



CGAP CONSUMER PROTECTION POLICY DIAGNOSTIC REPORT

Cambodia 2009

1 Introduction

1.1 Consumer protection policy diagnostic process

CGAP (<http://www.cgap.org>) is an independent policy and research center dedicated to advancing financial access for the world's poor. It is supported by more than 30 development agencies and private foundations that share a common mission to alleviate poverty. Housed at the World Bank, CGAP provides market intelligence, promotes standards, develops innovative solutions, and offers advisory services to governments, microfinance providers, donors, and investors.

CGAP's standard-setting role is expanding to include facilitating responsible behavior among financial institutions serving low-income customers as part of its focus on equity and efficiency. This may include setting standards covering transparency, client treatment, and recourse developed in partnership with governments, investors, and other relevant actors. It also aims to disseminate templates or frameworks others may use to carry out research, data collection, or analysis.

To help inform this work, CGAP conducted a pilot policy diagnostic mission in Phnom Penh in February 2009 to assess the Cambodian consumer protection policy environment for low-income and/or inexperienced customers. Representatives from Cambodian government, industry, and civil society (see Section 6.1 for a list of interviews conducted) provided thoughtful and candid observations during interviews, and their participation is gratefully acknowledged. This report is based on the findings of interviews conducted during the mission as well as desk research.¹

1.2 Financial consumer protection in Cambodia

Microcredit is the dominant financial service used by Cambodia's rural poor; the Cambodian Microfinance Association estimates the number of microfinance borrowers hit 1 million last year with loans totaling US\$740 million. With just two regulations of relevance to financial consumer protection in force, Cambodia offers nearly a clean slate with respect to policy choices guarding the interests of low-income consumers of financial products. National Bank of Cambodia (NBC), the financial sector's primary regulator, has taken the first strategic steps to protect these consumers and is in a good position to build on past success. The following recommendations consider potential risks to Cambodian clients and opportunities for incremental, proportional policy reform commensurate with supervisory capacity and resources; self-regulatory

¹ The diagnostic mission was completed by CGAP Policy Advisory Consultant Laura Brix. CGAP will complete similar assessments in other countries and draw from these experiences to inform a forthcoming Focus Note and other resources.

alternatives (such as industry association codes of conduct); and Cambodian customers' financial capability.

1.3 Key recommendations for policy makers

1.3.1 Cambodia's microcredit transparency regime is ripe for enhancement. A uniform framework to guide disclosure of loan terms and conditions to microloan borrowers would better protect their interests and ensure a level playing field in the competitive, fast-growing microcredit market. Such a framework would emphasize simple, plain language disclosures informed by market research so that inexperienced, low-income consumers receive information they understand and can readily compare. Guidelines could be set by either NBC or an industry association such as the Cambodian Microfinance Association (CMA) and should include enforceable consequences for noncompliance, such as sanctions or "naming and shaming" of providers.

1.3.2 Low-income customers should have avenues to resolve disputes or complaints other than through providers themselves. Cambodian customers' only alternatives are local councils or village leaders, who may not be qualified to advocate on a customer's behalf. Alternate dispute resources might take the form of a call center maintained by NBC and/or CMA (depending on the capacity and credibility of each to respond to concerns objectively and expediently), a public or private mediator, or consumer advocacy groups. To better serve rural, working-poor customers, recourse channels must be free (or nearly so) and accessible without taking a long absence from work. Substantial awareness-raising may be necessary so consumers know of and understand the benefits of alternate recourse channels, especially given Cambodians reported reluctance to complain.

1.3.3 Microlenders should be accountable for basic standards of fairness in collections. Rising portfolio risk, fierce competition, and overlapping loans may drive otherwise scrupulous lenders to overly aggressive collections behavior. As there are few redress options for low-income customers, a proactive approach to establishing and enforcing fair collection standards by NBC is all the more desirable.

1.3.4 A reliable credit information system would reduce opportunities for over-lending. The credit bureau being developed with support from the International Finance Corporation should expand the limited features of the current credit information system to require sharing both positive and negative information and to require all registered lenders to participate. Customers should have access to a free copy of their credit report on a regular basis and a means to dispute inaccurate data, including assistance in completing the necessary paperwork where needed.

1.3.5 Responsibility for financial capability of consumers should not rest solely on the shoulders of providers. Disclosure alone may not guarantee that consumers will make good choices; therefore financial education is an important component of a stable and inclusive financial sector. Further, some populations or topics may more readily fall within the scope of government facilitation (either direct provision or indirect financing thereof) such as school-based programs in partnership with the education ministry, for example. Given the large proportion of young people in Cambodia, an ideal target group for expanded financial literacy

efforts would be students and youth, grooming the next generation of responsible financial consumers.

1.3.6 Emerging agent and mobile phone delivery channels should incorporate technology-friendly market-conduct standards. New tools, such as mobile phones or point-of-sale terminals, change the structure of the provider-customer relationship and thus the nature of transparency, recourse, and privacy issues. Market-conduct standards should be tailored to fit new providers, products, and delivery channels that enter the market.

2 Country snapshot

2.1 Background and selected indicators

Although significant advancements have been made following 20 years of civil unrest and loss of a social and economic infrastructure, Cambodia remains one of the poorest countries in the world. The Khmer Rouge regime decimated the financial and banking sector, going so far as to abolish money for a time. In addition to being poor, most Cambodians are young and live in rural areas. Although 75% of the labor force is agrarian, the estimated demand for rural finance is only nominally met by formal bank lenders. One-third of demand for credit in Cambodia is at the low end (i.e., microcredit) in amounts ranging from US\$50 to US\$300. With a few exceptions, reliable voluntary savings facilities are not widely available in rural areas or to the poor.^{2,3}

Box 1. Cambodia at a glance

Population	14,494,293
Percent rural/urban	85% /15%
Population earning below US\$1/day	34%
Population earning below US\$2/day	78%
GDP per capita	US\$2,100
Literacy	74% [64% female]
Percent banked	≤ 5%
Telephone (Landline)	37,500
Telephone (Mobile)	2.5 million
Internet	70,000

Sources: CIA World Factbook, CGAP, 2007–2008 United Nations Human Development Report

2.2 Microfinance providers in Cambodia

Microfinance has been one of the country's fastest growing sectors.⁴ Emerging in the challenging post-conflict environment in Cambodia in the early 1990s with small loans and

² IDLO 2008. Microfinance Policy and Regulation Survey no.1 Cambodia. October 2008.

³ CGAP County Level Effectiveness and Accountability Review, January 2005.

⁴ “Cambodia's Microlending Growth Will Continue at Double-digit Rates in 2009,” Phnom Penh Post., February 16, 2009.

humanitarian aid to refugees living along the Thai border⁵, donor-funded microfinance in Cambodia achieved great success and later attracted many foreign investors as well.⁶

Cambodia's vibrant microfinance sector is due in part to favorable public-private cooperation. For example, NBC organized a national conference in 2006, inviting politicians, providers, customers, and the press to educate decision makers about microfinance, such as differentiating between social grants and microloans and reasons for high interest rates.

At the same time, Cambodian regulatory reform and a bank restructuring program in 1999–2000 resulted in many banks being liquidated. With the exception of ACLEDA Bank (a former NGO that became a full-service commercial bank in 2003), Cambodian banks are highly liquid, conservative, and serve an elite clientele, operating mainly in Phnom Penh city and provincial capitals.

Cambodia's tiered financial sector consists of 19 commercial banks, six specialized banks, 18 licensed microfinance institutions, and two foreign bank representative offices.^{7,8} There are also 27 registered microcredit organizations operating in rural areas and an estimated 80 NGO providers. Microfinance institutions either register or become licensed depending on the size of loan portfolio or outreach, with larger MFIs subject to licensing and more stringent oversight. Neither is allowed to accept voluntary deposits, however. To further strengthen and diversify the microfinance sector, in 2007 NBC created a new category of microfinance deposit-taking institution in an effort to mobilize voluntary savings from the general public. Thus far only two MFIs have met the standards needed to obtain this license.

Box 2. Microfinance institution growth

⁵ "Microfinance as a Tool for Poverty Reduction Current State and Future Prospect," Lim Visal. Economic Institute of Cambodia, Jan.-Mar. 2006.

⁶ USAID/DFID 2007. "Migrant Remittances" November 2007 Vol. 4 No. 5

⁷ Association of Banks in Cambodia: <http://www.abc.org.kh>

⁸ "Briefing Note on the Development of the Microfinance Sector," Kim Vada powerpoint presentation, March 17, 2009

Rapid Development

	2000	2002	2007	2008	VARIANCE 2007-08	
					2000-08	2007-08
# Registered MFIs	90	90	26	27	N/A	+ 4%
# Licensed MFIs	0	4	17	18	N/A	+ 6%
# Borrowers	370,651	328,295	600,486	825,652	+ 123%	+ 37%
Loans Outstanding	\$ 29 millions	\$ 49 millions	\$155 millions	\$ 277 millions	+ 855%	+ 79%
# Savers	147,441	107,150	104,712	108,788	- 26%	+ 4%
Deposit Outstanding	\$ 1.5 millions	\$ 6.8 millions	\$ 5.3 millions	\$ 5.4 millions	+ 260%	+ 2%

Source: Vada 2009

2.3 Products and services used by low-income customers

2.3.1 Loans

MFIs serve a small but important niche, extending 10% of the total amount of credit while serving more than three-quarters of rural Cambodian borrowers. The Cambodian Microfinance Association (CMA) estimates the number of MFI borrowers hit 1 million last year with loans totaling US\$740 million. ACLEDA Bank is the market leader, holding more than 40% of the total (US\$302 million).⁹ Interest rates on loans are high compared to neighboring countries but improving. According to CMA, effective interest rates have declined from 10% to 3–3.5% per month, due in part to the change in calculation method from flat rate to declining balance. Interest rates on informal loans have also declined due to competition from microfinance institutions.

2.3.2 Deposits

NBC estimates there are more than 100,000 MFI depositors with US\$5.4 million in deposits. ACLEDA Bank is the main holder of voluntary savings, while most non-bank MFIs hold only compulsory savings that are a small proportion of MFI loans. Cambodians reportedly lack a “culture of savings” and many prefer to rely on informal and insecure means of storing cash.

2.3.3 Remittances

⁹ “Credit Crunch Hits MFIs,” Nguon Sovan and George McLeod, March 6, 2009.

Many workers in urban centers or abroad send income to rural family members through informal networks of couriers, friends, or moneylenders. These funds are often lost, stolen, or significantly eroded by service charges of 10–30%.¹⁰ Formal remittance providers, such as ACLEDA Bank and ANZ Bank’s proposed WING money transfer service, compete with informal providers through safer and lower-cost services. These services are not subject to consumer protection rules (e.g., disclosure of fees, data security, recourse), but NBC is proactively discussing these issues with prospective providers.

2.3.4 Insurance

Insurance is not a product of relevance for most low-income consumers in Cambodia, with few providers and product offerings. Only 1–2% of Cambodians are thought to have the required disposable income to be able to afford insurance.¹¹

2.4 Financial capability

No formal financial literacy or education effort exists in Cambodia. NBC expects providers to educate customers at the point of sale but does not directly support or monitor the effort. Point-of-sale financial education has been an important part of building a sound overall credit environment due to most customers’ previous lack of experience with credit products.

Typical provider activities include one-on-one coaching; incorporating trust-building features into accounts (such as quick availability of deposited funds to show the money is safe); and radio and TV ads that combine marketing and educational aspects. NBC has recently pushed for microlenders to focus more on educating clients on using loans for productive uses, as opposed to consumption.

Next generation financial capability issues include (1) cultivating Cambodians’ understanding of the value of formal savings products and (2) overcoming reluctance to lodge complaints or seek recourse when necessary.

2.5 Civil society

Civil society organizations are not strong in Cambodia, with the exception of the influential Garment Manufacturing Association, which has more than 300 member companies. Grassroots advocacy is more the purview of village leaders and counsels as well as the press. There are some NGOs specializing in legal issues, but they currently have a small presence.

¹⁰ “Mobile System Eyes Rural Market,” Sebastian Strangio and George Mcleod, Phnom Penh Post, January 26, 2009.

¹¹ “Insurance Sector Still Maturing,” Nathan Green, Phnom Penh Post, February 16, 2009.

3 Regulatory and supervisory framework for financial consumer protection

3.1 Consumer protection and conduct of business regulation

The legal and regulatory framework for consumer protection in Cambodia is quite limited, which is not surprising given the relative infancy and small size of the financial system itself. There are two “prakas” (regulations) related to consumer protection in microfinance under the supervision of the NBC:

- Prakas on The Calculation of Interest Rates on Microfinance Loans (August 14, 2001), which requires interest charged on a loan to be calculated and disclosed based on a declining balance; and
- Prakas on The Utilization and Protection of Credit Information (May 10, 2006), which establishes a process for banks to share negative credit information as part of a government sponsored framework known as CIS (Credit Information System).

Refer to the Annex for further details.

3.2 Supervision and enforcement

Compliance with consumer protection regulations by banks and microfinance institutions is monitored by NBC examiners. The consequences for noncompliance are not severe and mainly require an action plan to bring the institution into compliance.

3.3 Industry codes of conduct

There are no industry-wide standards to guide conduct of business for banks and MFIs. Neither the Association of Banks in Cambodia nor the Cambodian Microfinance Association has a written code of conduct, but CMA members have reportedly agreed to an unofficial “verbal code of conduct” on collections to reduce potential for illegal seizure and abusive treatment of customers. There are no consequences for noncompliance; rather the main incentive to follow this code seems to be reducing reputation risk for the MFIs. CMA and its members also watch non-member behavior and report bad treatment to the media.

In the absence of industry oversight or self-regulation, some individual MFIs interviewed seemed to be actively self-policing their conduct of business using written codes of conduct and other means. For example, ACLEDA Bank’s Code of Ethics covers matters such as personal behavior; relationships with colleagues, customers, and regulators; confidentiality; conflicts of interest; acceptance of gifts; money laundering; and whistle blowing. The code is regularly reviewed by a compliance and ethics committee to ensure its ongoing relevance. Internal auditors assess the impact of the rapid growth on employee behavior and effectiveness of staff training and counseling programs. ACLEDA has also established fair treatment standards, such as prohibitions against overselling or pushing customers to buy inappropriate products or services and “truth in advertising” guidelines.¹²

¹² ACLEDA Bank Plc 2007. Annual Report

AMK, one of the larger MFIs, has a Code of Practice for Client Protection that covers maximizing inclusion of the “poor and marginalized” populations; minimizing the exposure of clients to harmful financial products, such as those that promote over-indebtedness; transparency in transactions and business conduct; client freedom of choice; and appropriate and respectful behavior toward clients by staff and management. The code is translated into operating standards and monitored by internal audits and social research findings.¹³

3.4 Recourse and redress mechanisms

While the conventional wisdom is Cambodians do not like to complain, the opportunity to do so in the event of unfair or abusive treatment is a basic right that should exist even if it is used infrequently. There are no independent complaints or recourse mechanisms established by regulators or industry associations, so providers may be customers’ only source of redress. MFIs offer typical avenues for customer dispute resolution: call centers with the phone number posted at ATMs and branches, customer service desk, complaint box, and the Internet.

The absence of a simple, practical means for inexperienced customers to deal with unresolved issues leaves them vulnerable to a balance of power that unduly favors providers. This concept appears fairly new to Cambodian MFIs: one noted if a customer was not satisfied with the resolution of her problem the next step would be for her to contact the MFI’s legal department, bringing a lawyer with her, an unlikely step for a poor, rural customer. Small claims or other courts are also not physically or financially accessible by poor Cambodians.

Cambodia’s powerful local village leaders may play the role of advocate and mediator to fill the gap, as do elected commune councils, but their effectiveness depends on how well educated they are on legal issues.

4 Specific issues

4.1 Loan transparency and disclosure

Cambodia’s primary market conduct rule requires interest to be calculated on a declining rather than flat balance, which has created a fairer pricing structure, increased overall transparency, and reduced lending rates. This rule also requires lenders to provide a payment schedule, although there is no standardized format or content. The MFIs interviewed believe the small size of the sector means most providers offer similar products, terms, and disclosures anyway, and there are few hidden costs. There is also a high level of trust in the ability of competitive forces in Cambodia’s free market economy to drive fair loan pricing.

MFIs are responsible for determining the content and timing of loan disclosures. Common practice includes posted rate sheets; written disclosure forms; and discussion between customer and loan officer on loan size, rates and fees, total of payments, and training on business plans.

¹³ AMK 2008. Annual Report.

MFIs report that Cambodians in urban areas (where there are more choices) are well-versed at getting quotes and comparison shopping. In competitive markets, MFIs will negotiate on posted rates and terms. As to be expected, larger providers offer more choices, and larger customers/loans are afforded greater opportunities to negotiate on rates and fees. With few if any choices in rural areas, however, clients are more inclined to depend on advice from loan officers and ask fewer questions.

NBC has not established rules governing the clarity and accuracy of marketing materials and advertisements. As with loan disclosures, the size of the market allows for informal monitoring by NBC, and amongst competitors using negative press helps keep providers in line.

Ironically, while policies governing client-level transparency are new territory, transparency of MFI financial performance in Cambodia is well-established and promoted by NBC, with MFIs receiving various transparency-related awards, including CGAP's Transparency Award. Donors and investors have done much to move the industry forward at this level and could be a potent force to drive increased customer transparency as well.

4.2 Availability of customer credit information

Cambodia has a voluntary, negative-information-only Credit Information System housed at NBC, but it has not functioned for some time due to a technical glitch that is reportedly not repairable. In the absence of a working credit bureau, MFIs share information informally to try to avoid overlapping debts. However, the consensus among MFIs interviewed is the information is not reliable, in part because it cannot be verified. No one will admit to providing the credit information because it is illegal to share personal commercial information under privacy laws.

Under the guidance of the International Finance Corporation, a new credit bureau framework is in the process of development, with support from NBC and strong demand by industry. It is hoped to be up and running in the next three years, requiring revision of restrictive privacy rules for full implementation. Data will be provided by banks, MFIs, non-bank financial institutions , and possibly utilities as well.

4.3 Overlending

The combination of rapid loan growth, strong competition, and absence of verifiable information on client debt levels creates a strong potential for over indebtedness. There is evidence of overlapping loans (often a precursor to over indebtedness) as well as rising portfolio risk in Cambodia—including borrowing from moneylenders to pay off MFI loans—adding to fears that the economic slowdown will increase defaults.

4.4 Collection practices

With rising defaults comes the potential for foreclosure activity, as most loans in Cambodia are secured by real or personal property (the exception is group loans offered by some MFIs and NGOs). There are no specific rules governing fair treatment of customers during the collections process. There are also signs of customer confusion on repossession of security, as noted in various media reports. For instance, villagers from a province in southern Cambodia complained

recently that a dozen microfinance companies took possession of their homes and farmland because they could not repay their loans.¹⁴

5 Conclusions and recommendations

Cambodia's market conduct standards, while extremely limited in scope, have benefitted the sector in terms of some increased transparency surrounding rates and payments, lower prices, and heightened competition. As the sector continues to evolve, so, too, should its market conduct standards, with an eye to incremental timing and phasing of new principles and rules to anticipate problems while allowing space for innovation and growth. Key topics for policy makers to include:

- **Uniform, enforceable transparency standards**, including simple, plain language disclosures that are informed by market research and comparable for like or similar products.
- **A reliable credit information system** that requires both positive and negative information and mandatory participation by all lenders.
- **Established principles of fairness and equity in collections** to avoid overly aggressive or abusive treatment of customers.
- **Avenues to resolve disputes or complaints other than through providers themselves** that are accessible and appealing to inexperienced, rural customers.
- **Improved financial literacy and education** so customers, especially youth, are better able to make informed choices, assert their rights, and understand their obligations.
- **Technology-friendly market-conduct standards** for emerging new products and delivery channels such as mobile phone banking.

6 Resources

6.1 List of interviews conducted

NAME	TITLE	ORGANIZATION
H.E. Madame Tal Nay Im	Assistant Governor, Director General	National Bank of Cambodia
Mr. Hou Samnang	Deputy Director, Bank Supervision Department	National Bank of Cambodia
Mr. Tal Thea	Division Chief, Bank Supervision Department	National Bank of Cambodia
Mr. Paul Luchtenburg	CEO	AMK CO. LTD
Ms. Olga Torres	Research Advisor	AMK CO. LTD
Mrs. So Phonnary	Executive Vice President and Chief Operations Officer	ACLEDA Bank Plc
Mr. Loeung Sopheap	Senior Vice President and	ACLEDA Bank Plc

¹⁴ "Micro-Lenders Run Reality Check," Stephen Kurczy, Asia Times Online, 2008.

	Head of Product Development Division	
Dr. Bun Mony	Chairman/General Manager Board member/former Chair	Sathapana Limited Cambodian Microfinance Association
Mr. Hourn Thy	Project Manager, Access to Finance	International Finance Corporation

6.2 Additional published sources

- Cambodia Ministry of Rural Development: <http://www.mrd.gov.kh/index.php>
- IFC 2008. International Finance Corporation Business Issues Bulletin No. 16, 2008
- Sovan 2009. “Lenders See Rise in Bad Microloans,” Nguon Sovan, March 30, 2009

Annex: Consumer Protection Laws and Regulations

Prakas on The Calculation of Interest Rates on Microfinance Loans (August 14, 2001)

Requires interest charged on a loan granted by specified entities to be calculated “taking into account the repayments of principal already made on that loan,” that is, the declining balance. The prakas covers rural credit specialized banks, microfinance institutions registered and licensed from the National Bank of Cambodia, non-governmental organizations, and associations. Article 3 requires the loan agreement between microfinance institutions and customers to have a credit amortization table, but there is no uniform disclosure required. This rule is seen by NBC as an important first step in consumer protection and has yielded benefits in the form of lower rates for microloan customers.

Prakas on The Utilization and Protection of Credit Information (May 10, 2006)

Establishes process for banks to share negative credit information as part of a government sponsored framework known as CIS (Credit Information System). The current system is inactive, but the wording of the prakas has been interpreted by lenders to preclude the sharing of personal credit information other than the negative information provided for under this system.

There is also a Law on Quality and Safety of Products and Services (June 29, 2000) overseen by the Ministry of Commerce that does not appear to apply to the financial services industry.