

## CAMBODIA – LENDING GUIDELINES PROJECT SUPPORT TO PREVENT OID CRISIS

To the Responsible Inclusive Finance Facility for Southeast Asia (RIFF-SEA) Steering Committee  
May 22, 2018

### Background

In efforts to veer from an over-indebtedness crisis in light of increasing signs of market overheating over the past several years, the Cambodian Microfinance Sector under the umbrella of the Cambodia Microfinance Association (CMA) signed a memorandum of understanding agreeing to implement a set of responsible lending practices. At the last CMA board meeting, the members made a momentous decision to limit high risk loans at 5% of total monthly disbursement by December 2018. Compliance to the guidelines are monitored through monthly “Lender Guidelines” dashboard, generated by the Cambodia Credit Bureau of Cambodia.

This is the first self-regulating experiment of its kind. The first few phases of this initiative was co-financed by ADA, Incofin, PROPARCO, and FMO. Additional financial support is needed to continue the work and ensure success in preventing an OID crisis.

### Proposed Project (tentative)

#### **Activity 1:**

- What: Monitor compliance of existing LGs dashboards and its impact on market shares. This includes review of the dashboards, developing new and ongoing queries that seek to identify "workarounds" MFIs may be using to continue business-as-usual, while ostensibly complying with the guidelines. This also includes an analysis of whether MFIs who abide by the guidelines are negatively losing market shares to commercial banks who are not part of the MOU.
- Why: Ensuring compliance, come up with good enforcement mechanisms, ensure level playing fields for responsible MFIs
- Who: LG dashboard team which includes Daniel Rozas, CMA, CBC
- Duration: 12 months
- Budget: USD 35,000

#### **Activity 2:**

- What: Field study of clients who fall under high-risk practices, including refinancing (which was not done in the last OID study by Blue Orchard). Test whether the indicators in the LG dashboards -- and their levels -- are indeed correlated with high OID risk.
- Why: To confirm the validity and/or modify the indicators in the LG dashboards used to track OID
- Who: Consultants with OID and Cambodia experience
- Duration: 5-9 months
- Budget: USD 80,000

#### **Activity 3:**

- What: Communication of LG project to build awareness among stakeholders. Activities include publishing a paper to describe the LG project and roundtables with respective stakeholders to discuss the issues and take action
- Why: Build awareness and consensus of OID risk, increase participation from various stakeholders (MFIs, banks, regulators, lenders and shareholders) to prevent OID
- Who: CMA
- Duration: 3 months
- Budget: USD 10,000