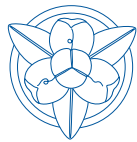
New opportunities have arisen from crops with market potential. Cassava is the top agricultural export and the second largest agricultural crop. It is an important export commodity globally and an input to several industrial processes.¹²



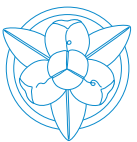
Cambodia is the fourth largest cassava producer in Asia and the tenth largest globally harvesting over 12 million tons of the root annually. In 2020, cassava generated the largest export revenue of the six major cash crops that Cambodia exported.¹³ Unlike other crops, cassava fares better with reasonable yields even amid extreme weather events and poor soil conditions. With the government's new national cassava policy in 2020 promoting cassava as part of developing the agro-industrial sector,¹⁴ the crop is well positioned for greater growth. Mango exports represent another possibility for growth as the second largest cash crop after cassava. According to the Ministry of Agriculture, Forestry and Fisheries, in 2017, 65,000 hectares of mango farms produced over 1 million tonnes per year.¹⁵ In 2020, the total mango farming area grew to 131,890 hectares. Exports in 2020 were approximately 957,680 tons. Cambodia stands to benefit from exporting mangoes to China, given the recent approval by the Chinese General Administration of Customs for 37 Cambodian mango farms and five packaging plants to export mangoes through official channels, alongside the recently signed CCFTA.¹⁶

The new CCFTA provides a significant opportunity for agriculture. China is Cambodia's largest trading partner, with total trade reaching USD 8.53 billion in 2019, up from USD 6.6 billion in 2018.¹⁷ The two countries have committed to increase bilateral trade volume to USD 10 billion by 2023.¹⁸ With the CCFTA expected to go into effect in 2021, it should further boost investment and support overall agricultural production for exports. Cambodia currently exports mostly agricultural products to China, including milled rice, mangoes and cassava,¹⁹ but further export growth is anticipated. China is already Cambodia's top milled rice export market.

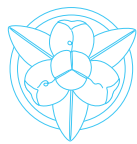
New value-chain development in agro-processing could be another growth driver. The agro-processing sector remain underdeveloped but Cambodia has considerable potential to position itself as an agro-food supplier to ASEAN members as well as China and India, where most future global food demand will be generated.²⁰ The diversity of commodities produced in Cambodia (cashew nuts, cassava, mangoes) as well as non-food agricultural products (tobacco, rubber and wood) offers a variety of investment options in agro-processing. Opportunities also relate to the fact that only a few family businesses supply local markets and relatively few sizeable commercial companies are involved in agro-processing.



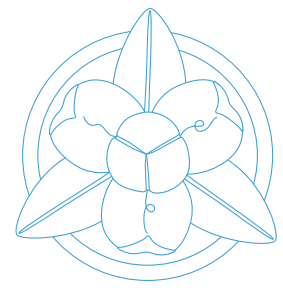
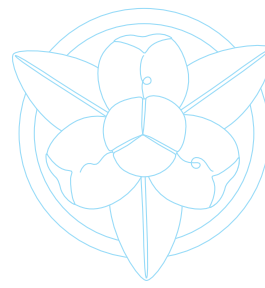
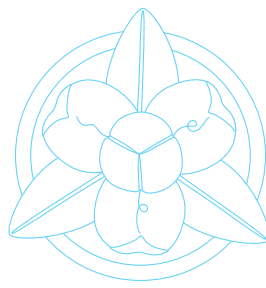
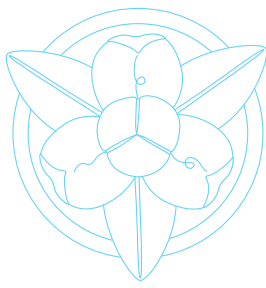
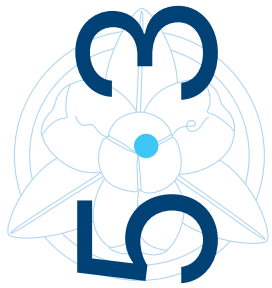
Promoting agro-processing to encourage higher value-added exports is a priority for the government and key to diversifying the Cambodian industrial base. Co-investment opportunities and capacity upgrading for SME entrepreneurs are accordingly being offered by Khmer Enterprises, a unit of the MEF. Partnership agreements are being formed to drive food-processing innovations through SMEs and attract domestic and international investment.²¹



Growing finance availability for agricultural SMEs. The ARDB has played an important role in facilitating access to finance for SMEs, which increased from USD 245 million in 2020 to USD 300 million in 2021. This was alongside the SME Bank's USD 100 million co-financing scheme targeting agricultural and food processing as a priority sector.²² Since the start of the pandemic, FDI sectoral allocations are shifting, highlighting new priorities. Agriculture is benefitting most from this reallocation, mainly because it was less affected by COVID-19 and received an influx of new labour from other industries.



Partnership agreements are being formed to drive food-processing innovations through SMEs and attract domestic and international investment.



Garments

The garment sector has been a key pillar of the economy, important for growth, employment and the Fourth Industrial Revolution. It has been the government's biggest direct revenue contributor at 17% of GDP in 2019 and is central to Cambodia's socioeconomic development strategy, since 90% of its 754,000 workers are women, mostly from rural areas.²³

According to the Ministry of Commerce, by the end of 2018, 625 exporting garment and 83 exporting footwear factories were operating. Growth rates in the garment and footwear sector have been somewhat volatile over time but the sector continues to be a major contributor to GDP growth.

Garments account for the majority of Cambodia's merchandise exports. In 2018, garments comprised 82% of the sector's exports, and garments, textiles and shoes together accounted for 74%. Although this was a slight decline from 2013 at 77%, footwear saw its share in merchandise exports increase from 5% to 8% from 2013 to 2018.²⁴

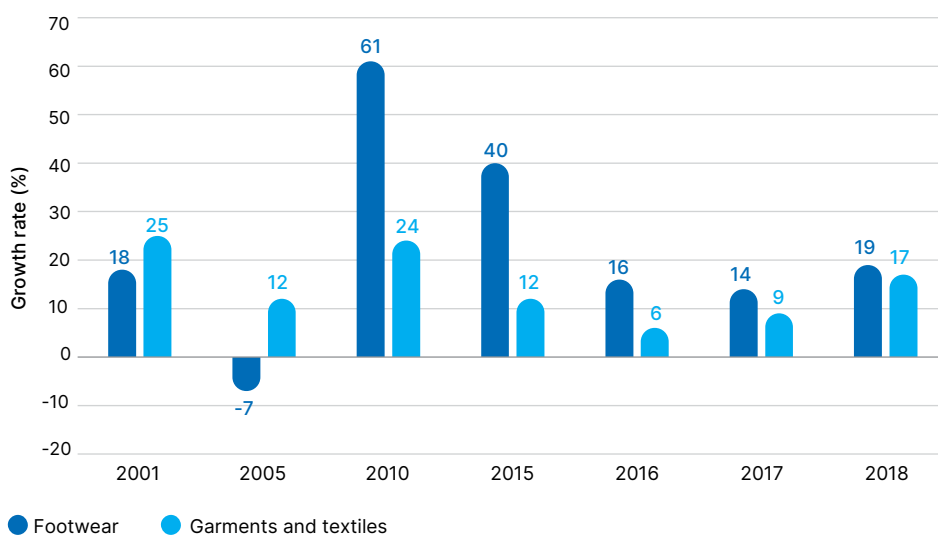
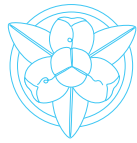
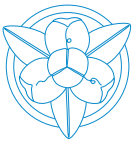
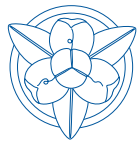


Figure 17: Growth of the garment and footwear sector, percentage, 2001-2018

Source: MEF.



The United States is offsetting European Union exports. The European Union (EU) partially withdrew Cambodia from the “Everything but Arms” preferential tax treatment in August 2020, affecting approximately 20% of Cambodia’s exports to the EU.²⁵ Garment exports were diverted to the United States and other countries, and exports to the EU declined significantly. Despite the drop in exports to what was once Cambodia’s largest export market, the shipment of garment, footwear and travel goods from Cambodia to the United States increased in part due to the duty-free and quota-free access provided in 2016 by the US Generalized System of Preferences. This boosted Cambodia’s exports of travel goods in particular. The United States is now the sector’s largest export market, absorbing 36.7% of total garment, footwear and travel exports in 2020. The EU market share is now 27.5%. Legal authorisation for the Generalized System of Preferences programme expired on 31 December 2020, with renewal pending US congressional approval.

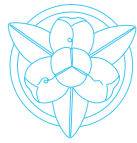
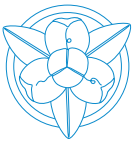
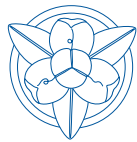
Other trade agreements can benefit the garment sector. These are creating opportunities to increase exports by providing preferential market terms and extending duty-free and quota-free access:

- **The ASEAN Free Trade Area** is a regional body composed of 10 ASEAN countries, including Cambodia. They have entered into a common effective preferential tariff agreement that reduces or eliminates tariffs on manufactured goods traded between member countries. The agreement makes Cambodia an attractive investment destination because of its low-cost manufacturing, large regional markets and easier sourcing of raw material within the ASEAN Economic Community.²⁶
- **Bilateral free trade agreement with the Republic of Korea.** In 2020, the Republic of Korea was the eighth largest export market for Cambodian goods, after the United States, Japan, China, the United Kingdom, Canada, Thailand and Viet Nam. The Cambodia-Republic of Korea Free Trade Agreement is expected to be finalised this year and to increase Cambodia’s exports of garments and textiles, footwear, bags, spare parts, components for electronic equipment, rubber and agricultural products.²⁷
- **United Kingdom Generalised System of Preferences.** The United Kingdom awarded the Generalised System of Preferences to Cambodia effective 1 January 2021. Cambodia will be entitled to duty-free and quota-free access for all goods exported to the United Kingdom, except arms and ammunition. This could serve as a springboard for exports into the market.²⁸ The Garment Manufacturers Association in Cambodia considers it equivalent to a complete EU “Everything but Arms” scheme.²⁹

Footwear production has increased steadily. The share of footwear in exports more than doubled from 5.4% in 2010 to 11.1% in 2018, growing more rapidly than the garment sector in recent years. In 2016, Cambodia joined the top 10 footwear production countries for the first time. The EU and the United States remain important export destinations due to tariff exemptions.



Despite the drop in exports to what was once Cambodia’s largest export market, the shipment of garment, footwear and travel goods from Cambodia to the United States increased in part due to the duty-free and quota-free access provided in 2016 by the US Generalized System of Preferences.

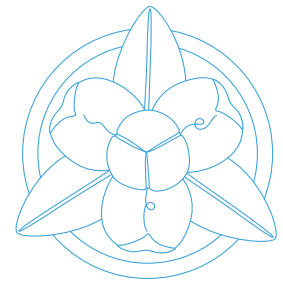
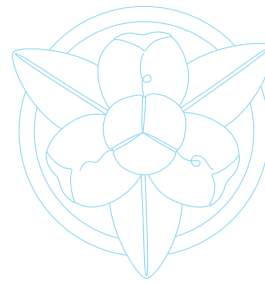
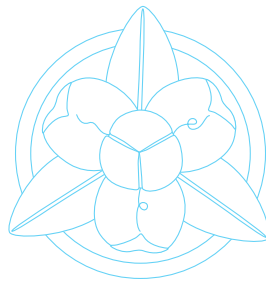
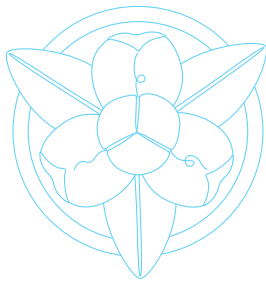
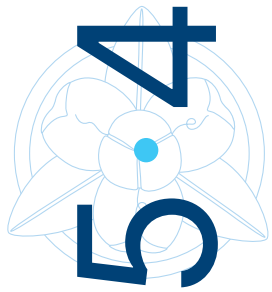


Opportunity to diversify into higher value-added segments of the value chain. Cambodia's well-established garment sector is labour-intensive and export-oriented but remains largely engaged in the "cut-make-trim" process, the lowest value-added segment of the global value chain.³⁰ By drawing on its large pool of low-skilled, low-wage labour, along with preferential access to key export markets, Cambodia saw rapid growth for many years. But it has not yet transitioned to advanced manufacturing and services, which require a more educated workforce and improved managerial practices and technical skills. Better access to finance for domestic firms, more advanced logistics, competitive energy costs, access to more sophisticated services inputs and enhanced contract enforcement are needed to move to this higher level.³¹ This presents both a challenge and a growth opportunity. The government has announced the 2020-2025 Garments, Footwear and Travel Goods Sector Strategy as a roadmap to strengthen value addition.³² The strategy will back skills upgrades and career paths for factory workers, promote high value-added domestic and foreign investment, attract the sector's supporting industries and diversify export markets.

Promotion of sustainable garment manufacturing. Given rising consumer demand for responsibly sourced products, improving sustainability in the garment value chain is critical to buyers and the competitiveness of the garment sector. Cambodian factories can use sustainability as a competitive advantage, according to the Global Green Growth Institute, since it supplies some of the increasing number of international brands that have set corporate targets to lower the environmental footprint of their supply chains. Improving sustainable energy practices can cut operational costs while green production processes can boost competitiveness and reduce negative environmental externalities. In 2019, the Global Green Growth Institute signed an agreement with a retail apparel giant to promote energy efficient production among Cambodian suppliers. The institute estimates that introducing green technology can increase real GDP by 46% for the garment sector. More resource efficient processes could result in major employment creation and reduce greenhouse gas emissions from the sector up to 17%.³³



More resource efficient processes could result in major employment creation and reduce greenhouse gas emissions from the sector up to 17%.



Tourism sector

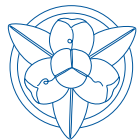
Tourism is the second largest driver of growth. In 2019, before the pandemic, tourism, including hospitality, contributed 21% to GDP. Between 2010 and 2019, its contribution trended upward with international tourist receipts accounting for an average of 17% of GDP despite volatile growth rates. International tourist receipts almost tripled during that time.³⁴ From 2013 to 2019, international tourist arrivals rose 150%. In 2019, the sector attracted 6.6 million international visitors; gross revenue from this accounted for almost 13% of GDP.³⁵ The sector generated nearly 2.3 million travel and tourism jobs in 2019, including in hotels, hospitality services and restaurants.³⁶

COVID-19 hit tourism hard. In March 2020, Cambodia stopped issuing tourist visas and introduced mandatory quarantining for arrivals the following month. International tourism revenue declined 79.4% from 2019, according to the Ministry of Tourism. The number of international visitor arrivals plunged by 80.2%.³⁷ This led to a 36.0% decline in hotel and restaurant output and resulted in a negative 1.5% contribution to GDP growth in 2020. Employment in the sector declined to just under 1.7 million, a 27.9% decline from 2019.³⁸ The sector is anticipated to take longer to recover than other sectors due to strong reliance on international tourists who may still hesitate to travel due to fear of COVID-19, mobility restrictions, and reduced revenues and savings.

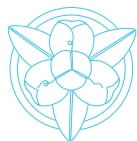
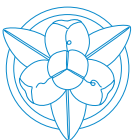
FDI peaked in 2019, with tourism remaining the largest receiver of it in 2020. Total FDI in 2019 was USD 6.1 billion. While 2020 saw a drastic decline in FDI due to the pandemic, tourism held on to the largest component of approved FDI projects, including a five-star hotel, a theme park and a trade centre, accounting for USD 1.75 billion. These FDI inflows appeared to consist largely of “forward-looking” projects targeting short- to medium-term investment returns.³⁹ They remain critical for the sector’s rebound, in addition to government efforts to support tourism.



International tourism revenue declined 79.4% from 2019, according to the Ministry of Tourism. The number of international visitor arrivals plunged by 80.2%

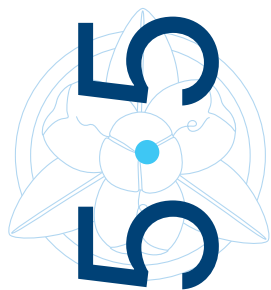


The government has issued a 2021-2025 roadmap to support tourism. Plans are underway to reopen the tourism industry in the fourth quarter of 2021, including for fully vaccinated international tourists. The roadmap is divided into three stages, including crisis management in the new normal and recovery preparation plan in 2021, recovery after COVID-19 in 2022-2023, and preparation for a rebound in 2024-2025.⁴⁰ Through strategies in the roadmap, Siem Reap could attract 10.9 million domestic tourists by 2023 and 7.5 million international tourists by 2025, creating 940,000 jobs and generating an additional USD 6 billion in revenue, according to the Ministry of Tourism. Roadmap implementation and ongoing infrastructure development in major provinces, including Siem Reap and Sihanoukville, are expected to get travel and tourist activities back on track in the medium term.

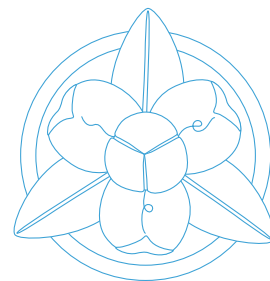
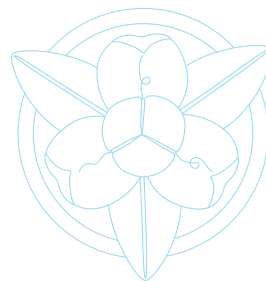
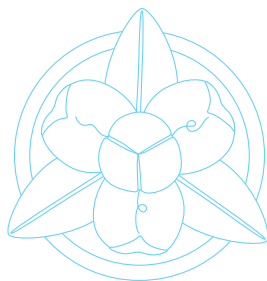
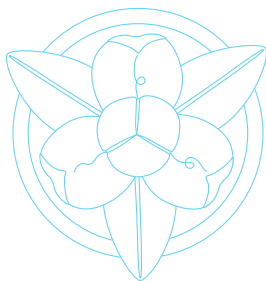


Ecotourism represents a potential growth opportunity. The government aims to encourage environmentally and socially sustainable tourism, including ecotourism, which shows higher growth rates than the rest of the tourism industry. The number of tourists visiting coastal areas and ecotourism sites doubled between 2014 and 2019, accounting for 16% of all tourist visits in 2019. Ecotourism destination planning will help ensure more sustainable management of Cambodia's important biodiversity assets and improve the quality of ecotourism products and services that can command higher prices and enhance competitiveness, according to the Ministry of Tourism. Moreover, developing the ecotourism industry can create jobs and stimulate rural economies. Annual income from community-based ecotourism has reached as high as USD 300,000. Supply chain links to tourism and ecotourism for agricultural produce, food and transport services have potential for stimulating more rural livelihoods.⁴¹

Pipeline investments should boost revenue in the tourism industry based on Angkor Wat. A new USD 350 million resort is planned as well as infrastructure like a link road.⁴² Investments like this would broaden the tourist offering beyond visits to Angkor Wat, which could help sustain and broaden growth from this segment of tourism.



SMEs



SMEs account for more than 90% of all enterprises and over 70% of total employment, contributing nearly 60% of GDP.⁴³

The majority of SMEs operate informally. According to the MISTI, of approximately 500,000 SMEs, only 52,154 are registered formally, employing 824,245 workers as of February 2020.⁴⁴ The government's Industrial Development Policy (2015-2025) aims to register 80% to 95% of SMEs by 2025, with 50% to 70% of those expected to have proper accounting records and balance sheets by then. In 2019, only 5% of SMEs had registered.⁴⁵

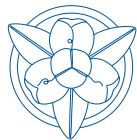
Policy developments to support SMEs. Since the original MAP Diagnostic, various policy changes have sought to improve the business environment for SMEs. These include the One Roof Service Policy (2018) to facilitate SME registrations and profit tax exemptions (2017) for SMEs who voluntarily register with the General Department of Taxation. The Rectangular Strategy, Phase 4 (2018) has focused on improving infrastructure for SMEs. New regulatory frameworks have been established and SME clusters developed. A Prakas to Establish Khmer Enterprises (2019) is intended to facilitate an SME entrepreneurial ecosystem.

Changes in the ecosystem. Several initiatives since 2019 to strengthen the SME ecosystem have sought to improve entrepreneurship, incentivise innovation and expand access to markets and financial resources. They aim to create a more supportive environment for financial inclusion.

Easing business registration through a new online system. In 2020, the government launched a portal to approve business registration applications within eight working days while reducing fees by 40%.⁴⁶ This service integrates six ministries: Interior, Economy and Finance, Commerce, Labour and Vocational Training, the General Department of Taxation and the Council for the Development of Cambodia. The portal results in a more efficient, time-saving process and allows payment of all fees through various e-payment channels.⁴⁷ To date, more than 6,000 businesses with over USD 2.6 billion in capital⁴⁸ have registered. Other developments have included a new SME Tax and Customs Incentives Policy in 2018 expected to benefit agriculture, food manufacturing and processing, and various manufactured goods for the tourism sector.



Since the original MAP Diagnostic, various policy changes have sought to improve the business environment for SMEs.



Two significant laws were announced to support further growth opportunities for SMEs. In May 2021, the MISTI announced plans to submit the Draft Law on Small and Medium Enterprises to the MEF for further review. The law should smooth and support market access for SMEs, help reduce unfair competition, and boost markets and production chains by ramping up use of local raw materials as much as possible.⁴⁹ In November 2019, the promulgation of the E-Commerce Law set the basis for trade promotion via electronic means. It is expected to provide more opportunities to SMEs and contribute to development of the digital economy.⁵⁰ The Ministry of Commerce expects to roll out CambodiaTrade.com, an e-commerce marketplace, for SMEs to sell wares to broader markets and capture a slice of the growing global digital economy.⁵¹

Access to finance for SMEs has expanded through the newly formed SME Bank, the Business Recovery Guarantee Scheme and Khmer Enterprises (see Section 4).

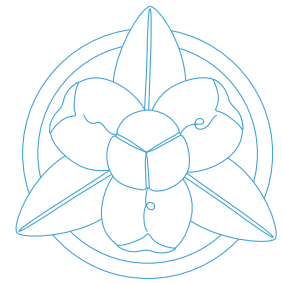
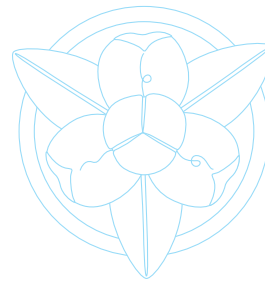
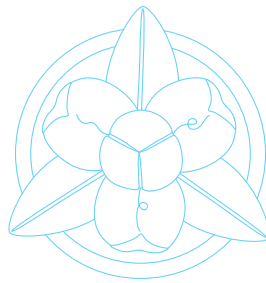
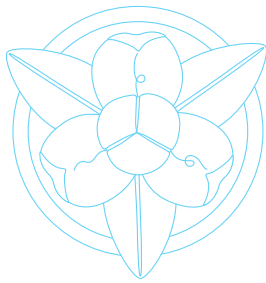
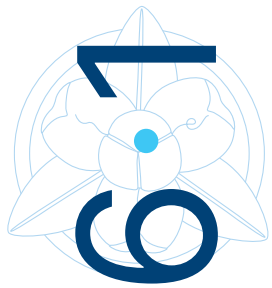
Private sector initiatives and developments have improved the SME landscape. The Worldbridge i4.0 SME Clusters provide scope for greater connectivity within the SME ecosystem, linking multiple services for high-growth agricultural sectors under one roof. SHE Investments has created more opportunities for women entrepreneurs, targeting digital and financial literacy and capacity building through initiatives like the SHE Digital Literacy Program, the Kotra Riel bookkeeping app and the Digital Resource Centre.

PART 5 NOTES

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- 2 National Institute of Statistics, 2020.
- 3 ADB, 2021.
- 4 World Bank, 2021b.
- 5 Pisei, 2020.
- 6 Vireak, 2021a.
- 7 IFAD, 2019.
- 8 Pheakdey & Boyle, 2020.
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Conclusions and recommendations



Conclusions and recommendations

Cambodia has made substantial strides over the last two decades, achieving lower-middle-income status in 2015 and striving for an upper-middle-income rank by 2030. Its economy, fuelled by textile exports and tourism, was one of the world's fastest growing between 1998 and 2018.¹ Major progress has been made towards the SDGs given a stable macroeconomic climate, strong growth and ongoing structural reforms.

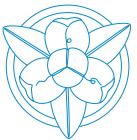
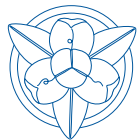
To continue its recent record and rebound from COVID-19, however, Cambodia needs to address poor governance, low levels of spending on health care and education, the lack of a skilled workforce, and underdeveloped electricity and transport networks. The country has been highly reliant on concessional financing with a majority of aid and development assistance provided by the governments of Australia, Japan and the United States as well as the European Union. China recently emerged as Cambodia's largest provider of development assistance and trading partner.

In 2020, the economy registered negative growth of minus 3.1%, the sharpest decline in recent history after two decades of an average high growth rate of 8%.² The pandemic heavily impacted key sectors such as construction, tourism and merchandise exports. For 2021, the economy is projected to recover and grow modestly at 4%. While growth has been the engine of poverty reduction for two decades, distribution has been unequal, leaving 28% of the population just above the poverty line and highly vulnerable to falling back below it. This group is highly sensitive to any economic shock and tends to fall out of social welfare programs. It is crucial that recovery efforts ensure more inclusive growth by improving the livelihoods of this most vulnerable segment.

In 2020, the government issued a large fiscal stimulus amounting to 5% of GDP. It includes health-related spending, income assistance, equity injections, guarantees on loans, tax relief and development spending. As in much of the rest of the world, these measures encompassed livelihood assistance, seen as more inclusive than purely monetary policy and business support.



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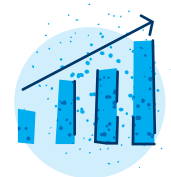


Yet the stimulus resulted in a fiscal deficit estimated at 5.6% of GDP in 2020 and 6.1% in 2021, implying that needs for finance from abroad will increase. The next three years will be crucial to mitigate and recover from the pandemic. Financial inclusion can play a strong role in reaching Cambodia's growth objectives by leveraging household spending to help the government fund its development goals. It can be vital in aggregating and mobilising capital contributing to financial sector development and investment. Financial inclusion contributes to SDG achievement at the household level and inclusive economic development in the process. With national financial systems increasingly seen as enablers for the real economy, policymakers need to take a long-term view in developing inclusive markets that can lead to growth.

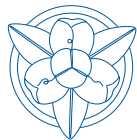
The links between finance, economic growth and poverty are complex. Developing domestic financial markets requires a sound grasp of consumers' real economic needs at the ground level. By better serving the needs of low-income groups, however, Cambodia can involve a broader portion of the population in developing domestic financial markets while unlocking new opportunities for financial service provision and real economic activity. In helping different population segments meet their real economic needs, financial services can facilitate greater real economic activity while reducing opportunity gaps between low-income people and the rest of the population. It is therefore critical to understand how financial services provision and access have changed, and what can be done to further enhance their contribution to inclusive growth.

Cambodia's financial sector has experienced significant expansion since the original MAP Diagnostic. Formal financial inclusion increased from 59% in 2015 to 67% in 2021, driven by an expansion of bank and non-bank financial services provision. The launch of the SME Bank in 2020 reflected the government's intentions to enhance access to finance by targeting both registered and unregistered SMEs. There has been a further increase in the numbers of official leasing companies and payment institutions. Expansion in financial services provision was also noticeable in the greater number of ATMs and POS terminals, with significant growth between 2017 and 2020. Debit and credit card adoption rose sharply over the same period while modernisation of payment infrastructure achieved greater interoperability and introduced new payment systems.

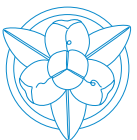
Growth in banking institutions and systems since the 2017 MAP Diagnostic has provided more banking channels and options (Internet, mobile apps, e-wallets, ATMs, POS) for Cambodians to access more financial services. They now engage in a range of banking transactions online and in person. Commercial banking has expanded due to increased foreign bank ownership since 2017. The rise in the number of commercial banks to 51 in 2020 builds on an increase in foreign-owned local banks, subsidiary banks and foreign bank branches. Majority nationally owned banks increased as well. The conversion of two MFIs to commercial banks along with Wing's recent announcement that it would become a commercial bank indicate greater opportunities for financial inclusion through the expansion of additional product offerings and services. Since the number of



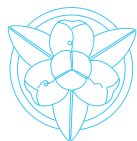
Formal financial inclusion increased from 59% in 2015 to 67% in 2021, driven by an expansion of bank and non-bank financial services provision.



banks remains very high relative to Cambodia's GDP, and the smallest 30 banks account for less than 10% of the market, continued consolidation and mergers are likely in the banking sector.



Women financial inclusion specifically encouragingly increased in terms of the proportion of women that are banked. In addition, the level of formal financial inclusion for women have not deteriorated, despite the adverse effects of the pandemic, perhaps demonstrating that protective measures to protect women livelihoods and formal inclusion had a positive effect. It is also encouraging to see activities by the NBC specifically aimed at increasing women financial accessibility. In order to achieve the 2025 goal set for women inclusion, the focus on women financial inclusion would need to be maintained and strengthened over the remaining period though.



Payments

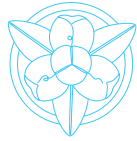
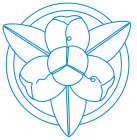
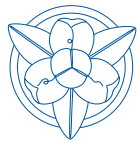
During the last MAP Diagnostic, digital innovation was confined to cash transfers at Wing bank and nascent work in micro-insurance by BIMA. Since then, expansion in both areas has progressed swiftly and appears to be continuing. PSIs doubled, providing more payment options, especially cashless payments. The number of PSI agents increased 24%, while the number of registered e-wallets grew by 176% compared to the end of 2019.³ The growth in PSIs facilitates greater business synergies across mobile apps and payment systems. SMEs, bigger businesses and e-commerce platforms have new opportunities to use digital payment platforms and e-wallets to transfer money, pay bills and staff, or bill clients without handing over physical cash. COVID-19 has accelerated the acceptance of digital payments among merchants and consumers, along with the rise of e-commerce and the convenience of contactless and QR payments.

Banks and financial institutions have expanded their networks to 2,542 locations and 3,177 ATMs.⁴ With ATM and POS expansion targeting rural areas, the unbanked and underbanked have more access to banking.



Remittances

International remittances to Cambodia have been on the rise since 2010, reaching 5.6% of GDP in 2019.⁵ A temporary decline due to COVID-19 is not expected to change the medium-term trend in this direction. The cost of remittances remains high, however, at 11% for low-value remittances of up to USD 200, which is above the regional average cost and a long way from the 3% global target.⁶ Recent agreement between the central banks of Cambodia and Thailand on using QR codes for cross-border remittances is expected to promote speed and the use of local currency for transfers, while reducing costs. Remittance partnerships among banks and MFIs have increased, supporting new products and innovation.



Credit

Since the last MAP Diagnostic, the credit portfolio has continued to expand strongly, by 25% for banks in 2019. While growth is positive in principle, such high growth, particularly in consumer lending, need to be monitored carefully from a consumer protection perspective. Currently, total credit as a percentage of GDP has climbed, despite the moderation in domestic credit growth. The credit-to-GDP ratio rose sharply to 140% at the end of 2020.⁷ The increase largely reflects the decline in GDP due to the sharp economic downturn, rather than a significant increase in credit levels. Despite banks and financial institutions maintaining a low non-performing loan ratio of 2.1% for banks and 1.8% for MFIs in 2020, concerns remain regarding the current level of lending and the impact of excessive credit relative to the real economy.

The increase in credit provision also has not translated to more people having access to credit, as formal credit penetration declined between 2015 and 2021. Bank credit penetration did expand over this period, which is a positive sign as banks tend to provide larger loans aimed at asset purchases. Loan terms have improved for both banks and MFIs with lower interest rates on loans, both in USD and KHR. The steeper decline in borrowing costs for KHR loans for both banks and MFIs reflects the ongoing promotion of de-dollarisation in the financial sector.



Savings

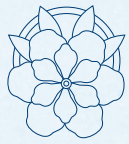
Historically, low use of formal savings products has been due to poor access to and the high cost of maintaining a savings account, as well as low incomes that limited saving, as identified in the previous MAP Diagnostic. Over the past five years, concerted efforts by the NBC to mobilise savings through different projects, banks and MFIs have expanded savings and deposit products tailored to different customer needs. Mobile apps allow easier access.

As a result, banks and financial institutions experienced an increase in the numbers of depositors' and borrowers' accounts. Depositors' accounts rose to 8.9 million and borrowers' accounts to 3.2 million in 2020. Microfinance deposits in particular saw huge growth of 53.2% from 2017 to 2018. On the demand side, the number of bank depositors declined between 2015 and 2021, indicating that growth on the supply side may be linked to multiple deposit accounts and larger deposits per customer.



Insurance

Recent progress in the sector cannot hide the fact that insurance coverage remains low and barely reaches low-income groups. The penetration rate is only 12% of the adult population. In 2018, insurance companies focused on increasing the scale of their operations and expanded their customer outreach, particularly through bancassurance partnerships.⁸ Since then, the sector has grown significantly with more players coming into the market. There are currently 33 licensed insurance companies: 16 general insurers, 11 life insurers, 5 micro-insurers and 1 reinsurer.⁹ Growth in the sector and especially in life insurance can be attributed to greater public awareness of insurance and its benefits, in addition to the bancassurance partnerships with banks and MFIs.



Based on the findings above, this MAP Refresh makes the following recommendations.

Financial sector

- **Revisit the business model.** Consolidation and the pursuit of higher earnings will result from the banking sector's quest for increased return on equity. These objectives should be accomplished by increased operational efficiency, cross-lending and improved services to SMEs, not through fee increases and other additional costs. Online banking, in particular, should result in lower transaction costs for banks and customers alike.
- **Sensitisation to sustainable finance.** The CMA has taken the lead in promoting sustainable lending practices. A timeline for full sector application and monitoring should be established within the next two years.
- **Strong monitoring and reporting on pawnshops.** Guidelines and Prakas should be implemented to guarantee that unsupervised credit from pawnshops and asset loss do not increase during periods of slower economic growth.
- **Improve and continue financial literacy programmes.** Increasing financial literacy is a long-term endeavour that demands continued involvement. Commitment to increased financial literacy should be maintained as it remains one of the primary tools to manage the potential for growing over-indebtedness.

Payments

- **Partnership for growth.** Strategic alliances between established lenders and newcomers, such as payment service providers and online marketplaces, will promote innovation and industry expansion. Pilots and sandboxes for novel regulation could expedite those advances without jeopardising the management of systemic risks.

Remittances

- **Reduce remittance costs.** Allow new players and accelerate the establishment and approval of new partnerships and cross-border remittances to facilitate competition that reduces transaction costs.



Credit

- **Close monitoring of lending portfolios is recommended.** The NBC should exercise caution in supervising banks and financial institutions. Loan refinancing and grace periods used as part of loan restructuring for the COVID-19 recovery may conceal a higher-than-expected level of probable non-performing loans.
- **Rekindle impetus for the Secured Transactions Law.** To boost SME lending, strengthen functioning of the Secured Transactions Registry and revisit the law.
- **Support productive credit and monitor consumption lending.** Given the high credit-to-GDP ratio and worries about over-indebtedness, the NBC should exercise caution on lending products offered by banks and financial institutions.
- **Leverage the SME Bank.** To encourage private sector financing of SMEs while not crowding out commercial banks and other private lenders, the SME Bank could focus on underserved market segments (for example, developing a lending track record for SMEs with little or no collateral) and promote new private sector capacity.
- **Develop lenders' capacity to use cash-flow-based lending.** SME lending remains primarily collateral-based, constraining capacity to borrow. Regulation to support cash-flow-based methods is needed to support SME-powered economic growth, leveraging instruments like the CGCC and ARDB.

Insurance

- **Increase access to insurance products.** With an insufficient supply, the lower segments of the market continue to be neglected. This calls for promoting the development and availability of low-income insurance products outside urban areas.
- **Improve index-based agricultural insurance products.** The absence of long-term rain and weather records and other climate data makes it difficult to build low-cost goods. The government should coordinate assistance to the private sector to obtain data necessary for index-based agricultural insurance products.
- **Revision of taxation rules on insurance premiums.** Priorities include revisiting taxation rules, simplifying claims processes and increasing transparency for micro-insurance providers.
- **Gender-disaggregated data collection.** With little progress in institutionalising gender-disaggregated data and analysis, development partners should assist the NBC in bolstering capabilities in this area.



Implementation and evaluation

Cambodia National Financial Inclusion Roadmap and Action Plan Areas for Implementation

PRIORITY 1: ENCOURAGE SAVINGS IN FORMAL FINANCIAL INSTITUTIONS

1. Develop incentives for savings mobilisation

2019 recommendations outstanding or relevant

- Promote and support the design of inbound remittances-linked savings products (particularly cross-border remittances)
- Study the potential impact of a national savings roll-out plan with tax incentives for low-income people

2021 additions

- Accelerate the development of the Deposit Protection Scheme's structure and legal framework

PRIORITY 2: PROMOTE INNOVATIVE CREDIT PRODUCTS FOR SMES AND MSMES

1. Increase access to credit for SMEs

2019 recommendations outstanding or relevant

- Review which markets could be covered by credit guarantee schemes (agriculture, renewable energy, women-owned SMEs, etc.)

2021 additions

- Support productive credit and monitor consumption lending
- Increase monitoring of client loan refinancing by financial institutions
- Promote the Secured Transactions Law and improve operations of the Secured Transactions Registry
- Build lenders' capacities for cash-flow-based lending to SMEs
- Ensure that the CGCC is used for productive lending only
- Increase monitoring of SMEs for over-indebtedness, multiple borrowing and loan refinancing

2. Increase access and offer targeted lending products for micro- and small enterprises

2019 recommendations outstanding or relevant

- Conduct a feasibility study on group lending's new processes and mechanisms to meet emerging customer needs
- Conduct a feasibility study on warehouse collateral management development and financing
- Develop guidelines and promote warehouse financing systems with third-party collateral management companies at the regional level and value-chain actors in relation to banks and financial institutions at the local level

2021 additions

- Focus SME Bank lending on underserved market segments
- Promote financial services to micro- and small enterprises by recently transformed MFIs

PRIORITY 3: ENABLE EXPANDED PAYMENT SYSTEM CAPABILITIES



1. Incentivise the development of payment infrastructure

2019 recommendations outstanding or relevant

- Introduce the real-time gross settlement system to reduce settlement risk in large value payment systems
- Review and explore the possibility for ASEAN interlinkage

2021 additions

- Develop a “sandbox” framework for a new payment system partnership and regulations
- Allow increased competition in the cross-border remittances market to lower prices

PRIORITY 4: PRIORITISE THE DEVELOPMENT OF A WELL-FUNCTIONING INSURANCE MARKET

1. Increase access to micro-insurance

2019 recommendations outstanding or relevant

- Support the diversification of micro-insurance products including for health, pregnancy, hospitalisation, house, fire, etc.
- Revise taxation rule on insurance premiums
- Promote the development of endowment micro-insurance products by enabling a share of investments from endowment products to be invested with a longer than 12-month term by micro-insurance providers

2021 additions

- Promote the development of low-cost insurance services for low-income groups
- Support and coordinate the collection of national data to design index-based agricultural insurance
- Revise taxation rules on insurance premiums and support the simplification of claims processes
- Adjust claims handling processes and claims ratios to increase customer value, especially during COVID-19

PRIORITY 5: STRENGTHEN THE CAPACITY OF FINANCIAL SECTOR REGULATORS

1. Increase sector monitoring, enforcement and leading innovation

2019 recommendations outstanding or relevant

- 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
- Upgrade the technical and supervision capacity of insurance and pension department staff regarding micro-insurance

2021 additions

- Provide technical support to the NBC for institutionalising gender-disaggregated data collection and analysis
- Increase pawn shop monitoring and formalisation

PRIORITY 6: INCREASE CONSUMER EMPOWERMENT AND SECTOR TRANSPARENCY

1. Increase financial literacy

2019 recommendations outstanding or relevant

- Support the Ministry of Education to incorporate financial literacy into the curriculum and textbooks
- Review the effectiveness of the current financial literacy programmes and develop a long-term strategy to target current low-income clients
- Explore the feasibility of creating public/private partnerships for insurance-related literacy promotion

2021 additions

- Maintain the commitment to increase financial literacy
- Include insurance companies’ claim ratios in a yearly insurance sector public disclosure

2. Increase consumer protection

2019 recommendations outstanding or relevant

- Support the development of a local extension system for the practical implementation of the law on consumer protection
- Evaluate international practices on regulations for the prescription of debt following excessive lending
- Monitor insurance claim handling payments and policies for low-income insurance

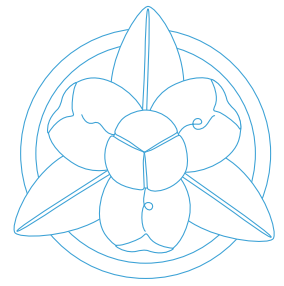
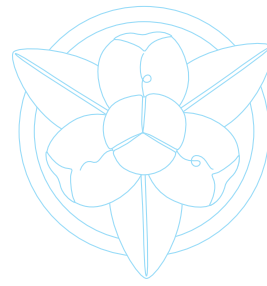
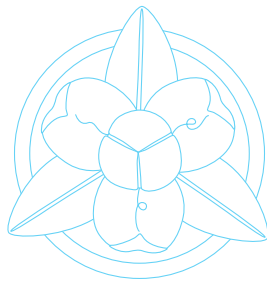
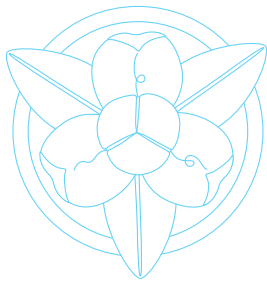
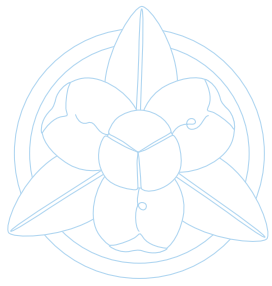
2021 additions

- Develop a timeline for practical implementation of ABC sustainable finance principles and guidelines



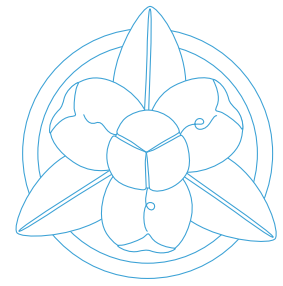
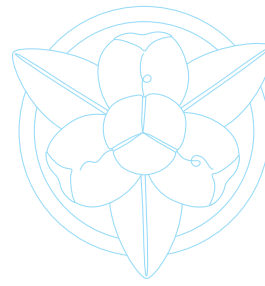
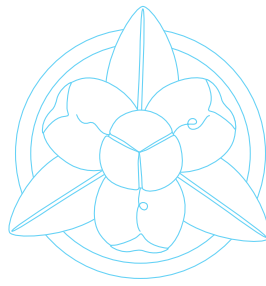
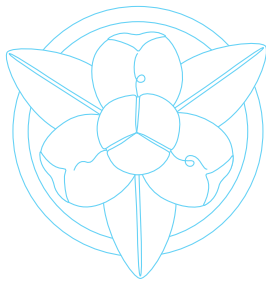
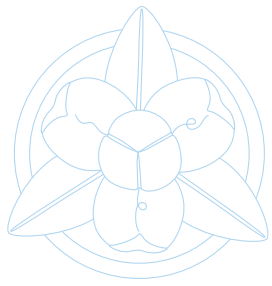
PART 6 NOTES

- 1 World Bank, 2021a.
- 2 NBC, 2021a.
- 3 NBC, 2021b.
- 4 NBC, 2021b.
- 5 UNESCAP, 2021.
- 6 UNCDF, 2020.
- 7 NBC, 2021a.
- 8 NBC, 2018.
- 9 Insurance Association of Cambodia, 2021.



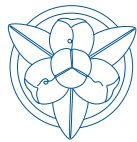
Acronyms and abbreviations

ABA	Advanced Bank of Asia	NSSF	National Social Security Fund
ABC	Association of Banks in Cambodia	ODA	Official development assistance
ASEAN	Association of Southeast Asian Nations	OECD	Organisation for Economic Co-operation and Development
ATM	Automated teller machines	P2P	Peer-to-peer
ARDB	Agricultural and Rural Development Bank of Cambodia	POS	Point-of-sale
CBC	Credit Bureau of Cambodia	PPP	Purchasing power parity
CCFTA	Cambodia-China Free Trade Agreement	PSI	Payment service institutions
CGCC	Credit Guarantee Corporation of Cambodia Plc	QR	Quick response
CMA	Cambodia Microfinance Association	RCI	Rural credit institutions
CSS	Cambodia Shared Switch	SDG	Sustainable Development Goals
CSX	Cambodia Securities Exchange	SME	Small and medium enterprises
EMV	Europay, MasterCard and VISA	TVET	Technical and vocational education and training
EU	European Union	UNCDF	United Nations Capital Development Fund
FAST	Fast & Secure Transfer	UNDP	United Nations Development Programme
FDI	Foreign direct investment	USAID	United States Agency for International Development
G2P	Government-to-person	USD	United States dollar
GDP	Gross domestic product	WE Act	Women Entrepreneurs Act
GIZ	German International Development Organization		
GNI	Gross national income		
IFC	International Finance Corporation		
IMF	International Monetary Fund		
IT	Information technology		
KHR	Khmer riel		
KOICA	Korean International Cooperation Agency		
LPCO	Liquidity Providing Collateralised Operation		
MAP	Making Access to Financial Services Possible		
MDI	Microfinance deposit-taking institutions		
MEF	Ministry of Economy and Finance		
MFI	Microfinance institutions		
MISTI	Ministry of Industry, Science, Technology and Innovation		
MoEYS	Ministry of Education, Youth and Sport		
MSME	Micro-, small and medium enterprises		
MTS	Mobile Trading System		
NBC	National Bank of Cambodia		
NBFSA	Non-Banking Financial Services Authority		

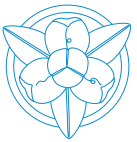


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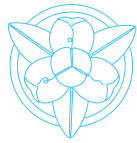
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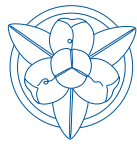
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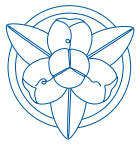
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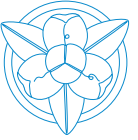
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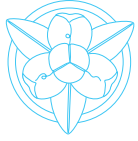
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