ANNEX 2: CAMBODIA

When Competition Outpaces Oversight

This Annex is part of the CGAP Focus Note 'Advancing Competition for Financial Inclusion: Six Policy Considerations for Financial Authorities' published May 2026.

Cambodia's financial sector has expanded rapidly over the past decade, with a complex landscape of over 300 licensed institutions, including around 59 commercial banks, 9 specialized banks, 85 microfinance institutions, 114 rural credit institutions, and more than 30 payment service providers, alongside leasing firms, pawn shops, and money changers (NBC 2025). Although financial access has improved, with about four in ten adults now holding an account, inclusion remains low relative to the number of providers and well below regional averages (Klapper et al. 2025). What appears to be a thriving and competitive market has also exhibited fragmentation, uneven institutional strength, and recurring conduct and integrity challenges (IMF 2025). Competition has largely manifested through credit expansion, with limited innovation or product diversification at the system level. The rapid growth of credit portfolios, often targeting the same customers, has contributed to aggressive lending practices and over-indebtedness, while uneven enforcement has enabled regulatory arbitrage. These dynamics have eroded trust and heightened vulnerability, illustrating how competition expanded faster than supervisory and consumer-protection frameworks could develop, prompting subsequent efforts to recalibrate policy and strengthen oversight.

The push to widen access and spur competition was intentional and well-meaning. The National Bank of Cambodia (NBC) pursued liberal licensing and later introduced interest-rate caps to accelerate financial deepening. However, uneven enforcement of prudential and market conduct rules, together with limited interoperability, meant that safeguards did not keep pace with expansion (NBC 2018; IMF 2025). While financial access has expanded and new entrants proliferated, Cambodia's experience highlights the trade-offs between competition, consumer protection, financial stability, and integrity. It shows how lowering entry barriers and opening markets without commensurate supervisory capacity and consumer safeguards can create lasting vulnerabilities that erode the resilience of the financial system and undermine meaningful financial inclusion.

Liberal Licensing, Market Expansion, and the Rise of Debt Stress

Cambodia's competitive landscape took shape under the NBC's liberal licensing policy in the early 2010s. With only about 3.7 percent of adults holding an account in 2011, policymakers saw market entry as the fastest way to expand access (Demirgüc-Kunt and Klapper 2013). Tiered capital rules allowed rapid entry across market segments. Minimum capital for locally incorporated commercial banks was set at US$75 million; for branches of investment-grade foreign banks, at US$50 million; and

for specialized banks focusing on narrower activities, such as small- and medium-size enterprises (SME), rural, or consumer finance, only US$15 million (NBC 2013). The policy nearly doubled the number of licensed banks, from 36 in 2010 to 66 by 2025, as foreign as well as domestic lenders (e.g., Acleda, ABA, and Canadia) entered the market (NBC 2025).

At the same time, NBC formalized the microfinance industry by introducing a new deposit-taking category (microfinance deposit-taking institutions, minority depository institutions). This allowed leading microfinance institutions (MFI) (e.g., PRASAC, Sathapana, and Hattha), who were previously registered but not licensed, to mobilize public savings and to accept deposits under central bank supervision (NBC 2018). The number of licensed MFIs rose from 53 to 89 over the same period, while 34 payment service providers and e-money institutions, including Wing, TrueMoney, Pi Pay, and Ly Hour Veluy, were approved to operate mobile wallets and agent networks (NBC 2023a). Licensing approvals were routine and fast, driving rapid credit expansion, particularly in rural and low-income household lending—an early warning of the debt stress that would soon dominate the sector (IMF 2025).

By regional standards Cambodia is described as overbanked, with more than 300 institutions serving 17 million people (NBC 2025). The microfinance loan portfolio reached a staggering US$18 billion or 40 percent of national GDP, with the country's 3.8 million households holding more than 3.1 million microfinance loans. By 2024, the average loan size exceeded US$5,800 — more than four times the median per capita income of US$1,400 (NBC 2023b; HRW 2025). Rising household debt forced many families to cut consumption, withdraw children from school, or borrow again to repay existing debt (Pimhidzai 2019; LICADHO et al. 2020). Indigenous communities were hit hardest as predatory practices, language and literacy barriers, and inadequate grievance mechanisms led to land loss and reported suicides (HRW 2025; CAO 2023). The scale and pace of credit expansion and its social fallout eventually prompted NBC to act, most visibly through interest-rate caps and tighter oversight aimed at restoring balance to an overheated market.

Interest Rate Caps and Market Correction

Mounting public concern over excessive lending rates and rising household debt prompted the NBC to cap microfinance interest rates at 18 percent in 2017 (NBC 2017). The measure aimed to make credit more affordable and signal stronger consumer protection. It followed years of double-digit loan growth, with many borrowers paying 25 to 30 percent per year to multiple providers.

The cap delivered immediate but uneven effects. Average lending rates fell by about five to six percentage points, but lenders recovered margins through higher fees and larger loans. Fee income rose from roughly 0.9 to 2.6 percent of total revenue, and average loan sizes increased by 23 percent as MFIs rebalanced toward larger and lower-risk borrowers (Heng, Chea, and Heng 2021; Aiba et al. 2020). Small loans, especially those under USD 1000 fell significantly, while the share of rural borrowers also declined (Aiba et al. 2020). Smaller rural lenders struggled under compressed margins, leading some to merge or exit, while a few large MFIs upgraded to full-service banks (NBC 2023a). The policy lowered costs for some borrowers but reduced the commercial viability of serving poorer, higher-cost rural clients, contributing to a shift toward larger and secured loans. For consumers,

affordability gains were limited. Effective borrowing costs remained high, and many low-income borrowers continued to refinance or pledge land to secure new credit (Pimhidzai 2019). Microcredit portfolios were roughly a third of national GDP, household debt approached 93 percent of GDP, and nonperforming loan ratios doubled between 2017 and 2020 (IMF 2025), underscoring that rate controls, alone, could not correct the structural risks created by liberal licensing and aggressive credit growth.

Interoperability and Market Infrastructure

Following the interest-rate cap, the NBC shifted focus to market infrastructure to reduce costs and level the playing field. In 2020, it launched Bakong, a distributed-ledger retail payment platform combining elements of a real-time gross settlement system and a central-bank digital currency, enabling instant transfers among banks, MFIs, and payment providers (NBC 2023a). NBC complemented it with KHQR, a unified QR-code standard introduced in 2022 that enabled cross-provider payments. These measures significantly improved payment interoperability in urban markets and among formal merchants. Transactions settled in under five seconds, average domestic transfer fees fell from about US$1–US$1.50 to US$0.30–US$0.50 per transaction, and merchant discount rates on KHQR payments dropped below those of traditional card networks (BIDC 2021; Ibank 2024; Bank of China 2025).

By 2024, Bakong had nearly 70 participating financial service providers, 4.5 million registered merchants, and transaction volumes roughly three times Cambodia's GDP (NBC 2023a; Kapronasia 2024). The system had issued approximately 30 million wallets, but only 650,000 were actively used (NBC 2024). These headline figures require context, as a significant share of transaction value flows through cross-border and tourist channels rather than domestic retail use. The NBC has signed interoperability agreements with Thailand and Malaysia; launched the Bakong Tourist App in 2024 to enable international visitors to pay via KHQR, using foreign credit cards; and connected the system to Alipay, UnionPay, and regional payment networks (NBC 2024; BNM and NBC 2025). Domestic retail adoption tells a different story. Only 32 percent of adults made or received a digital payment in 2024, and only one in five made a digital merchant payment, suggesting that efficiency gains at the provider level have not translated into widespread use among ordinary Cambodians (Klapper et al. 2025).

Full interoperability also remains elusive at the domestic level. While Bakong is interoperable at the provider level, rural access has been more gradual as agent networks remain uneven, wages are primarily cash-based in the informal sector, and digital and financial literacy gaps limit uptake among low-income and rural populations. Competition in delivery and last-mile access therefore remains constrained, leaving rural customers with limited choice despite the system's technical advances (World Bank 2023).

From Rapid Market Entry to the Search for Supervisory Discipline

Even as the NBC strengthened financial infrastructure through Bakong and KHQR, the legacy of rapid market entry continued to weigh on the system, posing serious implications for integrity and financial stability. With more than 170 licensed institutions—many of them small and thinly

capitalized—minority depository institutions, and MFIs competing for the same borrowers, supervisory capacity did not keep pace with market growth (NBC 2023b; IMF 2025). Fragmented supervisory data systems, limited on-site inspections, and overlapping departmental mandates reduced NBC's ability to monitor credit and governance risks effectively (NBC 2023b).

The result was a buildup of not only stability but also integrity pressures. Rapid credit growth pushed private-sector debt among the highest in the region (184 percent of GDP) and, when growth slowed, nonperforming loans began to rise, exposing smaller institutions with weak risk management (World Bank 2023, IMF 2025). Gaps in ownership transparency and enforcement of prudential and anti-money laundering/counter-terrorism financing rules further undermined oversight, allowing high-risk or opaque players to enter the system (NBC 2023b). Although Cambodia exited the Financial Action Task Force grey list in 2023, the Financial Intelligence Unit continues to face limited analytical capacity and resource constraints, and authorities have reported persistent illegal lending networks (FATF 2023a; NBC 2023b).

By 2023, NBC moved to restore discipline by revoking more than 100 rural-credit licenses, raising capital thresholds, and promoting consolidation across banks and MFIs (DFDL 2022; NBC 2023b). The shift marked a correction in which competition's earlier gains had intensified existing broader concerns about stability and integrity, making the trade-offs more pronounced. Alongside these measures, a parallel multi-stakeholder dialogue has emerged to address persistent conduct and household-debt concerns in the microfinance sector (NBC and UN Cambodia 2025; Kampuchea Thmey 2025). Convened by the NBC and the United Nations, the process brings together regulators, industry participants, and development partners to articulate a shared framework for responsible and sustainable microfinance (NBC and UN Cambodia 2025). Twenty-two priority action items have been identified, including pricing practices, responsible lending standards, enhanced borrower protection and financial literacy, transparency and data-sharing, and enforcement coordination (Kampuchea Thmey 2025). The process remains consultative, relying primarily on voluntary industry action, with the NBC engaged through convening and supervisory dialogue rather than formal regulatory mandates (NBC and UN Cambodia 2025).

Competition Oversight and the Cambodia Competition Commission

As concerns over uneven enforcement grew, Cambodia enacted its first Competition Law in 2021 and created the Cambodia Competition Commission (CCC) under the Ministry of Commerce to enforce it (WTO 2025). The CCC is tasked with investigating anti-competitive conduct, reviewing mergers, and advising on competition policy. Supporting regulations adopted in 2022 and 2023 outlined the CCC's structure and operational framework. Since 2023, the CCC has begun issuing implementation decisions, including merger-notification thresholds and guidance on exemptions, signaling the first steps toward active enforcement (WTO 2025).

In practice, enforcement remains at an early stage. The CCC is still developing internal processes, staffing, and coordination mechanisms with sector regulators such as the National Bank of Cambodia. Its effectiveness will depend on building capacity and clarifying the interface between competition and prudential oversight—issues that remain under discussion as Cambodia moves from a period of

rapid market expansion that outpaces supervision toward a more structured and balanced competition governance (WTO 2025).

Lessons for Regulators

Cambodia's experience shows how competition gains can unravel when reforms are not aligned with supervisory capacity or core policy objectives, with adverse consequences for consumers and inclusion:

- **Align competition reforms with supervisory capacity:** Liberalizing entry faster than supervisory systems able to manage risk creates fragile markets. In Cambodia, rapid licensing expanded access; however, it exceeded the NBC's ability to oversee prudential and conduct risks, allowing weak and opaque institutions to proliferate. Global experience shows that market liberalization must be sequenced with institutional readiness to avoid fragility and governance gaps.
- **Promote competition consistent with primary goals:** Inclusive competition should advance, not override core regulatory objectives. In Cambodia, while rapid liberalization expanded financial access, it was not, however, anchored in a coherent framework to balance stability, integrity, and consumer protection. Prudential and conduct safeguards evolved only after problems surfaced, seen in rising household debt, weak enforcement, and delayed anti-money laundering and counter-terrorism financing reforms. Effective competition reforms anticipate these trade-offs ex ante, ensuring that competition strengthens rather than undermines inclusive and responsible finance.
- **Regulatory interventions promoting access and affordability should minimize market distortions:** Cambodia's 18 percent interest-rate cap intended to make credit affordable but instead compressed provider margins, increased noninterest fees, and reduced the supply of small loans, ultimately further excluding vulnerable borrowers while leaving the effective cost unchanged. Without addressing structural cost drivers or expanding competition, poorly designed price caps can distort incentives and have unintended consequences. Effective consumer protection depends on transparency, fair-lending standards, and market discipline—not administered prices.
- **Embed inclusion in competition reforms from the outset:** Bakong and KHQR improved interoperability and lowered transaction costs, but efficiency gains at the provider level have not translated into widespread domestic use. Despite their scale, digital payments adoption remains limited and rural access constrained by uneven geographic distribution of agents, cash-based payrolls, and low financial literacy. Developing market infrastructure to promote competition must also embed inclusion in its design, with active measures to drive usage among underserved groups, including simplified onboarding, rural connectivity, and incentives for smaller providers to reach underserved areas.

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