



## Promoting sustainable and responsible finance in Cambodia through the Cambodian Microfinance Association

ADA has supported the development of the Cambodian microfinance sector since 2008. ADA's partnership with the Cambodian Microfinance Association (CMA) aimed at professionalizing the association, improving member services and strengthening communication and transparency.

In 2018, ADA refocused this support for CMA on the **promotion of responsible finance, transparency and client protection**, to address a growing awareness of the risks associated with over-indebtedness of microfinance clients.

ADA has since helped CMA to develop and strengthen its activities regarding research, financial education and advocacy for improved regulation and monitoring as well as to increase its institutional capacity and representative legitimacy. As part of these efforts, CMA recruited more specialised staff, enhanced its systems and procedures, and revised its bylaws.

These strengthened capacities enabled CMA to collaborate with the main financial sector stakeholders to establish **a national framework for sustainable and responsible inclusive finance**. This framework promotes ethical lending practices and client protection.

### CONTEXT

Cambodia has a population of 17 million inhabitants and ranked 146th in the Human Development Index out of 191 countries listed in 2021<sup>9</sup>. In this context of poverty, the development of microfinance is essential because it enables the inclusion of all segments of the population into the financial system and it helps improve the livelihoods of Cambodian households.

The Cambodian microfinance sector experienced rapid growth over the last two decades with the number of borrowers doubling between 2009 and 2022 to 2.7 million. Different types of microfinance providers emerged to meet this growing demand, including banks, microfinance institutions (MFIs), microfinance deposit-taking institutions (MDIs), financial leasing institutions (FLIs) and rural credit institutions (RCIs).

This rapid growth attracted many different types of investors whose diverging aims and expectations did not always correspond with the initial social mission of microfinance. The resulting high saturation and stiff competition led to aggressive lending practices such as multiple loans and risky refinancing. In addition, the distinction between the banking and the microfinance sector became increasingly blurred.

### OBJECTIVE

Support CMA in promoting sustainable and responsible practices in the microfinance sector with a focus on client protection

### PARTNERSHIP DURATION

2008-2022

### GEOGRAPHICAL AREA

Asia: Cambodia

### BUDGET

1 062 400 EUR

### STAKEHOLDERS

Funders: Luxembourgish Ministry of Foreign and European Affairs  
Partner: Cambodian Microfinance Association (CMA)

### CONTRIBUTION TO THE SDGS



This triggered **growing concerns about client over-indebtedness and the perception that the Cambodian microfinance sector was risky and instable in general**. The complex problem of over-indebtedness included:

- Multiple borrowing (borrowing from multiple financial institutions at the same time) - existing rules to avoid this were regularly ignored
- Highly risky refinancing - many loans were refinanced before maturity at over 130% of the original loan amount
- Concern about possible unethical debt collection practices of microfinance providers, i.e. forcing borrowers to sell their collateralised land to repay the loans, thereby displacing the former landowners.

In response, socially minded stakeholders – including the Cambodian Microfinance Association (CMA), impact investors and ADA – urgently called for **client protection measures** in 2016 that would address the different causes of over-indebtedness.

CMA is the national umbrella organisation of the microfinance sector in Cambodia; all non-banking financial institutions are members. In late 2022, its 87 members included 6 MDIs, 65 MFIs, 7 FLIs and 9 RCIs, with a total loan portfolio of USD 9.4 billion.

Since 2016, CMA and its partners promoted ethical lending practices by developing a framework to reduce and control risks, especially client over-indebtedness. In 2018, **ADA and CMA refocused their partnership** from institutional strengthening and capacity building for the association’s members to **supporting the overall evolution of the inclusive finance sector towards more sustainable and client-centric practices**. This was only possible by collaborating with actors who have the authority to influence national policies and enforce sectoral change. ADA’s support therefore centred on helping CMA to become a point of reference in terms of research-based knowledge, a legitimate representative of the inclusive finance sector, a driving force for the definition of nationwide frameworks for the promotion of responsible and sustainable lending and client protection practices, and an effective partner for implementing responsible inclusive finance projects.

▶ While 3.7 % of Cambodians had a bank account in 2011, this number increased to 21.7% in 2017 and 33.4% in 2021<sup>i</sup>.

▶ The development of microfinance resulted in a decline of informal sources of credit: while 32% of the population relied on informal sources of credit in 2004, only 6% did so in 2016<sup>ii</sup>.

▶ In 2020, Cambodia was considered one of the most saturated credit markets in the world<sup>iii</sup>. The market was dominated by a handful of institutions, 7 MDIs and 6 commercial banks active in microfinance accounted for 89% of borrowers and 92% of the outstanding portfolio<sup>iv</sup>.



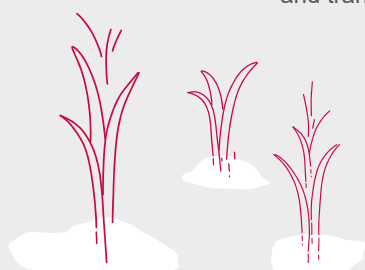
### Focus of the strategic partnership between ADA and CMA



- Professionalising the association
- Improving member services
- Improving sector-wide communication and transparency



- Developing research activities
- Strengthening advocacy for responsible inclusive finance
- Ensuring client protection by MFIs
- Financial education campaigns
- Identifying empowerment solutions





## Key results

Since 2016, CMA has concentrated on rendering the microfinance sector more responsible and sustainable by establishing lending guidelines with the support of several international social investors and development actors. CMA's efforts to promote responsible practices among its members gained momentum when increased client protection became a national priority under Cambodia's National Financial Inclusion Strategy in 2020.

With the technical support of ADA and the Social Performance Task Force (SPTF), CMA initiated a collaboration with the Association of Banks of Cambodia (ABC) and the Cambodian Association of Finance and Technology (CAFT) in 2020 to define and set up a **more comprehensive national Client Protection Framework (CCPF)**. This framework encompasses:

- **the lending guidelines and a code of conduct for the financial sector**
- **compulsory training, certification and audit requirements for financial institutions**
- **financial literacy modules, client empowerment initiatives and complaint mechanisms for customers.**

This framework aims to strengthen financial consumer protection, promote sustainable economic growth, enhance financial stability and increase living standards in Cambodia. It is part of the Financial Inclusion Strategy.

### 6 pillars of the Cambodian Client Protection Framework (CCPF)

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### Addressing the supply side

- 1 Lending guidelines and financial sector code of conduct
- 2 Capacity building for banks and financial institutions
- 3 External assessments
- 4 Financial health sector monitoring framework



### Addressing the demand side

- 5 Financial education and client empowerment



### Involving the National Bank of Cambodia

- 6 Policy and regulation



### Actors involved

Financial institutions, sectoral associations (CMA, ABC and CAFT), National Bank of Cambodia, clients, local authorities, others (CBC, IBF...)





# 1 A national framework for sustainable and responsible inclusive finance: addressing the supply side

CCPF component No. 1

## Lending guidelines and financial sector code of conduct

Following a CMA in-house study on over-indebtedness in Cambodia, the microfinance sector started working on a **set of self-regulatory lending guidelines** in 2016. Since then, several MFIs transformed into banks while continuing their microfinance lending programmes. In December 2019, an analysis by CMA showed that 30% of clients in the microfinance sector were borrowing from several financial institutions, including MFIs and traditional microfinance providers, but also from banks. This led to discussions with the National Bank of Cambodia (NBC, the Cambodian central bank) on what was to be considered a microfinance activity. The decision was made that any loan under USD 20,000 falls into the micro-credit category, and thus the financial service provider must apply the lending guidelines independently of its legal structure for any loan below this threshold. Consequently, in 2020, CMA partnered with the Association of Banks of Cambodia (ABC) to **extend the guidelines to the banking sector**. CMA and its partners also improved the effectiveness of the guidelines and both identified and prevented possible workarounds.

In early 2022, the revised lending guidelines for the financial sector were incorporated into the **Banking and Financial Sector Code of Conduct**. The code was signed by CMA, ABC and CAFT and officially launched in March 2022. It requires all members of the three associations to adopt ethical practices and prudential norms, and to report their data to the Credit Bureau of Cambodia (CBC).

The lending guidelines and the code of conduct aim to:

- Strengthen consumer protection thanks to its dispositions on information transparency, responsible practices, ethical treatment of clients, clear marketing and advertising content, dispute resolution for consumers, product and service design, hassle-free selling techniques and debt collection, thorough and accurate assessments of clients' borrowing capacity, etc.
- Collect sufficient data to monitor aggregate and institutional-level exposure to systemic risks
- Encourage fair competition among financial service providers
- Foster confidence in the banking and financial sector through the promotion of operational standards for effective, reliable, accountable and responsible practices.

Non-compliant financial institutions (FIs) are identified by the CBC and reported to ABC and CMA. In addition, if FIs fail to adhere to these guidelines, consumers have recourse to a four-step dispute resolution mechanism that includes the resolution of consumer complaints by the NBC, mediation with the relevant association, direct contact with the NBC and finally the courts and authorities.

The code is in line with Cambodia's Financial Sector Development Strategy 2016-2025 and the National Financial Inclusion Strategy 2019-2025. It is to be reviewed on a regular basis in line with developments in the financial sector or to ensure ongoing compliance with changing legal and regulatory frameworks.

### Steps leading to the adoption of the Banking and Financial Sector Code of Conduct



**CCPF – component No. 2**

**Capacity building for banks and financial institutions**

All FIs in Cambodia must send their credit-related staff (including branch managers, but also all staff who originate, administrate, approve, monitor and/or collect loans) to a **compulsory ethical practices and client protection certification course**. The course is endorsed by the NBC and delivered by the Institute of Banking and Finance (IBF). The objective of this course is to provide managers and loan officers with an overview of ethical principles and consumer protection measures which are key to sustainable and responsible financing.

In addition, CMA launched a training in 2022 to strengthen MFI branch managers' qualifications and capacity in terms of sustainability, ethics and professionalism. The training not only provides the opportunity for branch managers to learn about the code of conduct and regulations related to finance and consumer protection, but also serves as a platform to share responsible lending knowledge, experience, challenges and solutions. By bringing different financial inclusion professionals into contact, this training also facilitates networking and improves the communication between branch managers, CMA and the regulator.

**CCPF – component No. 3**

**External assessments**

The responsible finance framework recommends FIs to publicly report their client protection practices via external assessments by certified auditors in line with internationally recognised standards. These international standards can be attained by following the Client Protection Pathway of Cerise+SPTF that gives financial service providers a roadmap for implementing these standards. In future, the client protection requirements listed in the code of conduct will be fully aligned with the pathway.

**CCPF – component No. 4**

**Financial health sector monitoring framework**

To monitor FI compliance with the lending guidelines, CMA created a **lending guidelines dashboard** in cooperation with CBC. This dashboard enables CBC to monitor risks with a view to taking timely and proactive measures to ensure the stability of the financial sector and to prevent over-indebtedness of consumers.

CBC monitors the robustness of the Cambodian financial sector and the level of client over-indebtedness via two categories of indicators: (a) macroeconomics and social monitoring, and (b) financial sector health monitoring. Basic aggregated information is regularly published and reporting FIs have access to consolidated reports. This data is actively used by members and partners to monitor market developments and benchmark their performance against peer institutions.

In addition, CMA is currently developing a database for the National Information Exchange (NIX) of MFI data among CMA members with the support of several stakeholders. This sharing of data and the CMA analyses are amongst the best in South-East Asia in terms of granularity, comprehensiveness and analytical quality.



## 2 A national framework for sustainable and responsible inclusive finance: addressing the demand side

CCPF – component No. 5

### Financial education and client empowerment

A 2015 FinScope survey<sup>vi</sup> revealed that 57% of the Cambodian population had difficulty in keeping up with financial commitments and that there was a growing need for more information on how to manage money, save, invest and budget. This need to strengthen financial literacy and client empowerment was particularly salient as aggressive lending practices and risky refinancing had become commonplace.

In response, CMA undertook the following initiatives with the support of ADA:

- As a first step, financial education radio and television programmes were produced in collaboration with member MFIs in 2018 and 2019.
- Following this, a **financial inclusion committee of banks and IMFs representatives was set up in 2019 and a joint work plan between CMA and ABC** was developed in alignment with the NBC's National Financial Inclusion Strategy 2020-2025.
- CMA then adopted a **new approach to financial education for different target populations by partnering with specialised actors** such as the Women Entrepreneurs Association of Cambodia (CWEA), the Youth Entrepreneurs Association (YEAC), the Cambodia Agricultural Cooperatives Association (CACA) and PACT. Partly due to lockdowns and social distancing requirements, but also to reach a wider audience, financial education and the promotion of financial services was shifted to digital channels, for example by sharing videos among the partner institutions' members or by broadcasting to the general public, for example through tutorial videos or as part of an online infotainment series.

In parallel, CMA continues to promote client empowerment. In a recent example from 2022, CMA conducted an ADA-financed study on the factors that impact customer empowerment in their engagement with financial services. Following this study, CMA, NBC and Cerise+SPTF launched a client protection project under which independent agents assist customers with loan-related problems.

## 3 A national framework for sustainable and responsible inclusive finance: involvement of the National Bank of Cambodia

CCPF – component No. 6

### Policy and regulation

NBC was involved in several of the initiatives described above, including as a member of the financial inclusion committee and in strengthening consumer protection. NBC and ABC are currently assessing how to implement the consumer complaints resolution mechanism.



## Impact

For years, ADA's support for CMA aimed to strengthen responsible finance in Cambodia via a client protection framework and a code of conduct for the financial sector. Challenges encountered along the way included high staff turnover at CMA and a subsequent need for internal restructuring, lockdowns and social distancing measures due to the COVID-19 pandemic and a public relations crisis regarding MFI practices in Cambodia. However, each of these challenges also provided an opportunity to strengthen joint efforts to promote sustainable and responsible finance in Cambodia. Overall, the strategic partnership between ADA and CMA enabled knowledge creation, sector coordination, ethical lending practices, client empowerment and policy enhancements.

### IMPACT 1

#### The lending guidelines for MFIs evolved into a nation-wide client protection framework

The lending guidelines, initially intended by CMA for MFIs and MDIs only, have now established sector-wide norms and a national framework for monitoring client protection. This positively impacts almost three million microfinance borrowers (clients of – by order of importance – MDIs, banks, FMIs, FLIs and RCIs).



### IMPACT 2

#### CMA has confirmed and strengthened its representativity and legitimacy

Throughout the process, CMA strengthened its internal governance and increased its capabilities. The collection of data on the microfinance sector, regular publication of up-to-date information, as well as the strengthening of the research function of CMA, were also major achievements. The 87 CMA members appreciate the advantages of a stronger umbrella association and recently committed to contributing up to USD 150,000 annually to implement the association's new strategic plan.

### IMPACT 3

#### A more systemic approach to inclusive finance thanks to the involvement of major actors

While the collaboration with ADA initially focused on client protection, the focus shifted towards the creation of a broader responsible inclusive finance framework as major sectoral and national actors got involved. Nowadays, major actors, including the Cambodian central bank, share a coherent and systemic approach to serving and protecting microfinance clients. With the recent adoption of the national framework, this approach is threefold:

- Inciting financial service providers to act responsibly on the supply side
- Financial education and empowerment of consumers on the demand side
- Moving towards a strong legal and regulatory environment able to ensure consumer protection with NBC.



## Lessons learned

### ✔ Supporting national networks helps strengthen national microfinance sectors

By supporting meso-level actors such as representative bodies of the sector, ADA also reaches the macro (governments and regulators) and the micro level (MFIs and individual inclusive finance actors):

- On the micro level, restructured and more professional networks are able to effectively coordinate and support their members, for instance with capacity-building services such as training and technical assistance programmes.
- On the macro level, networks and umbrella associations can also play a key role in strengthening the entire sector with their ability to mobilise their members and engage with authorities. By strengthening networks, ADA helps them become legitimate representatives of their sector, a driving force for the definition of nation-wide frameworks and effective partners for implementing regional or national projects.

### ✔ Defining the scope of microfinance as a prerequisite for designing an appropriate client protection framework

The Cambodian experience highlights the necessity of clearly defining the scope of microfinance, in particular of considering microfinance independently of the legal structure of the financial service provider, as a prerequisite for putting in place appropriate and effective client protection measures. Considering microfinance as a financial service tailored to the needs of a specific target population enabled the implementation of more effective protection measures and helped define regulation that is harder to circumvent. This demonstrates the importance of adopting a systemic approach under which the different stakeholders coordinate with each other and collaborate to tackle demand-side, supply-side and regulatory issues.

### ✔ Promoting transparency and client-centricity in inclusive finance may have positive externalities for the financial sector as a whole

ADA strengthens the microfinance sector on a national and global level by promoting greater transparency, accountability and client protection through best practices, adequate oversight and access to reliable information. In particular, ADA helps financial institutions in developing countries to adopt a more transparent and client-centric way of working for the benefit of the local population.

By strengthening sectoral microfinance networks, ADA contributes to bringing social performance and client protection to the attention of national actors and larger banks. This leverage effect provides an opportunity to question the practices of major financial service providers while advocating more transparency and less counterproductive measures. ADA can help national networks to become a point of reference to guide stakeholders (including regulators), promote best practices, propose clear client protection frameworks and/or regulations to reduce the risk of over-indebtedness, and foster sustainable and responsible growth of the inclusive finance sector.







## For the Cambodian inclusive finance sector

The lending guidelines and the financial code of conduct remain self-regulated by the sector. Mandatory rules for sustainable and responsible inclusive finance in Cambodia therefore need to be put in place. CMA is currently striving to strengthen client protection and address crucial issues such as aggressive sales practices, land expropriation, ineffective collateral registry, etc. This is done in coordination with NBC and ABC and in close collaboration with Cerise+SPTF and other international development partners.

Investors and lenders need to understand their role in ensuring investees' compliance with client protection when setting their targets for returns and Portfolio at Risk (PAR). It is important to note that some development finance institutions and impact/social investors continue to fund banks and MDIs that have failed to obtain a client protection certification. Stricter, sector-wide investment policies are needed to encourage investees to treat client protection as a priority.

Following this first experience of promoting client protection by coordinating efforts with several national actors, CMA could tackle other challenges faced by microfinance clients, such as improving the resilience of farmers to climatic changes that affect crops and their capacity to repay loans.

## For ADA

After fifteen years of collaboration, CMA is now autonomous enough to pursue its institutional work without ADA's support. ADA will continue to run other programmes in Cambodia to adapt financial and non-financial services to the needs of ADA's target populations, in particular agricultural smallholders, young entrepreneurs and vulnerable households with little or no access to basic services such as water and energy.



## Sources

- <sup>i</sup> The World Bank, [Global Index Data Base](#)
- <sup>ii</sup> The World Bank, 2019, Microfinance and Household Welfare Cambodia Policy Note
- <sup>iii</sup> The MIMOSA Project, 2020, Cambodia MIMOSA Report 2020
- <sup>iv</sup> NIX, August 2020, CMA Information Exchange System
- <sup>v</sup> United Nations Development Programme, 2021, [Human Development Index](#)
- <sup>vi</sup> FinMark Trust, 2025, [FinScope Consumer Survey Kingdom of Cambodia](#)

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ADA, expert in inclusive finance and driver of partnerships and innovation

ADA is a Luxembourgish non-governmental organisation that strengthens the autonomy of vulnerable people by leveraging inclusive finance to improve their living conditions.

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