

CAMBODIA: An Intensified Commitment to Client Protection

National Bank of Cambodia (NBC) and the Cambodian Microfinance Association (CMA) recently announced a joint initiative, *Strengthening Safe Finance in Communities* (or Safe Finance), aimed at increasing financial literacy, consumer empowerment, and client protection. Based on two research studies conducted in 2022 (one by Japan International Cooperation Agency and the CMA, the other by Cerise+SPTF and ADA), the Safe Finance initiative was formally launched by NBC, CMA, and Cerise+SPTF at a ribbon-cutting event in Phnom Penh on February 24. Rath Sovannorak, assistant governor and director-general of banking supervision at the NBC, delivered the keynote address, stressing the importance of consumer protection in maintaining public confidence in the formal financial sector and the stability of the banking system.

Safe Finance emphasizes the market-systems approach advocated by Cerise+SPTF, a French-American joint venture which delivers ongoing technical assistance to Safe Finance along with having supported the program design research. The market-systems approach stresses the importance of concerted and coordinated effort by all market actors to bring about meaningful change.

“Cerise+SPTF’s work at the institutional level focuses on embedding a culture of client-centricity within financial service providers and defining the essential practices and standards that make that culture real,” said Nitin Madan, Cerise+SPTF’s regional director for Southeast Asia. “But it doesn’t matter how dedicated a financial service provider may be to client protection if donors and investors are not aligned, or if auditors can’t distinguish between good and bad social performance, or if the regulatory environment is unfavorable. So Cerise+SPTF works with all major stakeholders in the responsible inclusive finance sector to ensure that client protection is the priority of the entire market.”

Safe Finance will be managed by a steering committee chaired by the National Bank of Cambodia and co-chaired by the Cambodian Microfinance Association, with the active participation of state agencies, authorities, local and international NGOs, development partners and other key stakeholders. The impact investor community will be engaged via the Social Investor Working Group, an influential group of global investors which is managed by Cerise+SPTF and which collectively has USD 50 billion in assets under management in microfinance alone.

Safe Finance comes at an opportune time for Cambodia. Perhaps most notably in a May 2022 Bloomberg article, the country’s microfinance sector has recently come under sharp criticism for over-indebting vulnerable low-income clients and engaging in abusive collection practices. The Safe Finance program design, which was underway prior to the negative publicity, is intended to address holistically the complex forces which create market failure: investor overexuberance leading to market saturation, competitive pressures, relaxed lending standards, and then over-indebted clients, especially among those with limited financial literacy. Cerise+SPTF will support support the capturing of the learnings from Safe Finance and the eventual development of a national strategy around its core themes of financial literacy, customer empowerment and client protection. The Government of

Luxembourg is funding Cerise+SPTF's work on Safe Finance through its sponsorship of the Responsible Inclusive Finance Facility for Southeast Asia.