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NATIONAL BANK OF CAMBODIA

Financial Inclusion in Cambodia: Issues and Challenges

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The views expressed in this presentation are those of the author and do not necessarily represent the views of the NBC.

Outline

- **Financial Depth**
- **Financial Inclusion**
- **Constraints and Challenges**
- **Measures to Address Constraints and Challenges**
- **Policy Implications**



Financial Depth

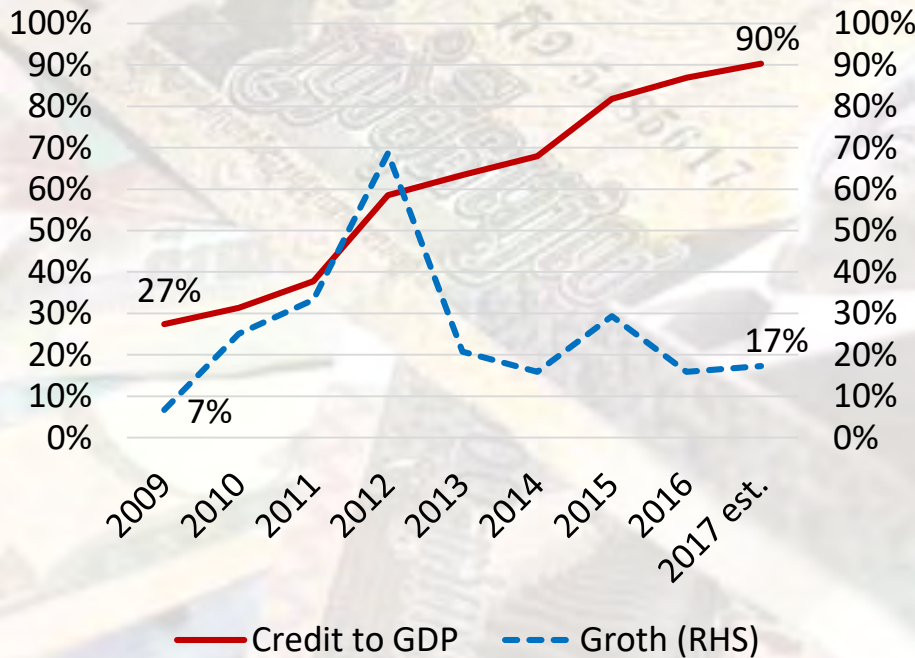
Cambodia has experienced rapid financial deepening in the last decade.



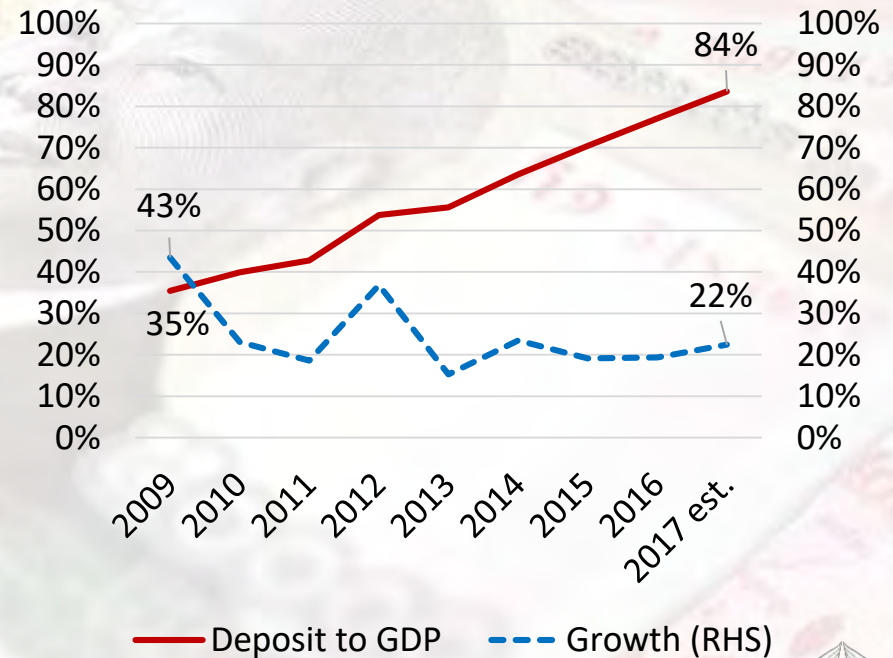
Financial Depth

As a share of GDP, credit to private sector has tripled, while deposits has doubled since 2009.

Credit to Private Sector
(2009-2017 est.)



Deposit of Banking System
(2009-2017 est.)

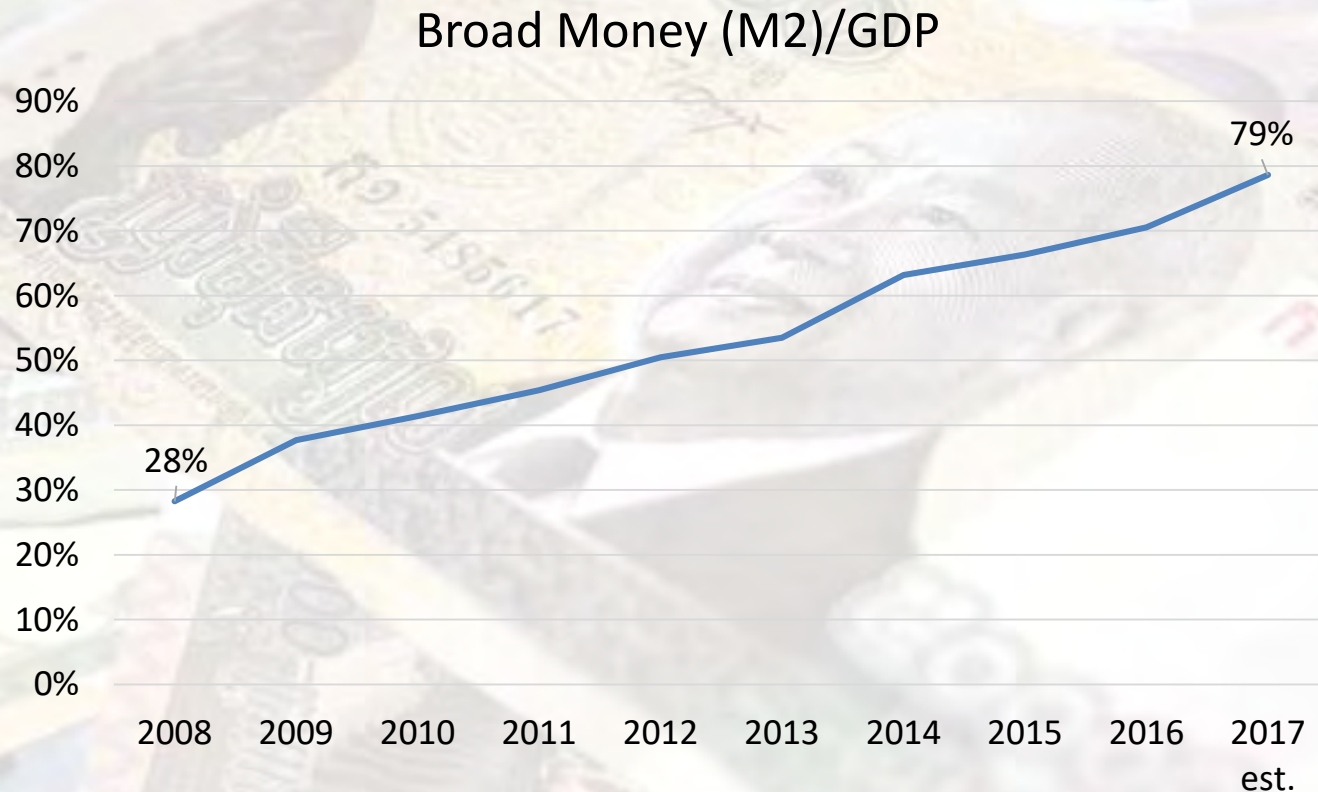


Source: National Bank of Cambodia



Financial Depth

The degree of monetization in the economy (M2/GDP) has almost tripled during the last decade.



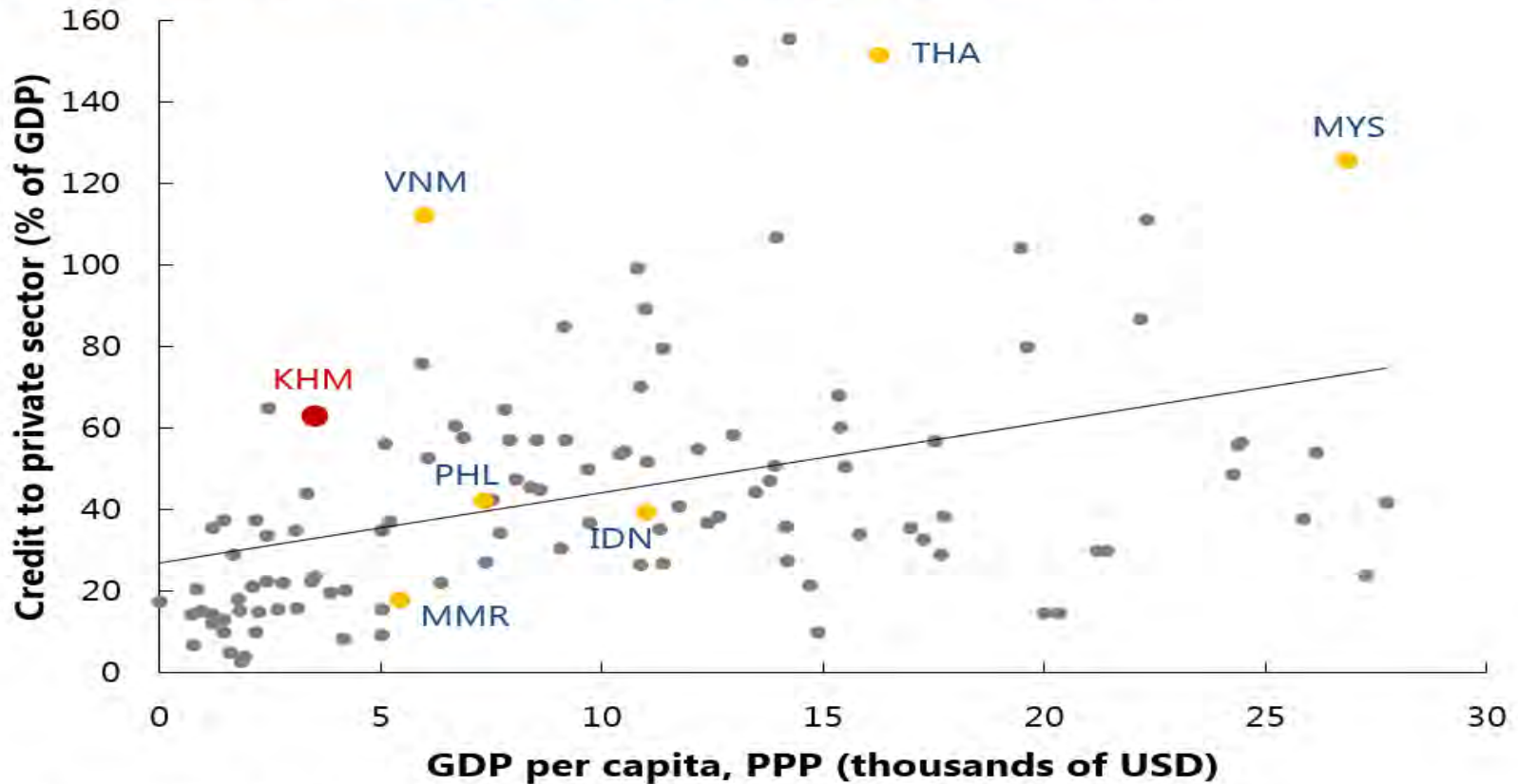
Source: National Bank of Cambodia



Financial Depth

- Cambodia's financial depth is relatively high given its income level.

Financial sector depth in developing countries



Sources: World Development Indicators; WEO (data as of 2015).



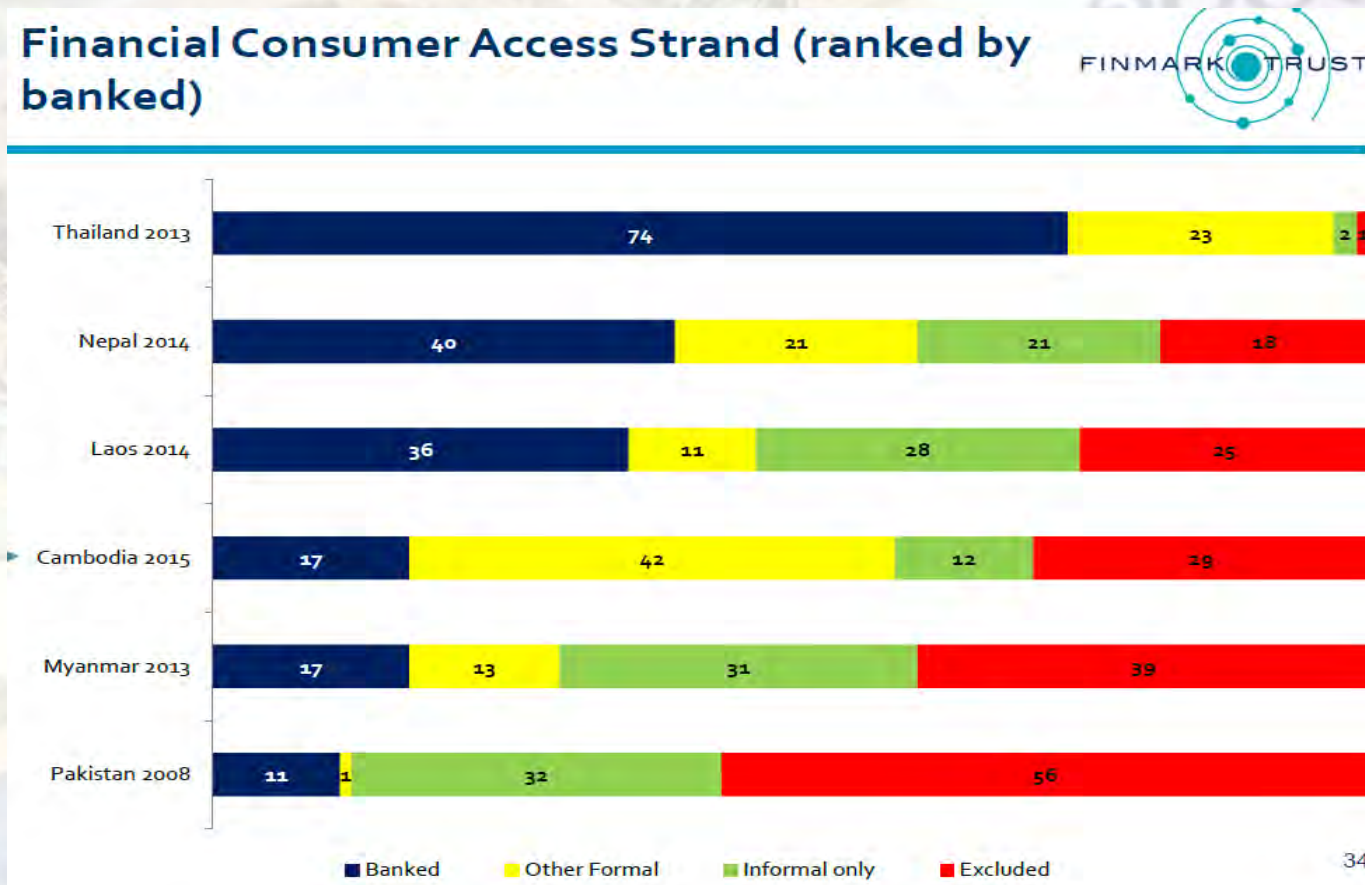
Financial Inclusion

Cambodia's financial sector has grown rapidly, especially providing opportunities to people in the rural area and to those with low income.



Financial Inclusion Across Countries

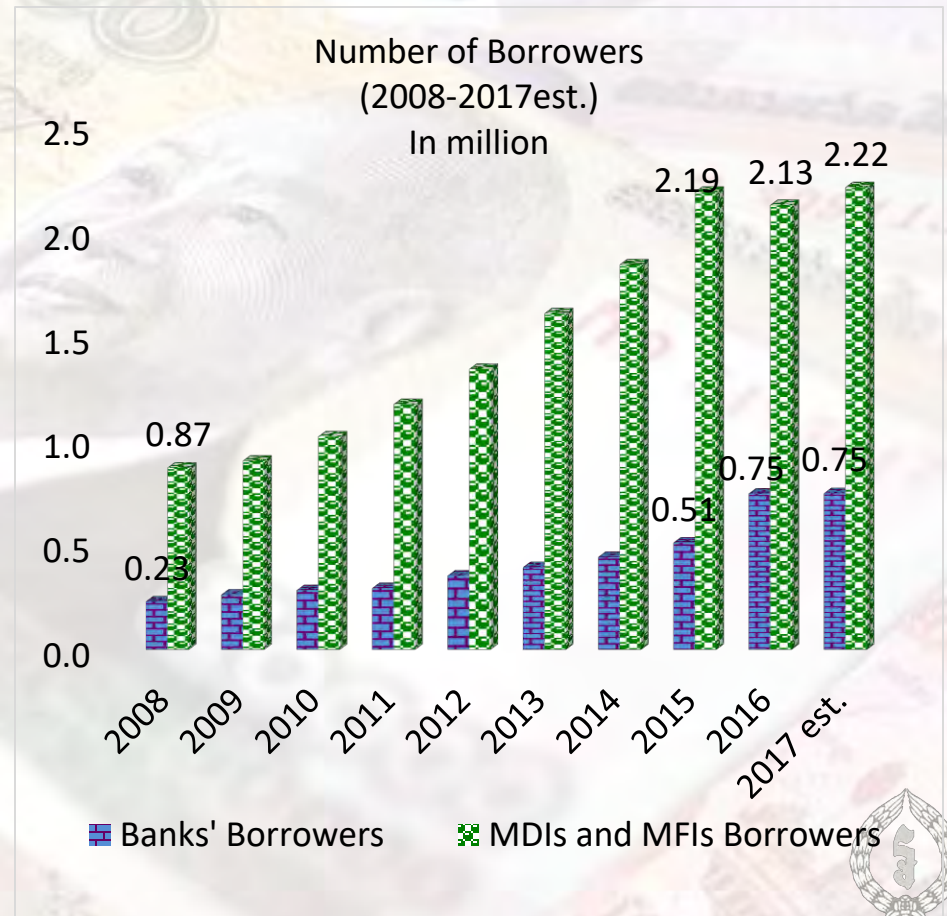
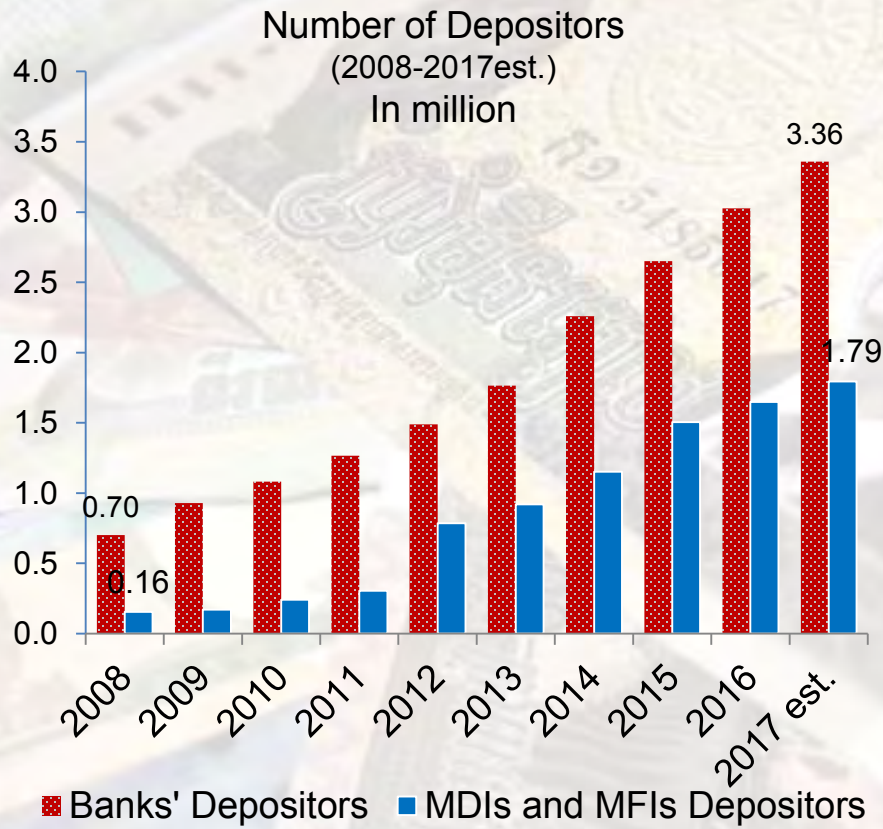
Cambodia's formal financial inclusion ranks higher than Laos, Myanmar and Pakistan, particularly because of other formal sector (Microfinance).



Source: FinScope Cambodia Consumer Survey, Topline Findings, July 2016

Financial Inclusion: Demand Side

Total number of depositors and borrowers has increased sharply during the last decade.



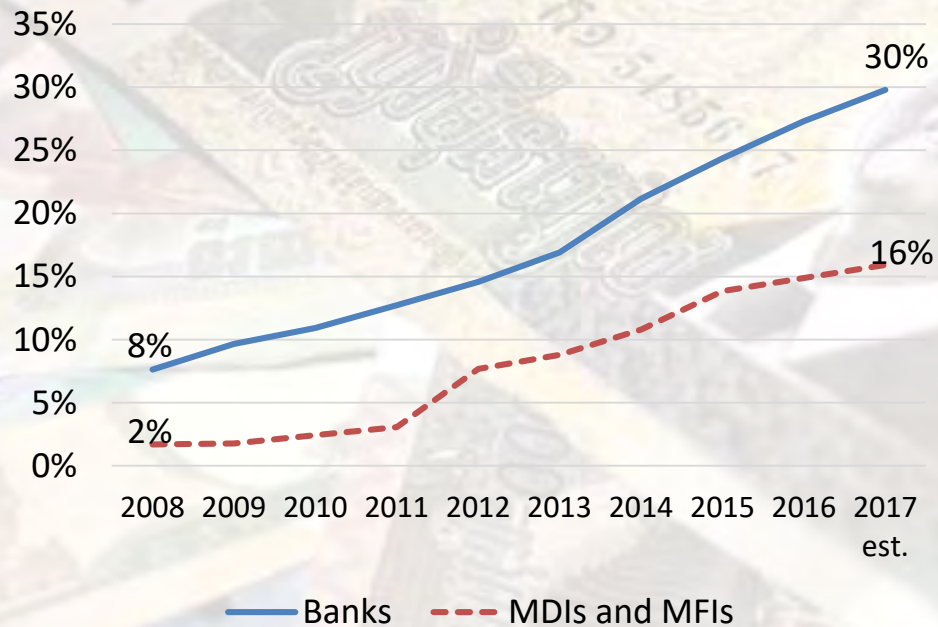
Source: National Bank of Cambodia



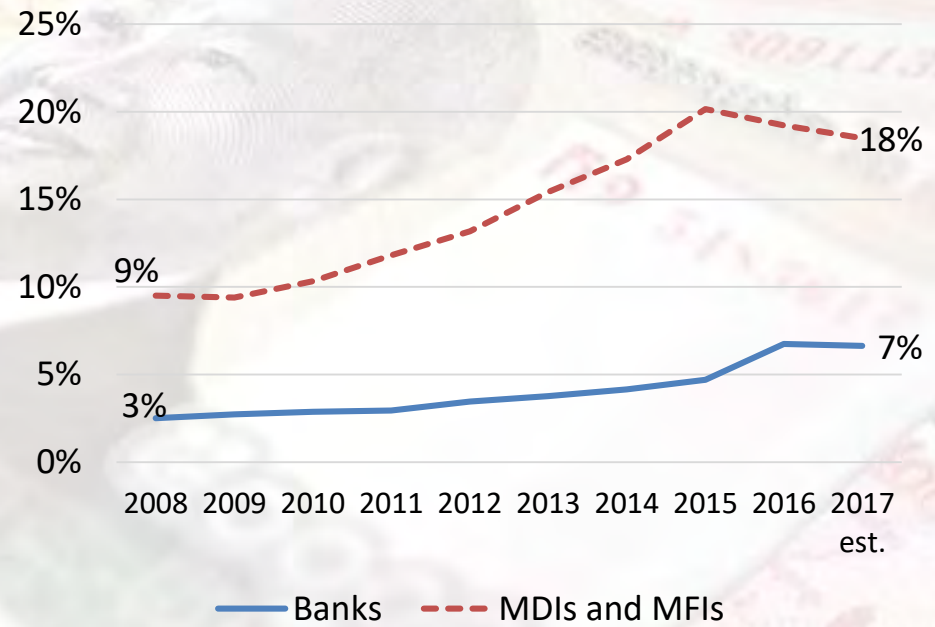
Financial Inclusion: Demand Side

The share of depositors and borrowers has also increased significantly. There is a shift in the share of borrowers with depositors.

Depositors/Adults Population



Borrowers/Adults Population

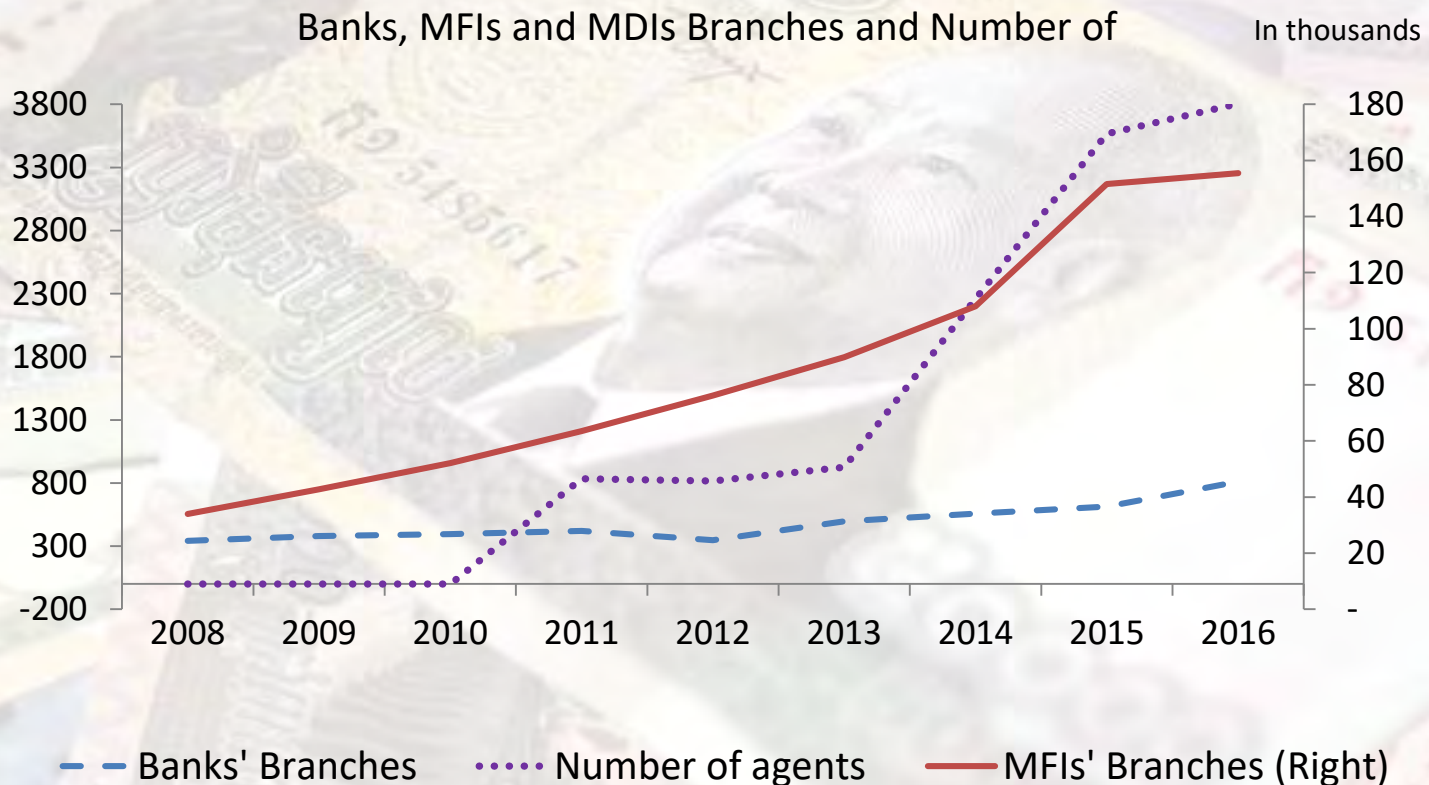


Source: National Bank of Cambodia



Financial Inclusion: Supply Side

Branches of MFIs and payment service agents have broadened their reach to rural people, who used to be non-banked.



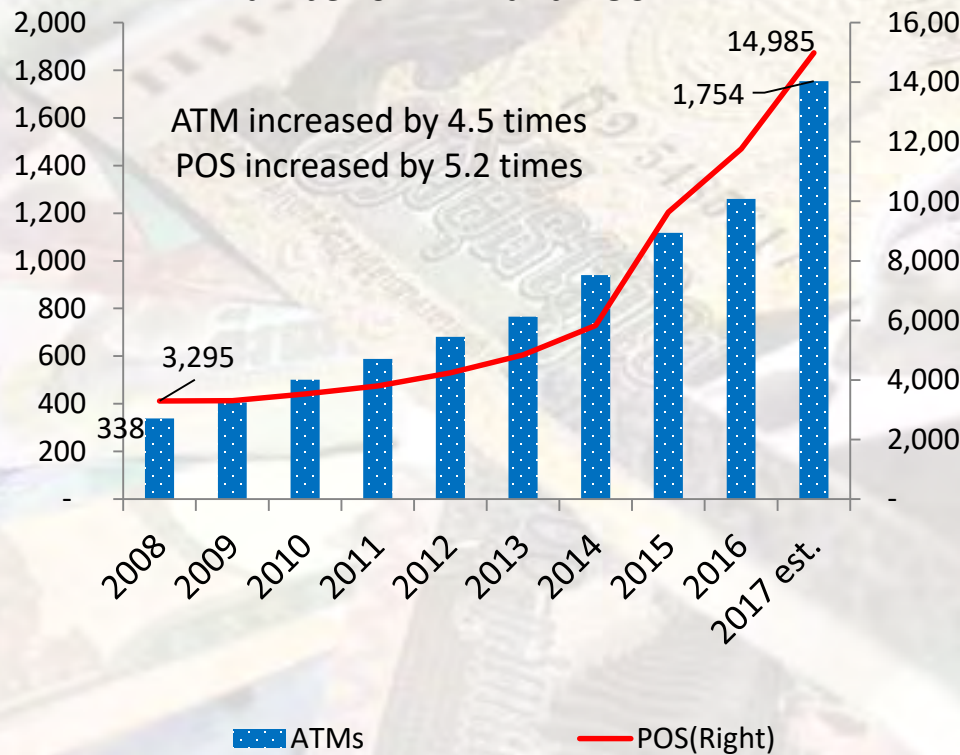
Source: National Bank of Cambodia



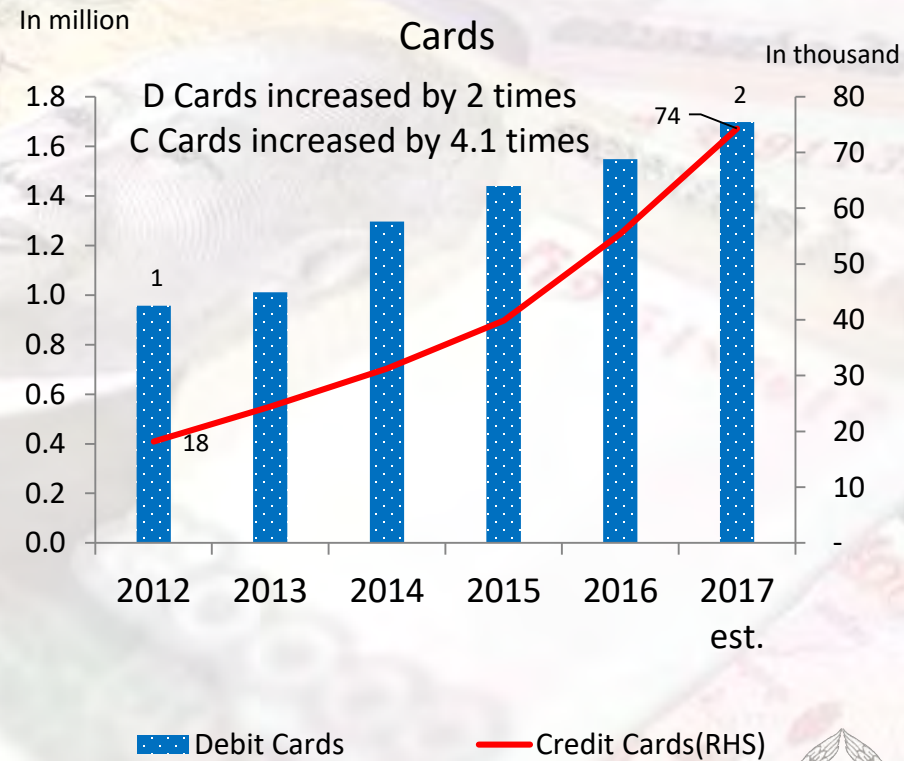
Financial Inclusion: Supply Side

Banks and MFIs have invested a lot in technology infrastructures leading to a rapid increase in the number of ATMs, POS, Debit and Credits cards.

Number of ATM and POS



Number of Debit and Credit Cards

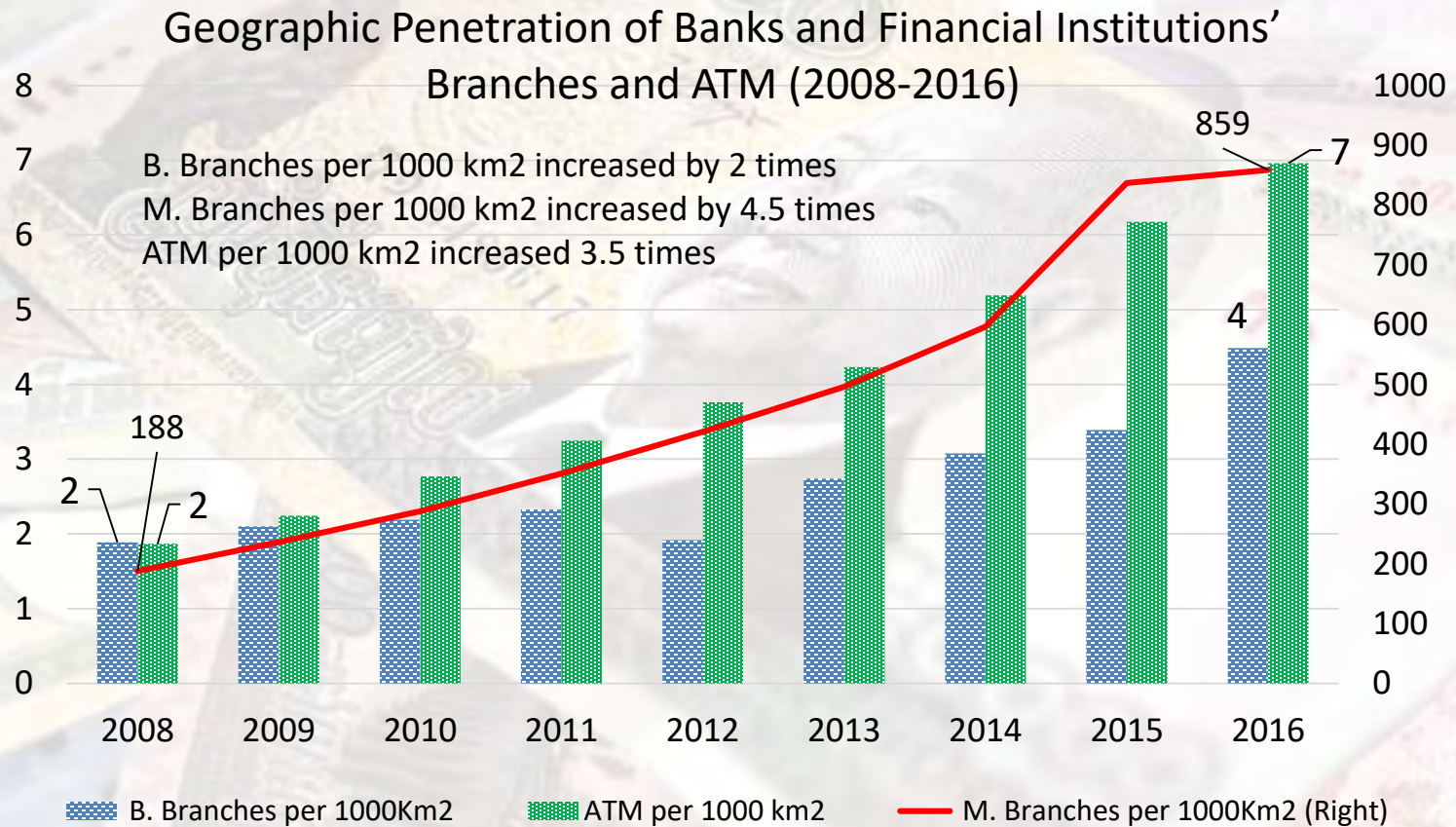


Source: National Bank of Cambodia



Financial Inclusion: Supply Side

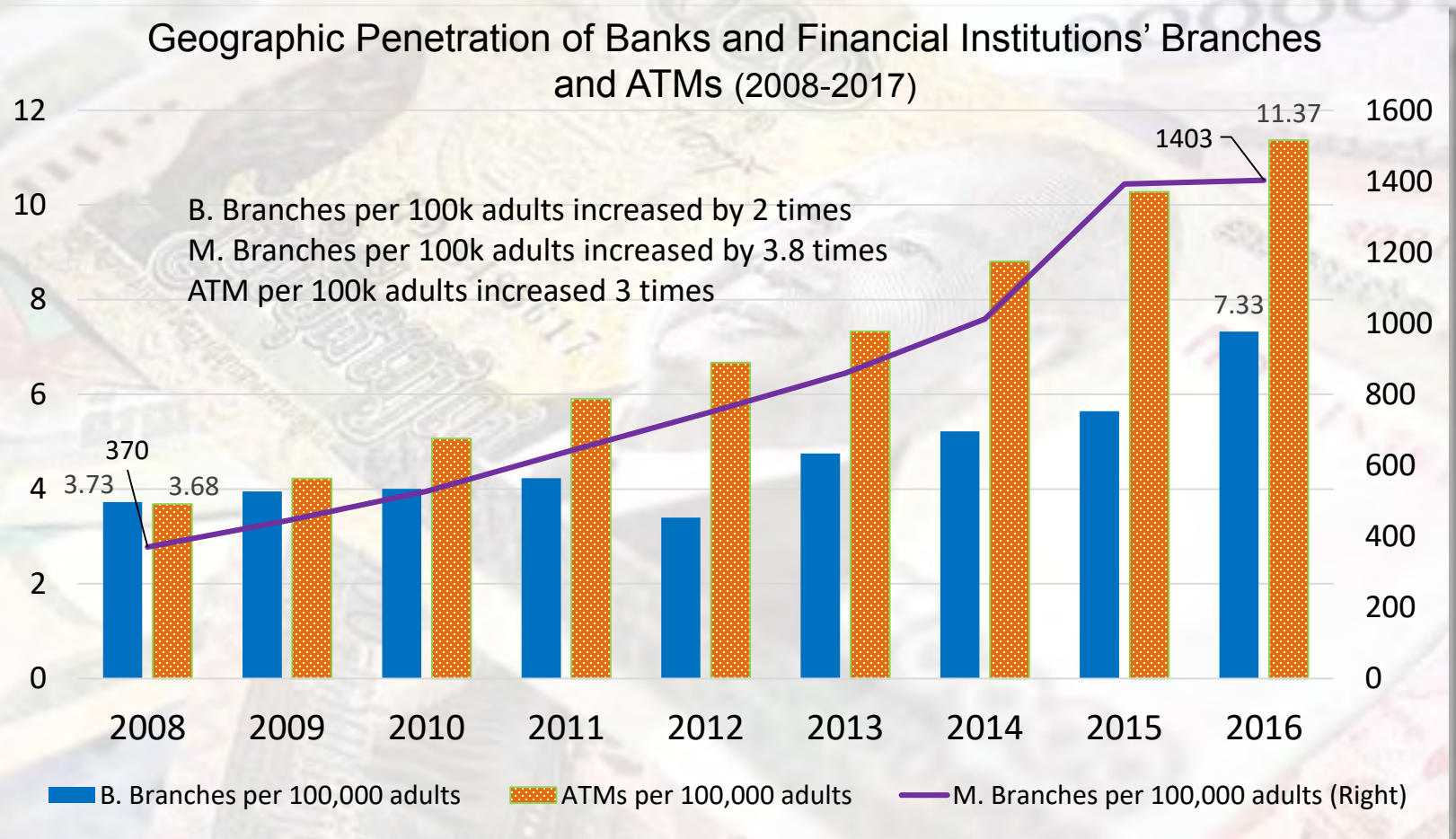
The geographical density of financial infrastructure has increased significantly to reach nearly one MFI branch per square kilometer.



Source: National Bank of Cambodia

Financial Inclusion: Supply Side

The demographic access to financial infrastructure has increased 4 times.

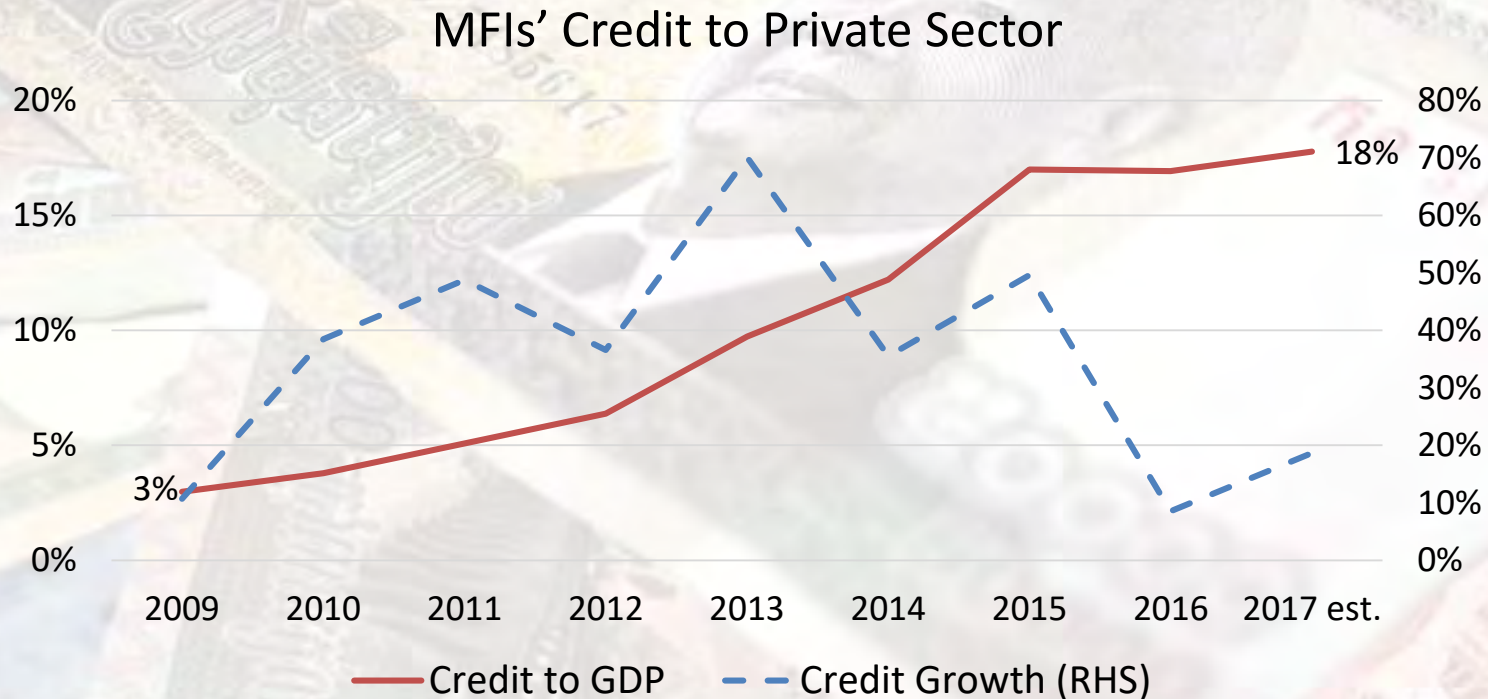


Source: National Bank of Cambodia

Development of Cambodia's Microfinance

- Early 1990s: NGOs delivered credit to rural poor and micro entrepreneurs in integrated rural development programs.

Share of MFIs credit to GDP has increased significantly, 6 times, since 2009.



How Has Microfinance Sector Been Developing and Contribute to Financial Inclusion?

- 1999: Law on banks and Financial Institutions was adopted
- Early 2000s: microfinance operators transformed into commercial nature and regulated by NBC (NBC).
- MFIs have been categorized into 4 types:
 - Non-registered NGOs
 - Rural Credit Institutions
 - Licensed MFIs
 - Microfinance Deposit-Taking Institutions

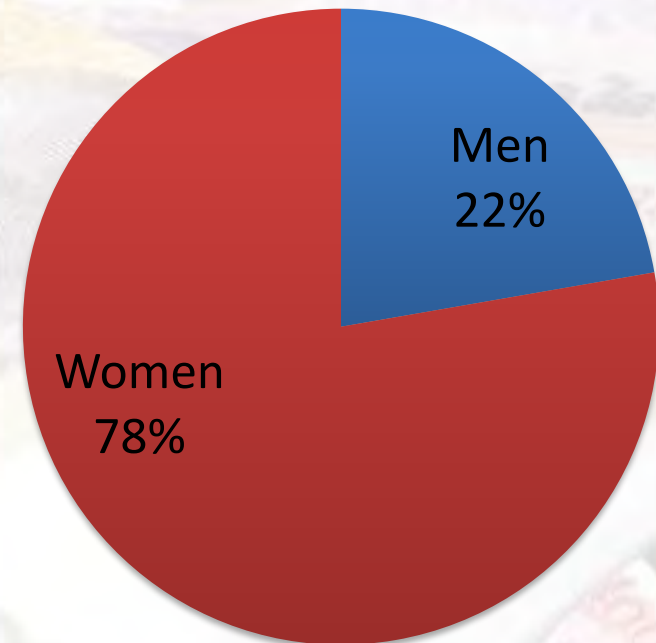
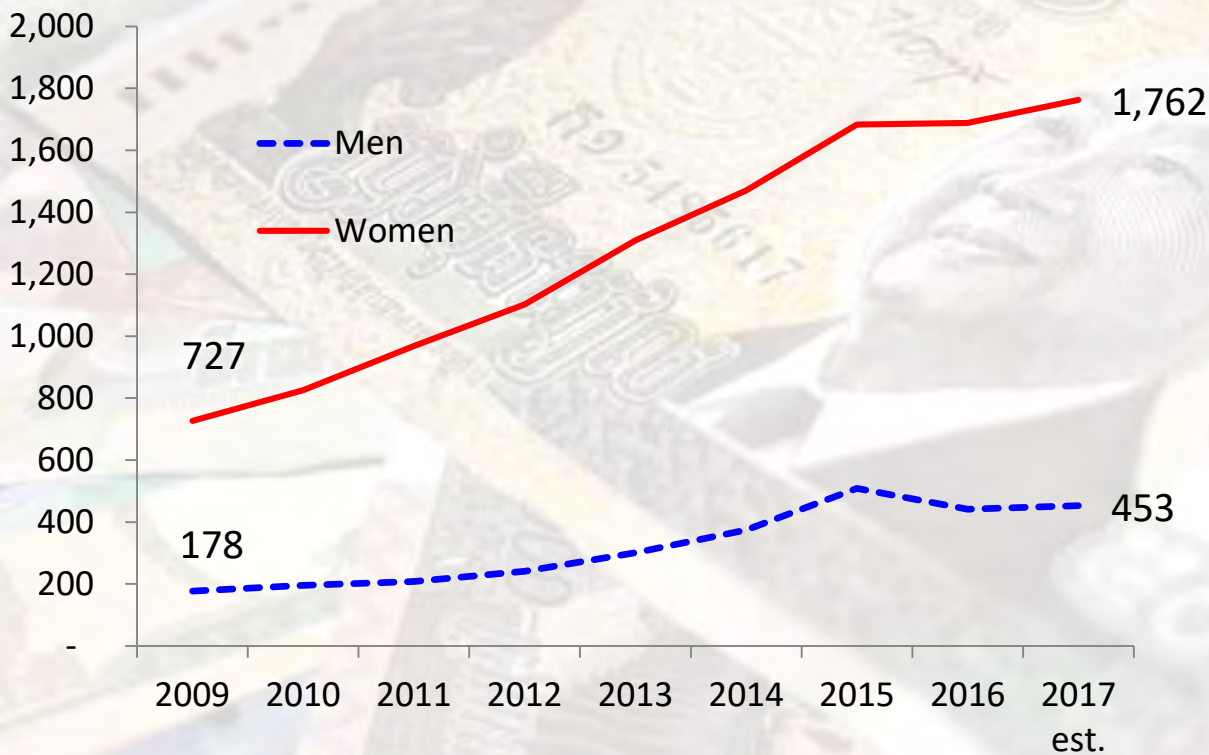
Prudential Regulations on FIs

Prudential Regulations	Banks	MDIs	MFIs
<ul style="list-style-type: none"> • Minimum Capital Requirement 	300 bil. Riel (75 M. USD)	120 bil. Riel (30 M. USD)	6 bil. Riel (1.5 M. USD)
<ul style="list-style-type: none"> • Min. Solvency Ratio 	15%	15%	15%
<ul style="list-style-type: none"> • Min. Liquidity Ratio 	70% As of Sept. 2017	70% (Sept. 2017)	70% (Sept. 2017)
<ul style="list-style-type: none"> • Loan Classification <ul style="list-style-type: none"> ➤ Normal Loan ➤ Special Mention ➤ Substandard ➤ Doubtful ➤ Loss 	<ul style="list-style-type: none"> • Days (Provision) <ul style="list-style-type: none"> ➤ <30days (1%) ➤ 30-90 days (3%) ➤ 90-180 days (20%) ➤ 180-360 days (50%) ➤ >360 (100%) 	<ul style="list-style-type: none"> • Days (Provision) <ul style="list-style-type: none"> ➤ (0%) ➤ (0%) ➤ 30-180 (20%) ➤ 180-360d (50%) ➤ >360 (100%) 	<ul style="list-style-type: none"> • Days (Provision) <ul style="list-style-type: none"> ➤ (0%) ➤ (0%) ➤ 30-180 (20%) ➤ 180-360d (50%) ➤ >360 (100%)

Women Role in Microfinance Sector

Share of MFIs' Borrowers

As of Sept 2017



Source: National Bank of Cambodia

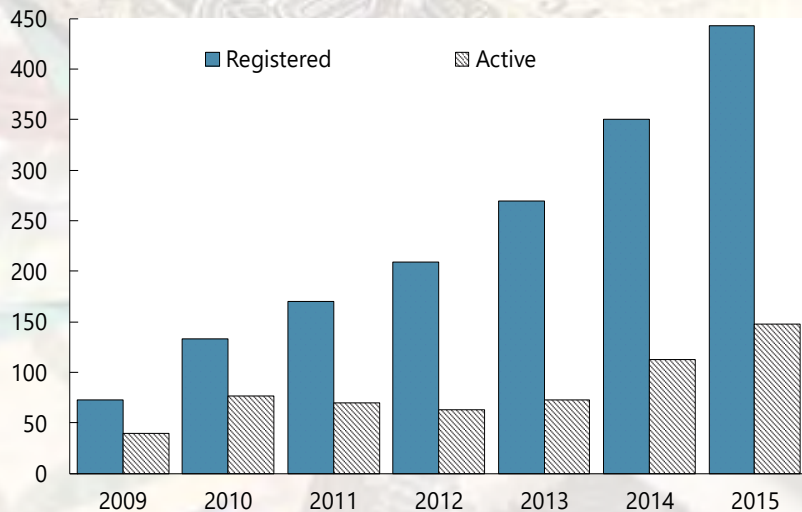


Financial Inclusion : Mobile Service in Cambodia

Branchless banking and mobile banking play very important roles in extending financial access to people living in the rural area.

Mobile money accounts

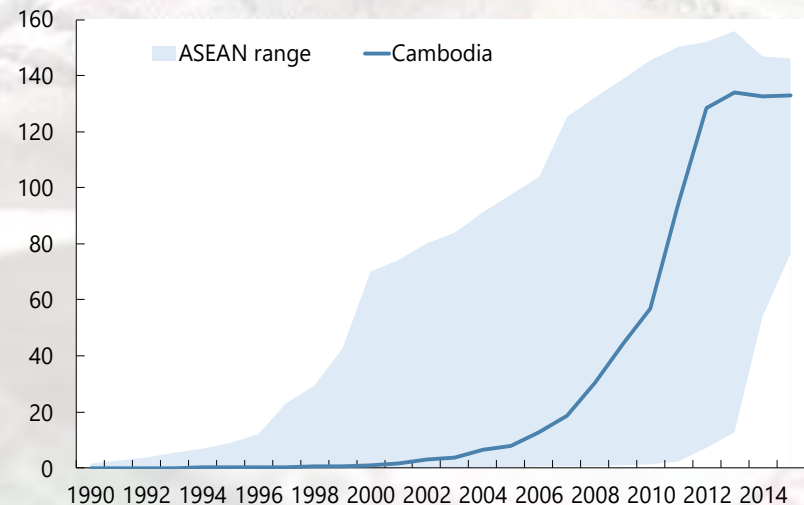
(Thousands)



Sources: Financial Access Survey.

Mobile cellular subscriptions

(Per 100 people)



Sources: World Development Indicators

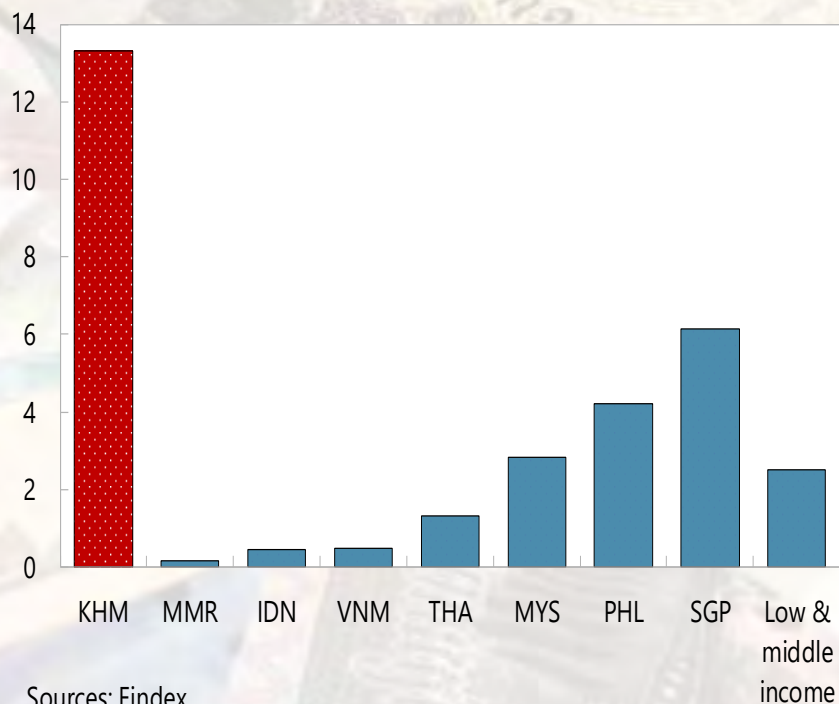


New Financial Access Indicators Cross Country

In terms of number of mobile accounts as a percentage of the population and among respective group, Cambodia ranks highest among low and middle income countries in the region.

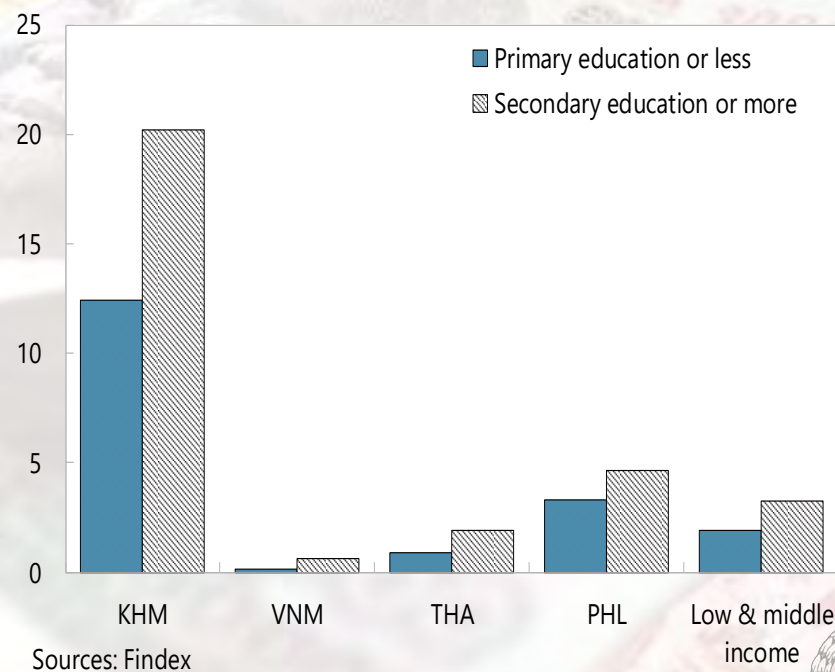
Mobile account, 2014

(In percent of population age 15+)



Mobile account, 2014

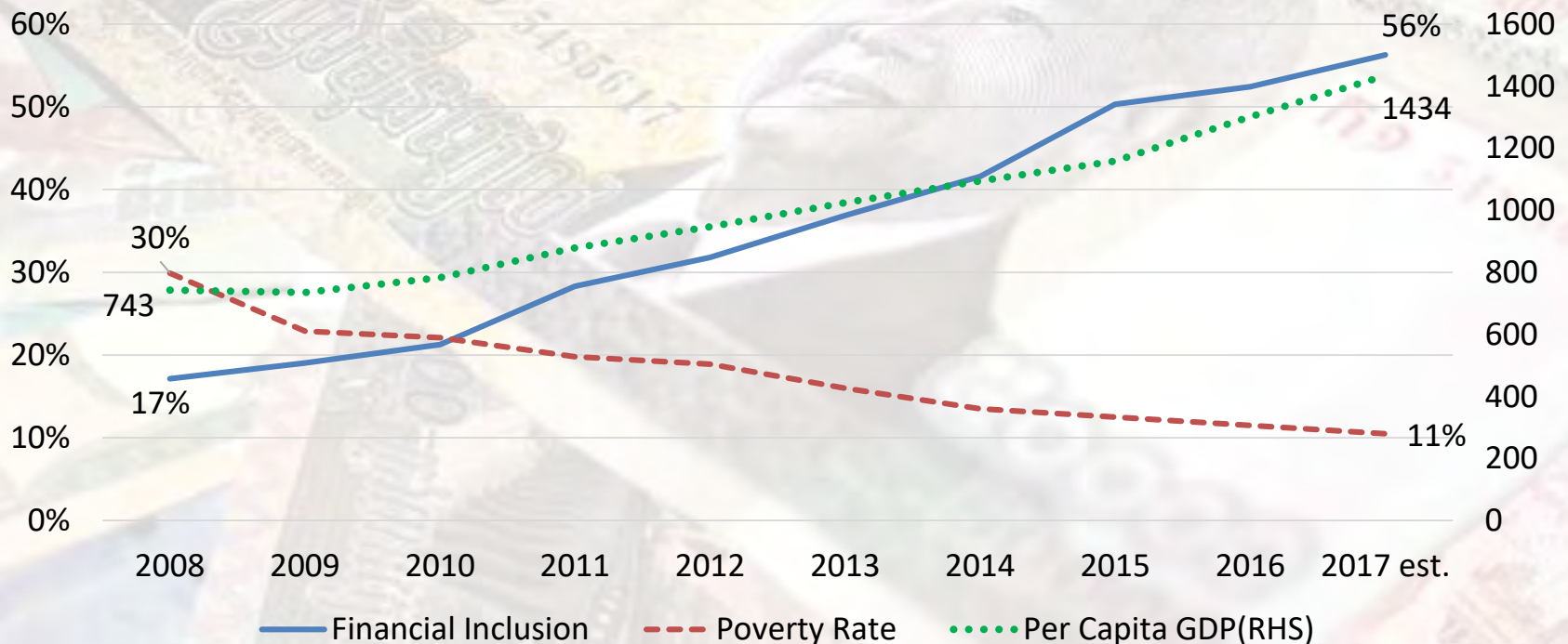
(In percent of respective population group)



Financial Inclusion, Poverty Reduction and GDP per capita

While the rate of adults given access to financial service has increased, poverty in Cambodia has declined noticeable.

**Financial Inclusion and Poverty Rate and Per Capita
(2008-2017 est)**



Constraints and challenges to Promoting Financial Inclusion

Though, financial inclusion in Cambodia has been improved, some barriers and challenges still remain that inhibits its progress.

Major Constraints

Demand Side

- transaction cost and complexity of financial service processing
- limitation of product and services
- tyranny of collateral
- financial literacy
- socio-cultural issue

Supply Side

- transaction cost
- default risk
- collateral issue
- information matter
- contract enforcement etc.

Financial Inclusion Vs Financial Stability

The objective of the microfinance institutions operation is to enable the SME and the rural poor to access to finance to start up their business or support their daily living.

However, the nature of the operation of the microfinance institutions may face some risks, including:

- Currency mismatch: source of funds in USD but use of funds are small and in local currency (Riel)
- Reliance on external source of funding makes the sector more vulnerable to external shocks and the uncertainty of the source of funds.

Financial Inclusion Vs Financial Stability

- Increasing of the degree of dollarization if those microfinance institutions avoid the risk of currency mismatch by providing loan in US dollars
- Rapid credit growth in this sector may lead to a crisis due to declining asset quality should the process of expanding the access to finance to the rural poor done inappropriately
- The process of expanding the access to finance demands more management and leadership from the microfinance institutions which sometimes outsourced to the external institutions. This will give rise to governance and/or reputational risks for the parent institutions and
- Make access to finance broader means more agents and intermediaries involved in the sector, imposing more regulatory burdens and increasing the regulatory risk.

Financial Inclusion Vs Financial Stability

How to balance between Financial Inclusion and Financial Stability?



Measures to Address Constraints and Challenges to Financial Inclusion



Measures to deal with the constraints and challenges to FI

- Enhance supervision and regulatory framework
 - Risks based and forward looking supervision
 - Update and introduce regulations according to market development: Introduce macro and micro prudential measures
- Enhance financial stability monitoring
 - Financial stability Committee within the NBC was established in 2011
 - Assess risks both from macroeconomics and financial sector
 - Conduct stress-test on liquidity and capital adequacy

Measure to deal with the constraints and challenges to FI

- Promote financial literacy
 - Conduct campaign “Let’s Talk Money”
 - Cooperate with Ministry of Education, Youth and Sport to introduce financial education in the general education program
 - Conduct seminars in provinces and districts about microfinance and financial culture.
- Improve credit information sharing mechanism
 - Consumer credit reports
 - Extending to commercial credit reports
- Develop consumer protection scheme

Measures to deal with the constraints and challenges to FI

- Set up a Hotline number to respond and deal directly with the public
- Develop electronic payment system
- Encourage banks and financial institutions to provide FinTech services to reduce participation and financial intermediation costs
- Improve collateral frameworks, Ex. Introduce micro insurance on loan, or saving history.
- Improve data collection (such as FSI, real restate) and collaborate closely with government agencies
- Preparing strategy on financial inclusion



Policy Implications



Policy Implications

- Should we further promote FI?
- What are some effective policies to promote successful and sustainable FI?
- How can Cambodia take advantages of having a high percentage of mobile account registration to promote financial inclusion?
- How to balance financial stability while allowing further financial inclusion?
- What set of policies will advance further financial inclusion while mitigate its potential negative effects on financial stability?





Thank You!

