



FAST Report

Project Number: 51160-001
February 2018

Equity Investment BRED Bank Cambodia Supporting Inclusive Finance through Greenfield Banking (Cambodia)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 December 2017)

Currency unit	–	riel/s (KR)
KR1.00	=	\$0.0002
\$1.00	=	KR4,037.0005

ABBREVIATIONS

ADB	–	Asian Development Bank
BBC	–	BRED Bank Cambodia
BPCE	–	Banque Populaire and Caisse d'Epargne
BRED	–	BRED Banque Populaire
ESMS	–	environmental and social management system
FAST	–	Faster Approach to Small Nonsovereign Transactions
GDP	–	gross domestic product
IFC	–	International Finance Corporation
MSMEs	–	micro, small, and medium-sized enterprises
NBC	–	National Bank of Cambodia
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

NOTE

In this report, "\$" refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 51160-001	
Project Name	Supporting Inclusive Finance through Greenfield Banking	Department /Division	PSOD/PSFI
Country	Cambodia		
Investee	BRED Bank Cambodia		
2. Sector		Subsector(s)	
✓ Finance	Finance sector development	ADB Financing (\$ million)	
			10.00
		Total	10.00
3. Strategic Agenda		Subcomponents	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change Information	
		Climate Change impact on the Project	Low
4. Drivers of Change		Components	
Private sector development (PSD)	Promotion of private sector investment	Gender Equity and Mainstreaming	
		Effective gender mainstreaming (EGM)	✓
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
6. Nonsovereign Operation Risk Rating - NA			
7. Safeguard Categorization			
	Environment: FI	Involuntary Resettlement: FI	Indigenous Peoples: FI
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		10.00	
Nonsovereign Direct Investment: Ordinary capital resources		10.00	
Cofinancing		0.00	
Others		0.00	
Others^a		0.00	
Total		10.00	

^a Derived by deducting ADB financing and Cofinancing from Total Project Cost.

I. INTRODUCTION

1. This is an eligible transaction under the Faster Approach to Small Nonsovereign Transactions (FAST) framework.¹ The transaction involves an equity investment of up to \$10,000,000 in BRED Bank Cambodia (BBC) for Supporting Inclusive Finance through Greenfield Banking in Cambodia. BBC will bring international best banking practices to the banking sector, and provide improved financial access and services to small and medium-sized enterprises (SMEs) and the retail banking segment.

2. While Cambodia has made progress in expanding access to finance, the use of formal banks remains among the lowest in the Asia region (with only 17% of adults using banks, while 42% have access to regulated nonbank financial institutions, 12% have access to informal sources of finance, and 29% of adults remain financially excluded).² BRED Banque Populaire (BRED), BBC's parent company and part of the second largest banking group in France, intends to address the current financial market gaps (including a perceived lack of safety in banks, slow and cumbersome procedures, limited networks, high costs, and heavy administrative requirements) by building a full-service bank offering multiple products with high service standards and levels of efficiency, thereby strengthening the country's nascent finance sector and introducing best international banking standards. This strategy is aligned with the development goals of the Asian Development Bank (ADB) to promote finance sector development in Cambodia, which will be achieved through more efficient and effective delivery of financial services to underserved market segments, including SMEs and women.

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

3. **Economy.** The Cambodian economy has consistently grown at about 7% annually since 2012. This strong gross domestic product (GDP) growth has been supported by the garment export, tourism, construction, and real estate sectors. Foreign direct investment has continued to flow into the country, leading to a reduction in the trade deficit and a surplus on its balance of payments. As a result, international reserves increased and covered about 5 months' worth of imports at the end of 2016. The current account deficit in 2016 decreased to 8.2% of GDP, the lowest since 2013 and down from 9.2% in 2015. Cambodia's adjusted GDP per capita reached an estimated \$3,717 at the end of 2016. World Bank data list the national poverty headcount ratio at \$1.90 a day at 3.4% (percent of population) in 2011 and 2.2% in 2012.³ ADB statistics similarly record a reduction in the national poverty headcount ratio from 25.9% in 2009 to 14.0% in 2015.⁴ In 2016, the World Bank reclassified Cambodia from a least developed country to a low middle-income country. Overall, the Cambodian economy is expected to maintain a growth rate of about 7% from 2017 to 2020. The National Bank of Cambodia (NBC) continues to promote greater use of the riel through various policy measures, including raising awareness of the benefits of using riel, enabling faster and cheaper payments in local currency, developing financial instruments to provide banks with liquidity in riel, and encouraging financial institutions to provide riel-denominated loans.⁵

¹ ADB. 2015. *Faster Approach to Small Nonsovereign Transactions*. Manila.

² FinScope and United Nations Capital Development Fund (UNCDF). 2015. *FinScope Consumer Survey Highlights, Cambodia*. Phnom Penh.

³ World Bank. The World Bank in Cambodia. <http://www.worldbank.org/en/country/cambodia/overview>.

⁴ ADB. 2017. *Basic 2017 Statistics*. Manila.

⁵ Sector Overview (accessible from the list of linked documents in Appendix 2).

4. **Finance sector overview.** Cambodia's sound economic growth has created a favorable environment for the banking sector to expand. Banks' total assets increased to \$23.9 billion or 118% of GDP in 2016, up from \$18.9 billion or 108% of GDP in 2015. In 2016, total credit to the private sector represented 71% of GDP (\$17.6 billion) and deposits were 64% of GDP (\$15.5 billion). This expansion was due to new foreign banks entering the market, increased foreign funding for domestic banks, and stronger demand for credit. At the end of 2016, the banking sector had attracted foreign investments worth \$2.7 billion, equivalent to 16.5% of total foreign investments in Cambodia. At the end of 2016, the regulated financial system in Cambodia comprised 37 commercial banks, 71 microfinance institutions, and 15 specialized banks. Despite the large number of banks, the Cambodian banking industry remains concentrated in the six largest institutions (the three largest banks account for 40.8% of the total bank assets, and the six largest banks account for almost 60%). ACLEDA Bank, with a 20.3% share of total loans, is the largest bank in Cambodia, followed by Canadia Bank and Cambodian Public Bank.⁶ Many banks operating in Cambodia were set up by foreign companies to serve their own corporate needs in the country. As a result, most of them are small and inefficient, and do not provide financial services to Cambodian businesses or people. This primarily explains why, despite the large number of banks, only 17% of Cambodians use universal banks, and about 70% of consumers believe the overall service provided by banks is lacking.⁷ The industry is expected to contract because of the increase in minimum required bank capital to \$75 million, with the more competitive and efficient institutions remaining.⁸

5. **Micro, small, and medium-sized enterprises in Cambodia.** Micro, small, and medium-sized enterprises (MSMEs) are a key driver of economic growth and can contribute to alleviation of poverty through improvements in individual income levels and employment. According to the Economic Census in Cambodia in 2014, Cambodia's MSMEs accounted for 99.8% of all enterprises in the country, totaling 512,870 in 2014. The retail and wholesale trade sector dominates the MSME sector (59.6% of MSMEs in 2014), followed by services (26.5%) and manufacturing (13.9%). The MSME sector employed 1.3 million people, 71.8% of the total national labor force in 2014, around half of whom (46.7%) worked in the trade sector.⁹ Despite their economic importance, MSMEs face difficulties obtaining bank financing because of the high collateral requirements, high interest rates, and delays in processing loans. Banks find it difficult to lend to MSMEs, primarily because of their inadequate financial records and lack of information, despite reasonable liquidity in Cambodia's banking system.¹⁰

6. **Women empowerment in Cambodia.** Women's labor force participation in Cambodia is high, but a gender gap remains (in 2012, 79.7% of women aged 15–64 worked versus 89.2% of men in the same age group). Agriculture is the main sector of employment for women and the source of livelihood for nearly 53% of employed women in 2012, compared with 49% of employed men. Services comprise 29% of women's employment and industry accounts for 18%. Despite these high levels of participation in the labor force, the share of women's vulnerable employment—the sum of own-account workers and unpaid contributing family workers—remains

⁶ NBC. 2016. *Annual Report*. Phnom Penh.

https://www.nbc.org.kh/download_files/publication/annual_rep_eng/Annual_Report_2016_English.pdf

⁷ K. Kotoski. 2016. Banking Service Deemed Poor. *The Phnom Penh Post*. 27 June.

<http://www.phnompenhpost.com/business/banking-service-deemed-poor>. Survey presented at the eighth annual Banking and Microfinance Awards in Cambodia in 2016.

⁸ In March 2016, the NBC announced an increase in the minimum required paid-in capital of banks to \$75 million, to take effect from the end of March 2018. The previous minimum requirement was \$37.5 million.

⁹ ADB. 2014. *Asia SME Finance Monitor*. Manila.

¹⁰ International Finance Corporation (IFC). 2010. *Understanding Cambodian Small and Medium Enterprise Needs for Financial Services and Products*. Phnom Penh.

high at 70% in 2013.¹¹ The high employment levels of women also contrast with their very low access to bank accounts (only 15% of women have an account at a financial institution, versus 19% of men).¹² It is estimated that 62% of Cambodian SMEs are run by women. These female entrepreneurs are mainly concentrated in commerce (66% women) and services (61% women), and they only serve domestic markets (footnote 10). It is difficult to identify baseline data on the number of SMEs led by women accessing finance in Cambodia, as financial institutions typically require the husband and wife to borrow together as co-guarantors.

7. **Rationale.** The banking sector remains concentrated and suffers from high intermediation costs, poor customer service, lack of long-term funding, and limited product offerings, according to BBC's pre-investment market study, which included in-depth focus groups.¹³ In addition, the World Bank estimates that 17% of Cambodian adults maintain bank accounts, which is less than in Myanmar (22%).¹⁴ With no interbank market for commercial bank funding and no access to debt capital markets in Cambodia, the banking system is inefficient with high interest margins that translate to higher interest rates for borrowers (the system average high interest margin is 6.5% versus more developed markets in Southeast Asia: 3.3% in the Philippines¹⁵ and below 2% in Viet Nam¹⁶ as of December 2015). This offers scope for greater efficiency and differentiation linked to technology and enhanced processes, which BBC plans to use in the Cambodian market as a key point of differentiation. ADB has sought to partner with the best positioned institutions in Cambodia to advance the goal of improving banking practices and extending long-term funding to MSMEs, while enhancing good corporate governance, risk management practices, and process efficiencies.¹⁷ BBC is a well-suited partner to achieve these goals. As a subsidiary of BRED with an equity base of \$3 billion and as part of the second largest banking group in France, BBC will leverage 100 years of BRED's banking experience, of which more than 10 years have been obtained successfully opening greenfield banks in challenging and underdeveloped financial markets to advance international best practices. Further, BRED is committed to advance gender equality in the banking industry by embedding gender equity policies at the core of its projects and subsidiaries by developing specific products and services to cater to the financial needs of Cambodian women and SMEs led by women, which represent over 60% of all Cambodian SMEs.

B. Business Overview and Strategy

8. **Business overview.** BBC is a commercial bank launched in March 2017 by BRED to offer universal banking services, with a full range of products and high service standards and efficiency levels. BBC is targeting SMEs with sales turnover of up to \$10 million, as well as the emerging Cambodian middle class with monthly salaries of about \$300 and above. BBC will also target the large Cambodian–French community, both in France and Cambodia. BBC's differentiation strategy is derived from its plan to (i) streamline processes with fast decision making, monitoring, and leveraging online channels; (ii) build an effective branch network large enough to cover key

¹¹ ADB. 2015. *Promoting Women's Economic Empowerment in Cambodia*. Manila.

¹² World Bank. Financial Inclusion Data/Global Findex. <http://datatopics.worldbank.org/financialinclusion/> (accessed 22 November 2017).

¹³ Bred Banque Populaire. 2016. *Cambodia Market Research: Local Economy and Financial Industry*. Paris.

¹⁴ World Bank. Databank: Global Financial Inclusion. <http://databank.worldbank.org/data/reports.aspx?source=1228#> (accessed 20 November 2017).

¹⁵ Central Bank of the Philippines. 2015. *The Philippine Banking System*.

http://www.bsp.gov.ph/downloads/Publications/2015/StatRep_2Sem2015b.pdf.

¹⁶ Knoema. Global Financial Development: Vietnam – Bank net interest margin (%).

<https://knoema.com/WBGFD2015Nov/global-financial-development?tsId=1105950> (accessed 20 November 2017).

¹⁷ In 2013, ADB approved a senior loan to ACLEDA Bank for promoting financial inclusion. ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Loan to ACLEDA Bank Plc for Promoting Financial Inclusion in Cambodia*. Manila.

strategic geographies and locations, with extended opening hours, convenient and accessible locations, and express lines; (iii) build strong customer relations based on trust, with a commitment to transparency, fair pricing, monitoring of client satisfaction, mechanism for grievances resolution, and one single and dedicated relationship manager per customer; and (iv) have alternative distribution channels enabled by a robust technology platform, with client-friendly online and mobile banking services, live information, call centers, mobile wallet, and agent banking. BBC intends to leverage its international quality brand to build consumer confidence and address the current market perception of lack of safety in banks, and widespread expensive and inefficient banking services across the industry.

C. Ownership, Management, and Governance

9. **Ownership.** Integrity due diligence was conducted.¹⁸ No significant or potentially significant risks were identified. With \$52.5 million of paid-in capital, BRED owns 100% of BBC as of October 2017. The June 2016 NBC circular on the minimum capital requirement for banks requires banks' minimum paid-in capital to be at least \$75 million by 31 March 2018. BRED has been looking for partner co-investors to complete the capital structure, enhance the institutional profile, and help develop specific niches such as SME lending and women's banking. In addition to ADB's proposed investment of up to \$10 million, BRED expects to fulfill BBC's \$75 million paid-in capital requirement with an investment by the International Finance Corporation (IFC).

10. BRED is a French regional cooperative bank created in 1919 with a shareholders' equity base of €2.98 billion owned by its 140,111 clients. BRED is the largest shareholder in the banking alliance Banque Populaire and Caisse d'Épargne (BPCE), which regroups 35 French regional banks and constitutes the second largest banking group in France with 8.8 million shareholders. This alliance gives BRED access to liquidity because of its strong ratings—it is rated A2 by Moody's Investors Service and A with a positive outlook by Fitch Ratings.¹⁹ BRED is supervised by the European Central Bank. In line with its cooperative origins and values, BRED's strategic focus is to be close to clients, and invest in human capital and digital infrastructure. BRED ended 2016 with a consolidated net income of €266.4 million, a capital adequacy ratio of 14.86%, and a liquidity coverage ratio of 110%, well above the new minimum regulatory requirement of 80% established on 1 January 2017 by the European Central Bank.²⁰

11. **Management and governance.** BBC has brought together an experienced management team, combining local and international expertise. Guillaume Perdon, the chief executive officer, has over 10 years of experience launching and leading greenfield banks, including the launching of Banque Franco-Lao in the Lao People's Democratic Republic.

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III. THE ADB ASSISTANCE

A. The Assistance

¹⁸ ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila.

¹⁹ Moody's upgraded BPCE's outlook from stable to positive in July 2017 based on the improvement in BPCE Group's asset risk, capitalization, and funding profile.

²⁰ BRED Banque Populaire. 2016. *Annual Report 2016*. <https://www.bred.fr/pdf/groupe-bred/2016-annual-report>.

12. The ADB funding consists of an equity investment of up to \$10 million. The investment will be in the form of new equity (primary common shares), and will represent up to 13.3% of issued capital (ADB will invest at par value). BBC will use the proceeds of the ADB investment to increase its capital base in the context of the new minimum capital requirements of up to \$75 million and expand the loan portfolio during the first years of rapid loan portfolio expansion. ADB will obtain the right to nominate a member to the board of directors.

B. Implementation Arrangements

13. **Reporting arrangements.** ADB will monitor the project. BBC will provide ADB with financial reports at predetermined regular intervals and as requested, including (i) unaudited financial statements on a semiannual basis, (ii) audited financial statements on an annual basis, (iii) reports on characteristics of BBC's loan portfolio, (iv) annual reports on selected development indicators agreed between ADB and BBC, and (v) annual reports on safeguards and social protection compliance.

C. Value Added by ADB Assistance

14. **Support inclusive finance.** The financial needs of SMEs are poorly served in Cambodia by the existing financial system. BRED has developed specialized banking practices in frontier markets, including in Southeast Asia, which will be deployed by BBC to reach the many underserved customers in the country. BBC's management and BRED see significant value addition in working with ADB and leveraging its experience with other financial institutions in Southeast Asia in multiple areas, including MSME lending, women's banking, and digital finance. ADB will nominate a member to BBC's board of directors, with extensive development finance experience and knowledge of inclusive finance. The board member will also support BBC's sustainable expansion of financial services and the implementation of sound corporate governance and risk management practices. ADB's investment will help BBC meet minimum capital requirements and underpin loan growth.

15. **Effective gender mainstreaming and environmental and social management system development.** Access to formal financial services channels in Cambodia is limited. About 17% of the population has an account at a financial institution. Women are at a greater disadvantage, with the percentage of adult women with a bank account 4% lower than that of men (footnote 12). The project has gender-specific targets and is expected to benefit at least 5,000 women directly by 2022. ADB has assisted BBC in the preparation of a gender action plan to support the effective gender mainstreaming classification of the project. This includes gender measures to improve women's business development skills such as mentoring, networking events, and other types of capacity building to address the current constraints women face to access finance and a wide range of universal banking products and services, as well as analytical tools for BBC to take more informed decisions on how to better serve the financial needs of women. As an initial development finance institution shareholder, ADB will also help BBC develop social and environmental standards, thereby enhancing environmental and social responsibility at a new entrant into the Cambodian banking sector.

16. **Support finance sector development with a strategic partner.** BBC approached ADB with the proposed investment to benefit from ADB's participation as an honest broker to facilitate sector dialogue, based on ADB's key role in the finance sector in Cambodia having led the

development of the government's Financial Sector Development Strategy, 2011–2020.²¹ ADB's equity participation is also an important step toward forging a strategic partnership with the BRED group. BRED is considering expanding into other markets across Asia and the Pacific. The expansion would be underpinned by a strategy to bring international best practices to small, high-growth, and underserved financial markets, which is aligned with ADB's development mandate. BRED views ADB as an important partner in its plans for regional expansion and to promote finance sector development in underserved financial markets across Asia and the Pacific.

IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

A. Development Impact, Outcome, and Outputs

17. **Impact.** The project is aligned with the following impact: A competitive, integrated, and efficient financial system that is appropriately regulated and supervised to mobilize savings to finance sustainable economic growth in alignment with the government's 10-year rolling finance sector development strategy for 2011–2020 (footnote 25). ADB will contribute to this objective by providing BBC with stable capital to demonstrate the benefits and viability of service delivery to underserved market segments. In doing so, the project will help increase public confidence in the banking system.

18. **Outcome.** The project will have the following outcome: Increased uptake of financial services, including loans and deposit accounts, by individuals and SMEs in Cambodia. The project focuses on the financial inclusion of women and the promotion of female entrepreneurship through financial services.

19. **Outputs.** The project will have the following outputs: Capacity of BBC to serve retail and SME clients increased by expanding the amounts of loans disbursed to the target group and the amounts of deposits taken.

B. Alignment with ADB Strategy and Operations

20. **Consistency with ADB strategy and country strategy.** Under ADB's Midterm Review of Strategy 2020, ADB aims to strengthen its support for the finance sector by assisting the development of financial infrastructure, institutions, and products and services; and by promoting inclusive growth.²² BBC's focus on serving the local SME segment as well as the emerging Cambodian middle class contributes to inclusive growth. ADB's partnership with BBC will help it better service these segments. This is consistent with the government's efforts to promote inclusive growth, and with ADB's country partnership strategy for Cambodia, 2014–2018 to promote inclusive economic growth.²³

21. **Consistency with sector strategy and relevant ADB operations.** ADB has been in partnership with the Government of Cambodia since 1999, working on finance sector reform under several programs, including the development of the 10-year rolling finance sector

²¹ ADB supported the completion of the updated strategy. ADB. 2010. *Technical Assistance to the Kingdom of Cambodia for Preparing the Third Financial Sector Program Cluster*. Manila.

²² ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

²³ ADB. 2014. *Country Partnership Strategy: Cambodia, 2014–2018*. Manila.

development strategy for 2011–2020. ADB’s current program-based lending, the Inclusive Financial Sector Development Program (subprogram 2), focuses on three broad priority areas under the government’s finance sector strategy: (i) financial inclusion, (ii) financial stability and regulatory coordination, and (iii) a financial infrastructure upgrade.²⁴ Additionally, the proposed project complements ADB’s ongoing initiatives in the Cambodian private sector, which include a loan disbursed to ACLEDA Bank and the Sunseap Asset solar power project, where BRED is a B loan participant and BBC, the onshore bank agent.²⁵

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

22. The investment is classified category FI for impacts on the environment, involuntary resettlement, and indigenous peoples.²⁶ The investment’s potential environment and social impacts, its risks associated with BBC’s existing and/or likely future portfolio, and BBC’s commitment and capacity for environmental and social management, have been assessed. During due diligence, BBC reported that it has not provided loans for business activities on ADB’s Prohibited Investment Activity List and all large corporate loan applications are assessed for compliance with national laws and regulations. BBC will apply ADB’s Prohibited Investment Activity List, ensure that its borrowers abide by applicable national laws and regulations, and comply with ADB’s Safeguard Policy Statement (2009). BBC will approve an appropriate environmental and social management system (ESMS) framework satisfactory to ADB before subscription.²⁷ ADB will work with BBC to develop an appropriate ESMS commensurate with the environmental and social risks and impacts associated with its customers’ activities within a mutually agreed time frame, and in coordination with the IFC. BBC will appoint a qualified officer to oversee environmental and social aspects of the ESMS.

23. BBC will comply with national labor laws and, pursuant to ADB’s Social Protection Strategy (2001), will take measures to comply with the internationally recognized core labor standards. BBC will report regularly to ADB on (i) its compliance with such laws and (ii) the measures taken. Information disclosure and consultation with affected people will be conducted in accordance with ADB requirements.

B. Anticorruption Policy

24. BBC was advised of ADB’s policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

²⁴ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan for Subprogram 1, and Technical Assistance Grant to the Kingdom of Cambodia for the Inclusive Financial Sector Development Program*. Manila.

²⁵ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Loan to ACLEDA Bank Plc for Promoting Financial Inclusion in Cambodia*. Manila; and ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Administration of Loan to Sunseap Asset (Cambodia) Co. Ltd. for the Cambodia Solar Power Project in Cambodia*. Manila.

²⁶ Safeguards and Social Dimensions Summary (accessible from the list of linked documents in Appendix 2).

²⁷ Summary Poverty Reduction and Social Strategy; Safeguards and Social Dimensions Summary; and Financial Intermediary: Environmental and Social Management System Arrangement (accessible from the list of linked documents in Appendix 2).

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25. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),²⁸ ADB will proceed with the assistance upon establishing that the Government of Cambodia has no objection to the assistance to BBC. ADB will enter into suitable finance documentation in form and substance satisfactory to ADB.

VI. THE PRESIDENT'S DECISION

26. The President, acting under the authority delegated by the Board, has approved the equity investment of up to \$10,000,000 from ADB's ordinary capital resources for the equity investment in BRED Bank Cambodia for Supporting Inclusive Finance through Greenfield Banking in Cambodia, and hereby reports this action to the Board.

9 February 2018

²⁸ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK

Impact the Project Aligned with			
A competitive, integrated, and efficient financial system that is appropriately regulated and supervised to mobilize savings to finance sustainable economic growth in alignment with the Government of Cambodia's 10-year rolling Financial Sector Development Strategy 2011–2020. ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Outcome</p> <p>Uptake of financial services, including loans and deposit accounts, by individuals and SMEs in Cambodia increased</p>	<p>By 2022:</p> <p>a. Number of SME loans outstanding 2,000 (2017 baseline: 90)</p> <p>b. Number of retail loans outstanding 5,000 (2017 baseline: 100)</p> <p>c. Number of SME loans outstanding to businesses owned by women increased to 400 (2017 baseline: 40)</p> <p>d. Number of women retail customers 15,000 (2017 baseline: 400)</p> <p>e. Number of active deposit accounts 50,000 (2017 baseline: 1,000)</p> <p>f. Number of active deposit accounts held by women 10,000 (2017 baseline: 100)</p> <p>g. Nonperforming loans (90 days past due) no more than 3% (2017 baseline: Not applicable)</p>	<p>a–g. BBC annual monitoring report</p>	<p>Political instability affects banking sector growth</p> <p>BBC asset quality deteriorates</p> <p>Weak investor sentiment in capital markets</p>
<p>Outputs</p> <p>Capacity of BBC to serve SMEs and retail clients increased</p>	<p>By 2022:</p> <p>a. Total amount of SME loans disbursed at least \$250,000,000 (2017 baseline: \$25,000,000)</p> <p>b. Total amount of retail loans disbursed at least \$80,000,000 (2017 baseline: \$12,000,000)</p> <p>c. Annual amount of SME loans disbursed to businesses owned by women at least \$25,000,000 (2017 baseline: Not applicable)^b</p> <p>d. Annual amount of deposits increased to \$100,000,000 (2017 baseline: \$50,000,000)</p> <p>e. Annual amount of deposits held by women increased to \$10,000,000 (2017 baseline: \$100,000)</p>	<p>a–g. BBC annual monitoring report</p>	<p>Demand for loans not as strong as expected</p> <p>BBC unable to attract sufficient deposits</p> <p>Interest rates and inflation increase to high levels</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	f. Number of branches increased to at least 16 (2017 baseline: 1) g. Number of ATMs increased to at least 50 (2017 baseline: 3)		
Key Activities with Milestones Capacity of BBC to serve SMEs and provide better service to retail customers in Cambodia increased ADB executes equity investment with BBC by the first quarter of 2018 BBC identifies new areas for branches and ATM by 2018 BBC opens new branches and commissions ATM by 2018			
Inputs ADB: Up to \$10 million (equity)			
Assumptions for Partner Financing Not applicable			

ADB = Asian Development Bank, BBC = BRED Bank Cambodia, SMEs = small and medium-sized enterprises.

^a ADB. 2012. *Financial Sector Development Strategy, 2011–2020*. Manila.

^b BBC requires two co-signatories for loan disbursements, typically husband and wife. For this reason, it does not have specific data yet on the ultimate beneficiary of the loan. Tracking sex-disaggregated data on loan disbursement is one of the key changes to its core banking system as part of the gender action plan.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/FastReport/?id=51160-001>

1. Sector Overview
2. Contribution to the ADB Results Framework
3. Country Economic Indicators
4. Summary Poverty Reduction and Social Strategy
5. Safeguards and Social Dimensions Summary