



Report and Recommendation of the President to the Board of Directors

Project Number: 44263-013
October 2016

Proposed Programmatic Approach, Policy-Based Loan for Subprogram 1, and Technical Assistance Grant Kingdom of Cambodia: Inclusive Financial Sector Development Program

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the documents to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 11 October 2016)

Currency unit	–	riel/s (KR)
KR1.00	=	\$0.000245
\$1.00	=	KR4,072

ABBREVIATIONS

ADB	–	Asian Development Bank
CAFIU	–	Cambodian Financial Intelligence Unit
CBC	–	Credit Bureau of Cambodia
DPS	–	deposit protection scheme
FSDS	–	finance sector development strategy
GDP	–	gross domestic product
MEF	–	Ministry of Economy and Finance
MOC	–	Ministry of Commerce
NBC	–	National Bank of Cambodia
RDB	–	Rural Development Bank
RTGS	–	real-time gross settlement
SECC	–	Securities and Exchange Commission of Cambodia
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

NOTE

In this report, “\$” refers to US dollars.

Vice-President	S. Groff, Operations 2
Director General	J. Nugent, Southeast Asia Department (SERD)
Director	K. Bird, Public Management, Financial Sector and Trade Division, SERD
Country Director	S. Tukuafu, Cambodia Resident Mission, SERD
Team leaders	H. Aoki, Senior Financial Sector Specialist, SERD S. Schuster, Senior Financial Sector Specialist, SERD
Team members	H. Ear-Dupuy, Social Development Specialist (Civil Society and Participation), Sustainable Development and Climate Change Department (SDCC) U. Hoque, Senior Social Development Specialist (Gender and Development), SERD K. Hattel, Financial Sector Specialist, SERD M. Hyun, Social Development Specialist, SERD S. Khieu, Economics Officer, SERD P. Rhee, Senior Counsel, Office of the General Counsel K. Sanchez, Operations Assistant, SERD E. Talja, Associate Project Officer, SERD
Peer reviewer	A. Chatterjee, Principal Financial Sector Specialist, SDCC

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROGRAM AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROGRAM	1
A. Rationale	1
B. Impact and Outcome	6
C. Outputs	6
D. Development Financing Needs	8
E. Implementation Arrangements	8
III. TECHNICAL ASSISTANCE	8
IV. DUE DILIGENCE	9
A. Economic and Financial	9
B. Governance	9
C. Poverty and Social	9
D. Safeguards	10
E. Risks and Mitigating Measures	10
V. ASSURANCES	10
VI. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14
3. Development Policy Letter	15
4. Policy Matrix	18

PROGRAM AT A GLANCE

1. Basic Data		Project Number: 44263-013	
Project Name	Inclusive Financial Sector Development Program, Subprogram 1	Department /Division	SERD/SEPF
Country Borrower	Cambodia Government of Cambodia	Executing Agency	National Bank of Cambodia
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Finance sector development		40.60
		Total	40.60
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Some gender elements (SGE)	✓
Knowledge solutions (KNS)	Public financial governance Knowledge sharing activities		
Private sector development (PSD)	Conducive policy and institutional environment		
5. Poverty and SDG Targeting		Location Impact	
Project directly targets poverty and SDGs	No	Nation-wide	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		40.60	
Sovereign Capacity development technical assistance: Technical Assistance Special Fund		0.60	
Sovereign Programmatic Approach Policy-Based Lending (Loan): Asian Development Fund		40.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		40.60	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed programmatic approach for the Inclusive Financial Sector Development Program, and (ii) a proposed policy-based loan to the Kingdom of Cambodia for subprogram 1 of the Inclusive Financial Sector Development Program. The report also describes the proposed technical assistance (TA), Implementing the Inclusive Financial Sector Development Program, to support program implementation, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, will approve the TA.¹

2. The program represents a medium- to long-term partnership between the Asian Development Bank (ADB) and the Government of Cambodia and seeks to improve financial inclusion by supporting the development of an efficient and stable financial sector. The government's priority areas include (i) increasing access to finance for rural households, the agriculture sector, and small and medium-sized enterprises (SMEs); (ii) enhancing financial system stability; and (iii) upgrading financial sector infrastructure to support the introduction of new financial services and products. The program is included in ADB's country operations business plan, 2016–2018.²

II. THE PROGRAM

A. Rationale

3. **The development problem.** Cambodia achieved and sustained high economic growth at an average of 6% of gross domestic product (GDP) per annum during 2007–2015. This growth supported a dramatic reduction in poverty, with poverty rates declining from 47.8% in 2007 to 13.5% in 2014. However, economic growth could be more inclusive. Higher poverty levels occur in rural areas (19.9% of the rural population in 2012), where 90.0% of poor people live. In addition, a large share of the population remains vulnerable to poverty, having moved to just above the poverty line. In 2011, while only 10% of Cambodians lived on less than \$1.25 per day (in purchasing power parity), 41% lived on less than \$2 per day and 72% lived on less than \$3 per day.³ Financial inclusion is seen as one important channel to further reducing households' vulnerability to falling into poverty.⁴ Expansion of formal financial services and financial literacy is expected to address the issues of high transaction costs and overindebtedness of poor households. However, in 2015, a comprehensive financial inclusion study highlighted a major problem of financial exclusion in the country.⁵ The study estimated that only 59% of the adult population has access to formal finance—68% in urban areas and only 55% in rural areas. Further, the study indicated that 30% of the adult population is excluded from both formal and informal financial services altogether.

4. Cambodia's banking industry grew rapidly between 2001 and 2015 with total assets at \$19.9 billion. Credit to the private sector rose from 6.0% of GDP in 2001 to 62.7% of GDP in 2015 and total deposits reached 58.5% of GDP in 2015 compared with 10.4% of GDP in 2001. Between 2011 and 2015, the number of commercial banks operating in Cambodia increased from 31 to 36. Microcredit has also flourished in the same period and the number of microfinance institutions operating in Cambodia grew from 30 in 2011 to 58 in 2015. This

¹ The design and monitoring framework is in Appendix 1.

² ADB. 2015. *Country Operations Business Plan: Cambodia, 2016–2018*. Manila.

³ ADB. 2014. *Cambodia: Country Poverty Analysis*. Manila.

⁴ ADB. 2015. *Financial Inclusion, Poverty, and Income Inequality in Developing Asia*. Manila.

⁵ United Nations Capital Development Fund. 2015. *FinScope Consumer Survey 2015*. Phnom Penh.

development in the banking industry has been supported by the government's financial market reforms which have been sequenced in an orderly manner since 2001 (para. 11). Unlike the situation in many of its regional peers, majority foreign ownership of financial institutions is allowed in Cambodia, the government neither sets interest rates on loans or deposits nor imposes lending quotas or practice directed lending.

5. Despite this impressive growth in the banking industry, lending is fragmented with credit readily available in urban centers while the rural areas remain underserved. The agriculture sector and small farmers in particular have been disadvantaged as agriculture-related lending is seen as relatively risky. Interest rates are typically higher to cover the risk, which increases the cost for the borrower. Additionally, there is a skewed distribution of bank branches which serves the needs of urban rather than rural communities. In 2015, commercial banks had 36% of their branches in Phnom Penh. While 64% are outside of the capital, most are owned by one of the leading commercial banks with a large national network. The nonbank financial subsector (insurance and pension funds) is very small and this is also an impediment to the development of a more inclusive financial system. An incomplete legal framework for financial products, services, and consumer protection; poor financial literacy among most of the population; and insufficient financial infrastructure (such as payments systems) have all contributed to a financial sector that is not inclusive enough.

6. At the same time, the banking industry is exposed to significant risks. The large number of banks operating in Cambodia, combined with rapid credit expansion, poses formidable challenges to implementing sound bank supervision. The National Bank of Cambodia (NBC) established a prudential bank supervision framework in 2011 although continued capacity development support will be necessary. Cambodia has a highly dollarized economy, meaning that the NBC has limited monetary policy options to manage financial system risks (i.e., limits to the NBC as a lender of last resort). The highly dollarized economy also impedes the development of a local currency capital market. The government has been promoting local currency through relatively small recurrent transactions including payrolls and utility bills. However, money markets and government bond markets, which are the building blocks for a capital market, do not yet exist. Local currency bond markets perform an essential function in providing capital market participants with a risk-free yield curve reflecting sovereign credit. This yield curve provides fundamental price discovery and serves as the foundation for more comprehensive financial sector development including growth in insurance and pension funds. Moreover, the introduction of more advanced products, such as corporate and structured finance, infrastructure finance, and eventually hedging mechanisms, is also dependent on the development of a risk-free government yield curve.

7. **Binding constraints.** The government has recognized the set of challenges it needs to deal with to make the financial sector more inclusive and stable with supporting infrastructure, including: (i) access to financial products and services to the poor are limited, (ii) financial sector stability framework is weak, and (iii) the financial infrastructure is underdeveloped. These constraints are discussed in paras. 8–10.

8. **Access to financial products and services to the poor is limited.** Four main constraints on access to finance need to be addressed: (i) financial literacy among the population is low, (ii) consumer protection from unfair business practices is lacking, (iii) the regulatory regime does not promote new financial products and services, and (iv) financing to small farmers and agriculture, and SMEs is limited. As a start, the financial sector would benefit from a comprehensive financial inclusion strategy that identifies short-, medium-, and long-term interventions designed to make the financial sector more inclusive and to promote financial

literacy. Financial literacy programs do not exist in school curriculums, government public outreach programs, or the banking industry itself. There is no consumer protection law,⁶ which is critical to establishing confidence in the financial sector. The regulatory regime for promoting new financial products and services is insufficient. For example, the insurance law has been amended which has established a framework for entry into the sector, basic prudential standards, risk-based capital and solvency requirements, and micro insurance. However, the implementing rules and regulations are still being developed. Agriculture financing for farmers and rural households is not readily available. The government-owned Rural Development Bank (RDB) promotes credit to the agriculture sector, but its financial performance has been poor because of operational inefficiencies related to lack of staff skills, poor risk management, and a low capital base. The RDB requires restructuring to improve financial performance to increase credit availability. The financial inclusion survey (footnote 5) reported that SMEs are also underserved because they are perceived to present higher risk. Therefore, SMEs would benefit from a market-based partial credit guarantee scheme that would help reduce banks' commercial risks in lending to such enterprises.

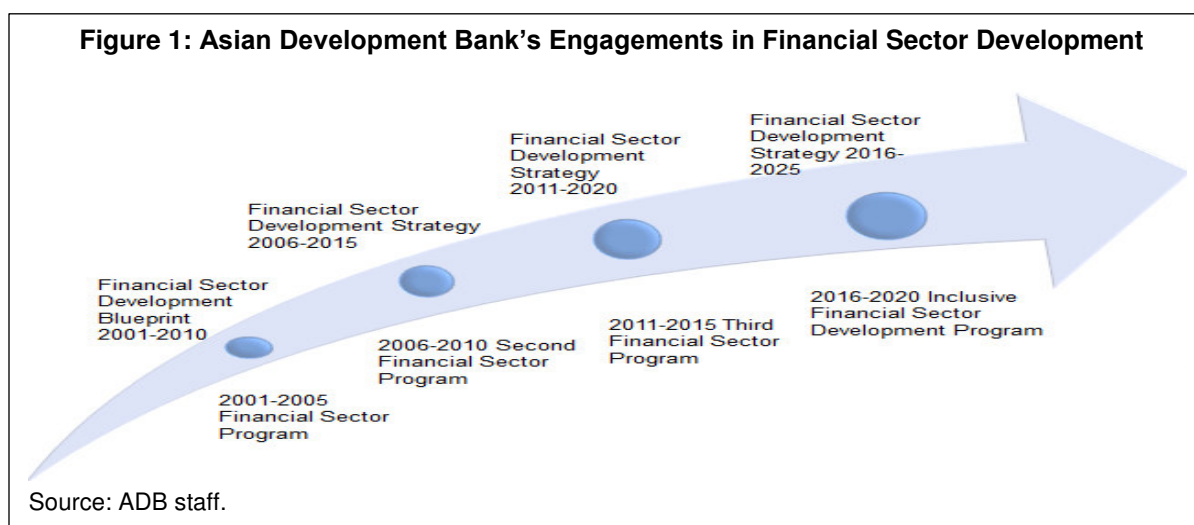
9. **Financial sector stability framework is weak.** The government's primary approach to enhancing stability is to build confidence in the domestic financial system and in the use of local currency. To build confidence, the government is addressing three main constraints: (i) weak financial market coordination among key government agencies, (ii) absence of a deposit protection scheme, and (iii) the lack of a local currency government bond market. While the NBC has established a financial stability unit, coordination across key government departments and agencies requires strengthening. In particular, a coordination mechanism that includes the NBC (bank supervision), the Ministry of Economy and Finance (MEF) (fiscal policy), and the Securities and Exchange Commission of Cambodia (SECC) (capital market) is critical to ensure exchange of financial market information and a coordinated response in the event of a financial crisis. With the rapidly expanding bank deposit base there is a need for a deposit protection scheme to ensure the continuing participation of depositors. Finally, while it will be a long-term challenge, the development of a local currency government bond market is necessary to provide the government with more effective monetary policy tools to manage financial system risks, and to develop a capital market and institutional investor base.

10. **Financial infrastructure is underdeveloped.** The infrastructure supporting the financial sector has critical gaps that inhibit wider participation by stakeholders and constrain financial sector development. Three constraints need to be addressed: (i) the payment system needs to be upgraded, (ii) enabling laws for e-commerce financial services and trust products do not exist, and (iii) compliance with the global standards for anti-money laundering needs to be strengthened. With support from ADB, the NBC has been developing a payments and settlement system, and further upgrades will be necessary to ensure that the infrastructure (such as for e-payment and mobile remittance) promotes financial inclusion. There is a demand for digital finance and e-commerce infrastructure as part of the solution to connecting the poor and rural communities with the financial sector. To allow this to happen, enabling laws on e-commerce are necessary. Enabling laws are also necessary to develop other financial products and services. For example, a trust law would provide critical investment vehicles for the financial system, such as investment trusts. The government has strengthened its anti-money-laundering protocols and was removed from the grey list by the Financial Action Task Force in February 2015. Nevertheless, more needs to be done to achieve full compliance with

⁶ A consumer protection law sets up a regulatory framework to protect consumers from unfair business practices. To enforce the law, a consumer protection agency is normally established.

global standards so that global counterparties do not otherwise limit the nature and extent of financial transactions with Cambodian financial institutions.

11. **The government's sector strategy.** The government has taken a sequenced approach to financial sector development. With ADB support, the government developed a series of rolling financial sector development strategies (FSDSs) covering 2001–2025 (figure 1). Beginning in 2001, reforms focused on rehabilitating the banking industry through liberalizing bank licensing and allowing foreign ownership. The government (through the NBC) then focused on establishing prudential bank standards and supervision capabilities and developing the financial sector infrastructure such as a payments and settlement system. From 2011 to 2015, the NBC increased its focus on developing the microfinance subsector. With continued support from ADB, the FSDS is currently being updated as the FSDS, 2016–2025.⁷ The objective of the strategy is to develop a sound financial sector that can contribute to poverty reduction by supporting economic growth and increasing poor people's access to finance. The FSDS, 2016–2025 continues to support the development of the nonbanking subsector and capital markets, and calls for the alignment of regulations and supervision practices towards international standards, the delivery of new financial services and products, and the establishment of a formal crisis management mechanism. A specific emphasis will be placed on financial inclusion by providing financial products and services to the low-income segment of the population. The government also considers its commitments under the ASEAN Economic Community Blueprint 2015–2025 as a catalyst for continued domestic financial market reforms and capital market integration.



12. **ADB's experience.** ADB has had a long productive engagement with Cambodia in support of financial sector development through a series of well-sequenced programmatic approaches and policy-based loans and TA, as well as grant projects all aligned with the FSDS series (figure 1).⁸ Beginning in 2001, the first Financial Sector Program, 2001–2005 established

⁷ ADB provided project preparatory TA under the former name of the Fourth Financial Sector Program.

⁸ ADB. 2001. *Technical Assistance for Capacity Building for Banking and Financial Management*. Manila; ADB. 2002. *Technical Assistance for Improving Legal Infrastructure in the Financial Sector*. Manila; ADB. 2002. *Technical Assistance for Improving Insurance Supervision*. Manila; ADB. 2005. *Technical Assistance for Financial Sector Program Implementation*. Manila; ADB. 2005. *Technical Assistance for Developing Deposit Services in Rural Cambodia*. Manila; ADB. 2006. *Technical Assistance for Preparing the Financial Sector Development Program*. Manila; ADB. 2009. *Technical Assistance for Implementation of Subprogram 4 of the Second Financial*

a legal and regulatory regime for banking and insurance, encouraged consolidation of the banking industry, strengthened supervision and surveillance of financial institutions, and developed key financial market infrastructure (accounting and auditing standards, a credit information-sharing system, a secured transactions filing registry, and the law on negotiable instruments and payment transactions).⁹ Under the Second Financial Sector Program, 2006–2010, ADB TA supported the modernization of the payment, clearing, and settlement system, and the NBC's core banking system was fully computerized.¹⁰ The program introduced uniform accounting standards for the banking industry, which were compatible with International Financial Reporting Standards, and a public registry for secured transactions was established in the Ministry of Commerce (MOC). TA was provided to the NBC to establish a financial intelligence unit in the National Bank of Cambodia (CAFIU) to counter money laundering and prevent the financing of terrorism. The Third Financial Sector Program, 2011–2015 initiated ADB's first support to the capital market, and incorporated the recommendations of Cambodia's first Financial Sector Assessment Program.¹¹ ADB supported the eventual adoption of a subdecree on bankruptcy and a code of corporate governance for listed companies, and provided capacity building to staff at the SECC, including scholarships for the certified financial analyst program. To increase investor confidence, a national arbitration center for out-of-court dispute resolution was established.

13. Lessons learned from the experience. Three lessons have been learned during ADB's long engagement in Cambodia's financial sector that have helped inform this program. First, ADB's experience underscores that finance sector development is hierarchical and that sequencing of reforms matters. Key foundation reforms to the banking sector must be successfully implemented before moving on to complex or higher order reforms to the nonbanking sector including government and corporate bonds and capital market development. ADB support started with the rehabilitation of the banking sector and has gradually expanded its assistance to nonbanking sector and capital market development and promoting financial inclusion. Second, government ownership of reforms articulated through a series of FSDSs has ensured financial sector development is based on well-planned steps, where each step is supported by solid technical inputs, and government consultations with stakeholders to achieve broad support for reforms. For example, ADB support to the development of the payments system has followed sequenced approach starting with the development of the policy framework followed by the establishment of the legal regime and then implementation of the payments system infrastructure. Third, to make the financial sector more inclusive requires a comprehensive approach including policy and regulatory reforms to expand the coverage of financial products and services to the poor, consumer protection, promoting the use of digital finance and e-commerce to connect the poor with the financial sector, and investing in financial literacy of the population.

14. ADB's value added to the design and implementation of the program. ADB provided direct support to the program, which advances reforms from previous ADB programs and TAs (para. 12). For example, ADB will support the establishment of a forum between the government and civil society to support the implementation of the National Strategy for Financial

Sector Program II. Manila; and ADB. 2011. *Technical Assistance for Implementing Subprogram 2 of the Third Financial Sector Program*. Manila.

⁹ ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan Cluster to the Kingdom of Cambodia for the Financial Sector Program*. Manila.

¹⁰ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan Cluster to the Kingdom of Cambodia for the Second Financial Sector Program*. Manila.

¹¹ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan Cluster to the Kingdom of Cambodia for the Third Financial Sector Program*. Manila.

Inclusion. Technical assistance will be provided to establish an SME credit guarantee scheme and a Depositor's Protection Scheme. ADB will also support the implementation of the revised Insurance Law to promote microinsurance. ADB will continue to support the development of draft laws, including Trust and e-Commerce Laws, and will provide assistance to upgrade the payment system.

15. **Donor coordination.** Support to financial sector development is coursed through NBC and anchored by the FSDSs. ADB is the lead donor and provides comprehensive support in coordination with a number of bilateral and multilateral donors. Under the FSDSs, the World Bank and the International Monetary Fund are providing support to financial stability and governance issues. The Korea International Cooperation Agency is providing targeted assistance to capital market development, and in particular the equity market, while the United States is supporting the development of a depositor's protection scheme. The International Finance Corporation is supporting access to finance, including secured transactions. The Agence Française de Développement has been working to commercialize the agriculture sector and is promoting agriculture finance. The United Nations Development Programme has recently launched a financial inclusion program. ADB staff joined the International Monetary Fund article IV mission for the first time in July 2016.

16. **The programmatic approach and policy-based loans.** The use of a programmatic approach with policy-based loans providing budget support leverages a long-term policy reform program. The program will have three subprograms as part of the implementation of the updated FSDS, 2016–2025. The program will first support the completion of a draft national strategy for financial inclusion for rural areas, agriculture, and SME development. The program will then enhance financial stability and confidence, which represents a key prerequisite for financial inclusion. The program will also support the finalization of draft laws and lay the foundation for strengthening financial system infrastructure. Combined with substantial TA, the program will also support capacity development for the relevant executing and implementing agencies. A medium-term agenda and expected results framework will be used to continue ADB's engagement, assess program effectiveness, and provide an eventual pivot into wider financial inclusion efforts to supplement those of the government.

17. **Economic impact.** The program is designed to increase financial inclusion and support to expand the financial services. The economic gains from this program will be achieved by (i) capturing efficiency gains in banking through a 2% reduction in net interest spreads and a reduction in the cost of credits, and (ii) increasing credit availability to microfinance institutions by shifting lending activity from the informal sector to the formal sector (para 29).

B. Impact and Outcome

18. The impact of the program will be the banking and financial sectors enhanced. The outcome will be a growing, resilient, inclusive, and efficient financial system with expanded coverage. The Program will include a series of policy reforms and interventions and is designed to deliver three outputs. Subprogram 1 contains 15 policy actions, all of which have been accomplished. Subprogram 2 contains 15 policy actions, of which 8 actions are prior expected actions (triggers), and subprogram 3 contains 14 policy actions, of which 8 are triggers.

C. Outputs

19. **Output 1: Access to formal financial services to the poor expanded.** Output 1 will promote wider and more inclusive participation in the financial sector and establish a framework

to ensure adequate consumer protection. Accomplishments under subprogram 1 included: (i) an interministerial working group launched a nationwide diagnostic demand survey of financial inclusion in Cambodia with gender-disaggregated data; (ii) the government restructured the RDB, improved RDB's governance, and provided capital support of \$26 million; (iii) a draft Consumer Protection Law was completed and the government established a consumer protection unit at the NBC which launched a financial education campaign targeting young people aged 15–30 with trainings and workshops, and (iv) the national consultation on the credit guarantee scheme for SMEs was completed with an emphasis on the participation of female entrepreneurs.

20. Under subprogram 2, the government will submit the proposed national strategy for financial inclusion to the Council of Ministers for adoption, with specific targets to support financial inclusion of female clients. A forum on financial inclusion will be developed and the government will submit the proposed Consumer Protection Law to the National Assembly for approval. The credit guarantee scheme for SMEs will be finalized. Under subprogram 3, the government will launch the national strategy for financial inclusion and monitor implementation, including collection of gender-disaggregated data. The government will implement the Consumer Protection Law and establish an enforcement framework. The RDB will begin offering wholesale banking services to microfinance institutions, including agriculture cooperatives. Implementation of the SME credit guarantee scheme will continue, supported by the collection of gender-disaggregated data.

21. **Output 2: Financial sector stability enhanced.** Output 2 will increase financial sector stability, enlarge and deepen bank and nonbank finance, and increase and diversify the level of financial products available to the public. Accomplishments under subprogram 1 included: (i) the government strengthened cross-sector supervision and improved information-sharing between supervisors, (ii) the Law on Insurance was approved along with a legal framework to support the introduction of microinsurance, (iii) studies were completed to support the development of a deposit protection scheme (DPS), and (iv) to improve the liquidity of the interbank market, the government introduced measures to increase issuance of the Negotiable Certificate of Deposits.

22. Under subprogram 2, the government will establish a joint financial stability technical group and update its public debt management strategy 2019–2023 to incorporate the potential issuance of government debt securities. Implementation plans for a DPS and the introduction of microinsurance will also be completed. Under subprogram 3, the government will establish a national financial stability committee and complete a draft law to anchor the establishment of a DPS. The government will authorize and license microinsurance operators and will formulate a plan to develop a government debt market.

23. **Output 3: Financial sector infrastructure upgraded.** Output 3 will support the wider development of the financial sector by upgrading financial infrastructure and encouraging the development of a wider array of financial products and services. Accomplishments under subprogram 1 included: (i) the government launched “fast payment” as an alternative retail channel for local currency fund transfer, (ii) the draft Comprehensive Trust Law was finalized and authorization was obtained to establish an e-Commerce Law, and (iii) coverage of the credit information database was expanded.

24. Under subprogram 2, the government will establish a shared switch system. The proposed e-Commerce and Comprehensive Trust Laws will be submitted to the National Assembly for approval. The coverage of the credit information database will be further expanded and compliance with anti-money-laundering protocols will be strengthened. Under

subprogram 3, the government will launch a project to establish an RTGS system. Payment system infrastructure will be upgraded to facilitate the introduction of e-commerce and payments. New financial products will be created under the trust scheme to enhance resource mobilization and the government will achieve full compliance with the Financial Action Task Force standards.

D. Development Financing Needs

25. The government has requested a loan in various currencies equivalent to SDR28,529,000 from ADB's Special Funds resources to help finance subprogram 1. The loan will have a 24-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions as set forth in the draft loan agreement. ADB will retain the right to audit the use of the loan proceeds and to verify the accuracy of withdrawal application certification. The closing date of the loan is 30 June 2017, by which date all proceeds of the loan will have been fully disbursed. The loan for subprogram 1 will be withdrawn in a single tranche upon loan effectiveness. The proceeds of the loan will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time).

26. The size of the program is based on (i) the government's development financing needs as identified during country programming and strategy formulation, (ii) the development impact of the policy reform package, and (iii) the development spending arising from the reform. The government will support the reforms through budget allocations such as recapitalization of the RDB, and upgrading bank payment and settlement system. In 2016, the budget deficit is expected to be \$843 million, or 4.3% of GDP, and will be financed primarily by official development assistance.

E. Implementation Arrangements

27. The NBC will be the executing agency. The MEF, MOC, and SECC will be the implementing agencies. A financial sector steering committee, chaired by the governor of the NBC with implementing agencies as members, will oversee the implementation of the program. The steering committee will be supported by a technical working group, also chaired by the NBC. The implementation period of subprogram 1 is from 30 June 2014 to 30 June 2016, subprogram 2 implementation is from 30 June 2016 to 30 June 2018, and for subprogram 3, implementation is from 30 June 2018 to 30 June 2020.

III. TECHNICAL ASSISTANCE

28. In response to the government's request, ADB has prepared the Implementing the Inclusive Financial Sector Development Program TA to support the implementation of key policy triggers under subprogram 2, as well as provide the government with timely policy advice on demand. The TA is estimated to cost \$0.68 million, of which \$0.60 million will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V). The implementing agencies (MEF, MOC, NBC, and SECC) will provide counterpart support in the form of office space, counterpart staff, support facilities, and other in-kind contributions. A total of 23 person-months of consulting inputs are required (15 international and 8 national). ADB will engage a firm on a quality- and cost-based selection basis in accordance with its Guidelines on the Use of Consultants (2013, as amended from time to time) using a quality–cost ratio of 80:20. The NBC will be the executing agency of the TA, and the MEF, MOC, and SECC will be the implementing agencies with implementation period from 1 January 2017 to 31 December 2019.

IV. DUE DILIGENCE

A. Economic and Financial

29. The results of the PIA indicate that the program could produce potential gains to the economy amounting to \$391.2 million annually or 2.3% of GDP. These gains arise primarily from two channels. First, the program will increase the average annual volume of banking loans which, when combined with the expected reduction in interest margins, will add \$230.1 million to GDP annually. In addition, reforms under the program will help reduce interest margins in the microfinance sector by at least by 6.0% which, along with increased lending and deposit mobilization, will shift borrowers out of more expensive informal lending schemes. This channel could add as much as \$161.1 million to GDP annually. These estimates ignore potentially larger, second-round effects such as increased investment arising from increased mobilization of savings and the lower cost of capital, and increased employment within and outside of the sector. The benefits from the proposed reforms exceeded the investment costs of \$140 million and the recurrent costs of \$5 million.

B. Governance

30. A review of the country's public financial management systems was carried out to understand fiduciary risks and determine appropriate fiduciary arrangements. Implementation of public financial management reforms, through the implementation of financial management information systems at the MEF, has strengthened budget credibility and financial accountability.¹² The assessment also considered ADB's report on Cambodia's country governance risk assessment and risk management plan,¹³ and the public expenditure financial accountability report.¹⁴ Nonetheless, there is a risk that the government commitment is insufficient to support successful and sustainable reforms.

31. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the NBC. Consistent with its commitment to good governance, accountability, and transparency, the government will continue its efforts to institute, maintain, and comply with internal procedures and controls following international best practices on issues such as corruption, money laundering, and the financing of terrorism.

C. Poverty and Social

32. The program is categorized as a general intervention to support sustainable economic growth and it is expected to indirectly contribute to poverty reduction. Further, the promotion of inclusive finance facilitated by financial sector development expands the outreach of affordable formal financial services to poor and rural microenterprises, and so has direct impacts on poverty reduction. Subprogram 1 is categorized as having *some gender elements*. Financial sector reforms based on market principles are typically gender neutral. However, the program has improved access to financial services, bringing more benefits to women in rural areas.

¹² External Advisory Panel. 2015. *Public Financial Management Reform Program – Final External Advisory Panel Report*. Phnom Penh.

¹³ ADB. 2012. *Cambodia: Country Governance Risk Assessment and Risk Management Plan*. Manila.

¹⁴ Public Expenditure Financial Accountability. 2015. *Public Finance Management Assessment: Cambodia*. Washington, DC.

D. Safeguards

33. In compliance with ADB's Safeguard Policy Statement (2009), the program is classified category C for impacts on the environment, involuntary resettlement, and indigenous peoples.

E. Risks and Mitigating Measures

34. The program is exposed to broad national and macroeconomic risks and risks associated with public financial management and corruption, and mitigation measures are in place to tackle these risks.¹⁵ Program-level or contextual risks include maintaining coordination across government, properly sequencing and executing complex reforms, managing the legal reforms, and capacity constraints to regulators. These risks are managed through program design and the utilization of TA. A comprehensive discussion of program risks and mitigating measures is contained in the risk assessment and risk management plan.¹⁶ With the design safeguards, the integrated benefits and impacts are expected to outweigh any costs.

V. ASSURANCES

35. The government and the NBC have assured ADB that implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement. No disbursement shall be made unless ADB is satisfied that the government has completed the policy actions specified in the policy matrix relating to the program.

VI. RECOMMENDATION

36. I am satisfied that the proposed programmatic approach and policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the programmatic approach for the Inclusive Financial Sector Development Program, and
- (ii) the loan in various currencies equivalent to SDR28,529,000 to the Kingdom of Cambodia for subprogram 1 of the Inclusive Financial Sector Development Program, from ADB's Special Funds resources with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

26 October 2016

¹⁵ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan and Project Loan for Subprogram 2 to the Kingdom of Cambodia for Decentralized Public Service and Financial Management Sector Development Program*. Manila; ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, and Policy-Based Loan and Technical Assistance Loan for Subprogram 1 to the Kingdom of Cambodia for Strengthening Public Financial Management Program*. Manila.

¹⁶ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Impact the Program is Aligned With Banking and financial sectors enhanced (National Strategic Development Plan, 2014–2018) ^a .			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Outcome A growing, resilient, inclusive, and efficient financial system with expanded coverage</p>	<p>By 2021:</p> <p>a. Increased ratio of M2^b to GDP of 80.0% or above (2014 baseline: 63.0%)</p> <p>b. Total private sector credit of banks to GDP at 70% or above (2014 baseline: 57%)</p> <p>c. Access to credit of 30% for income poorest 40% over age of 15 (2014 baseline: 25.8%)</p> <p>d. Among total borrowers, at least 70.0% are women (2014 baseline: 74.1%)</p> <p>e. Total bank deposits to GDP at 70.0% or above (2014 baseline: 59.2%)</p> <p>f. Average interest rate spread below 10.0% throughout the program period (2014 baseline: 7.3%)</p> <p>g. Ratio of nonperforming loans to total loans of banks below 5.0% throughout program period (2014 baseline: 2.2%)</p> <p>h. Total insurance premiums exceed \$80.0 million (2014 baseline: \$60.3 million)</p>	<p>a–g. Annual and progress reports from NBC and the industry association</p> <p>h. Annual and progress reports from MEF and the industry association</p>	<p>Macroeconomic instability and volatility delay the implementation of reforms.</p> <p>Public financial management is weak and lacks transparency and accountability.</p> <p>Procurement capacity is insufficient.</p> <p>Corruption practices undermine the efforts of reform.</p>
<p>Outputs 1. Access to formal financial services to the poor expanded</p>	<p>Subprogram 1 by 2016:</p> <p>1a. Demand-side diagnostic for financial inclusion completed (2014 baseline: none)</p> <p>1b. Capital support (\$26 million) from the government to the RDB for agriculture sector completed (2014 baseline: none)</p> <p>1c. Consumer protection unit at NBC established and financial literacy campaign for low-income</p>	<p>1a. Progress report from NBC</p> <p>1b. Annual reports from RDB</p> <p>1c. Progress report from NBC</p>	<p>Reforms are pursued in an ad hoc manner, compromising their integrity.</p> <p>Coordination across ministries complicates the implementation of comprehensive sector reforms.</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
2. Financial sector stability enhanced	<p>youth completed (2014 baseline: none)</p> <p>1d. National consultation for SME finance competed (2014 baseline: none)</p> <p>End of Program (Subprogram 3) by 2020:</p> <p>1a. National strategy of financial inclusion launched (2014 baseline: none)</p> <p>1b. Framework established to monitor the implementation of the national strategy for financial inclusion linked with the forum of civil society organizations (2014 baseline: none)</p> <p>1c. Pilot programs for financial literacy in formal education program conducted (2014 baseline: none)</p> <p>1d. SME credit guarantee scheme evaluated (2014 baseline: none)</p> <p>Subprogram 1 by 2016:</p> <p>2a. Institutional setup for information sharing under the memorandum of understanding completed (2014 baseline: none)</p> <p>2b. Study on deposit protection scheme initiated (2014 baseline: none)</p> <p>End of Program (Subprogram 3) by 2020:</p> <p>2a. National financial stability committee established (2014 baseline: none)</p> <p>2b. Drafting of Law on Deposit Protection Scheme completed (2014 baseline: none)</p> <p>2c. Road map to issue the Treasury bonds established (2014 baseline: none)</p>	<p>1d. Progress report</p> <p>1a. Progress report from NBC</p> <p>1b. Progress report from NBC</p> <p>1c. Progress report from NBC</p> <p>1d. Progress report from MEF</p> <p>2a. Progress report from NBC,MEF, and SECC</p> <p>2b. Progress report from MEF</p> <p>2a. Report from NBC,MEF, and SECC and relevant regulations</p> <p>2b. Report from NBC and MEF</p> <p>2c. Progress report from MEF</p>	<p>The completion of legal reforms takes longer than expected, compromising the reform timelines.</p> <p>Staff capacity is not adequate to implement complex reforms.</p> <p>Lack of key data inhibits the government's ability to assess program effectiveness.</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
3. Financial sector infrastructure upgraded	Subprogram 1 by 2016: 3a. Retail local currency fund transfer system launched (2014 baseline: none) 3b. At least three nongovernment organizations joined the Credit Bureau of Cambodia (2014 baseline: none) End of Program (Subprogram 3) by 2020: 3a. Payment system road map updated for real-time gross settlement system (2014 baseline: none) 3b. At least three trust products launched (2014 baseline: none) 3c. Payment system to facilitate mobile banking and e-payment established (2014 baseline: none)	3a. Progress report from NBC 3b. Progress report from NBC 3a. Progress reports from NBC 3b. Progress reports from NBC, MEF, and SECC 3c. Progress report from NBC	
Key Activities with Milestones Not applicable.			
Inputs Asian Development Bank: Subprogram 1: \$40,000,000 (ADF Loan) Subprogram 2: \$40,000,000 ^c Subprogram 3: \$40,000,000 ^c Technical Assistance: \$0.6 million from Technical Assistance Special Fund (TASF-V)			
Assumptions for Partner Financing Not applicable.			

GDP = gross domestic product, MEF = Ministry of Economy and Finance, M2 = broad money, NBC = National Bank of Cambodia, RDB = Rural Development Bank, SECC = Securities and Exchange Commission of Cambodia, SMEs = small and medium-sized enterprises.

^a Government of Cambodia. 2014. *The National Strategic Development Plan, 2014–2018*. Phnom Penh.

^b Broad money

^c Numbers are indicative and are subject to the government's request, and approval by the Asian Development Bank.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<https://lnadbg4.adb.org/sec0066p.nsf/RRPs/44263-013-3>

1. Loan Agreement
2. Sector Assessment (Summary): Finance
3. Contribution to the ADB Results Framework
4. Development Coordination
5. Attached Technical Assistance
6. Country Economic Indicators
7. International Monetary Fund Assessment Letter
8. Summary Poverty Reduction and Social Strategy
9. Risk Assessment and Risk Management Plan
10. List of Ineligible Items

Supplementary Documents

11. Program Impact Assessment
12. Public Financial Management Assessment

DEVELOPMENT POLICY LETTER

KINGDOM OF CAMBODIA
NATION RELIGION KING



Ministry of Economy and Finance



National Bank of Cambodia

Phnom Penh, *11* October 2016

Mr. Takehiko Nakao
President
Asian Development Bank
Metro Manila, Philippines

Subject: Development Policy Letter – Cambodia: Programmatic Approach for the Inclusive Financial Sector Development (IFSD) Program

Dear Mr. Nakao,

On behalf of the Royal Government of Cambodia (the Government), we would like to thank the Asian Development Bank (ADB) for the substantial assistance provided to the Government since 1999 in order to develop the financial sector. This letter outlines our policies for the further development of financial sector and our request for the further financial and technical assistance from ADB. It should be read in conjunction with the attached Policy Matrix in which we have identified as the key initiatives under our medium-term agenda for the financial sector development strategy over the period of 2016–2025. These initiatives need to be implemented and we propose that their implementation be supported by a policy-based program of the three subprograms. When we were entering into the partnership with ADB to develop our financial sector in 1999, the sector was then in its nascent stages. External assistance was sorely needed in order to prepare the groundwork for financial sector development and to rebuild capacity largely decimated during the conflict years. Fully cognizant of the pivotal role that the sector would play in achieving economic transformation and the rapid growth of the economy with scarce funding resources, the Government embarked on a long-term development strategy and plan for developing the country's financial sector.

As the first step with the ADB's assistance, the Government commissioned the preparation of the Vision and Financial Sector Development Plan 2001–2010 to guide the financial sector development during the mentioned period. Subsequently, the Blueprint was updated to the Financial Sector Development Strategy (FSDS) 2006–2015 to take into account the new challenges, both domestic and international, and the market developments. The strategy is a rolling one and has been updated with the adoption of FSDS 2011–2020. Another update of the FSDS for 2016–2025 is ongoing. The present program was formulated through a consultative process between the Government and ADB to implement the first phase of the updated 10-year strategy.

Progress and Achievements

An assessment of the progress in implementing the financial sector reforms prior to FSDS 2016–2025 indicates that much has been achieved in developing Cambodia's financial sector. One such indicator is that the financial sector has expanded and deepened, with M2 to GDP rising at a rapid pace from 41% in 2010 to 65% in 2015. Likewise, the overall scope and size of the banking system has also grown. The banking sector has adequately provided for economic needs within the last decade and the National Bank of Cambodia (NBC) has been able to maintain monetary and financial stability. That, along with the fiscal prudence under the Ministry of Economy and Finance (MEF), has contributed substantially to macroeconomic stability. The scope of the financial sector has also expanded to non-banking sector including the insurance and pensions. In addition, the capital market development has been initiated by the Securities and Exchange Commission of Cambodia (SECC) while the Ministry of Commerce (MOC) has been contributing to the legal foundation and the infrastructures supporting the financial sector development.

Future strategy and growth

The Government's overarching goal remains the reduction of poverty and as the Rectangular Strategy clearly enunciates that good governance will continue to be central to the achievement of the country's goals. Moreover, the Government is also committed to pursuing market oriented policies in the financial sector.

Following the Rectangular Strategy, the Government's national strategic development plan envisioned to target the diversification of the country's export and production base, the development of the rural sector, the development of the infrastructure in order to meet the needs of a rapidly rising population and to attract more foreign investments, and the reduction of dependence on the declining concessional financing in the future. Furthermore, the change of the drivers for economic growth is likely to influence the structure of the financial sector and the ways of the financial intermediation.

Improved access to finance

For financial inclusion, the Government recognized the needs for more focus on both demand and supply sides of the financial sector. To formulate the National Strategy for Financial Inclusion, the demand side diagnostic analysis has been completed. The Government also initiated the financial inclusion program in order to involve a broad range of stakeholders on the demand side. For agriculture sector, the Rural Development Bank (RDB) got a new management team for reform to enhance the access to finance. The Government has provided the additional capital of \$26 million to improve its financial standing. The MOC further processed the Consumer Protection Law with the discussion with the Council of Ministers (CoM). The NBC also set up the consumer protection unit and also organized the workshops for the beneficiaries including CSOs to promote financial literacy focusing on youth generation.

Enhanced financial stability and confidence

To implement the MOU among the financial sector supervisors for information exchange under the previous ADB program, the institutional set-up has been completed. The Government is now studying on the models for the depositor's protection scheme (DPS). The Government conducted the national consultation on SME credit guarantee scheme to promote the sector and to encourage female entrepreneurs. The Law on Insurance was enacted with the provision of micro insurance to provide the protection for low income households. The NBC promoted the development of interbank market by issuing

NCDs with facilitating measures including on-line trading platform and the amount expanded to \$2,651 million (\$2,188 million and KHR 1,888 billion) in Q2 2016.

Upgraded infrastructure

The Government has been continuously working on upgrading financial infrastructures. The FAST system has been launched to facilitate the retail transactions in local currency. To improve the coverage of credit information database, some NGOs have voluntarily registered in our credit information system because of the merits for reducing over-lending risks. For the governance in financial sector, CAFIU has worked on risk assessment for banking sector, while Cambodia was successfully delisted from the FATF grey list and CAFIU was admitted to the Egmont Group. The Government also has been processing new laws such as Trust Law and e-Commerce Law. The Government hopes that these two laws will lay the legal foundation for new products and services for financial sector.

The Government's development expenditure program to be supported by IFSD

Specific elements of the Government's development expenditure program is comprise of investment, administration, enforcement, and fiscal costs to the Government in implementing and enforcing the reforms and developing the institutional capacities as stipulated in the FSDS 2016–2025. Each agency within the financial sector will agree with the MEF at the beginning of each fiscal year, on the specific activities to be financed from the counterpart funds of the loan proceeds of IFSD.

Conclusion

In closing, Mr. President, we reiterate that the Government fully commits to the implementation of IFSD so as to build upon achievements since the implementation of the first financial sector development blueprint and to sustain these achievements by adopting and implementing the Policy Matrix for IFSD. We will work in partnership and in close cooperation with ADB and other development partners, as we have in the past, to realize our development aspirations.

Please be assured of the Government's deep appreciation of the leading role of the ADB in developing our financial sector – in mobilizing financial resources and technical assistance. To ensure the momentum in implementing ongoing reforms in the financial sector, we look forward to the ADB's early consideration of the proposed programmatic approach for the Inclusive Financial Sector Development Program and approval of the policy-based loan under Subprogram 1.



H.E. Dr. AUN Pornmoniroth
Senior Minister
Minister of Economy and Finance

H.E. CHEA Chanto
Governor
National Bank of Cambodia

POLICY MATRIX

Policy Actions	Accomplishments Under Subprogram 1 (2014 –2016)	Subprogram 2 2016–2018 Triggers in bold	Subprogram 3 2018–2020 Triggers in bold	Medium-term directions and expected results (2020–2025)
1. Access to formal financial services to the poor expanded				
<p>1.1 Financial inclusion strategy developed and implemented</p> <p>TA8502-CAM: Fourth Financial Sector Program</p> <p>Associated TA under the proposed program</p>	To encourage wider and more inclusive participation in the financial sector, the Government has initiated a formal process to develop the country's first comprehensive financial inclusion strategy.			
	<p>1. To provide a foundation for the financial inclusion strategy, the Government set up the inter-ministerial working group with 12 line ministries and launched a nation-wide diagnostic demand survey of financial inclusion in Cambodia with gender-disaggregated, data. (NBC and other agencies involved)</p> <p>2. To expand the access to finance in the agriculture sector, the Government restructured the Rural Development Bank (RDB), put in place a new management team, developed a medium-term business plan, and provided capital support of \$26</p>	<p>1. To provide a formal foundation, NBC submitted the proposed National Strategy for Financial Inclusion (NSFI) to the Council of Ministers for adoption, with specific targets to support financial inclusion of female clients. (NBC and other agencies involved)</p> <p>2. To diversify its service, RDB is reorganized to become a policy bank providing banking services to entrepreneurs and businesses operating in the agriculture sector. (MEF)</p>	<p>1. To widen financial inclusion, the Government launched the National Strategy for Financial Inclusion and established a framework to monitor implementation of the including collection of gender-disaggregated data. (NBC and other agencies involved)</p> <p>2. In order to provide funding to the agriculture sector, RDB updated its business plan and made wholesale banking services available to agriculture cooperatives. (MEF)</p>	<p>70% of adult population has access to finance and at least 50% of those in rural areas.</p> <p>RDB secures 10% of market share of credit for agriculture sector.</p>

Policy Actions	Accomplishments Under Subprogram 1 (2014 –2016)	Subprogram 2 2016–2018 Triggers in bold	Subprogram 3 2018–2020 Triggers in bold	Medium-term directions and expected results (2020–2025)
	million. (MEF)			
<p>1.2 Financial literacy and gender equity promoted through civil societies</p> <p>Associated TA under the proposed program</p>	To broaden the reach of financial services, the Government has emphasized efforts to increase financial inclusion, in particular the participation of women in the formal financial sector.			
	3. The Government commenced the program on financial literacy for financial inclusion, with an emphasis on the participation of women in SMEs, as a prelude to the development of a formal framework for engaging civil society. (NBC)	3. The Government established a forum on financial inclusion, which included Government agencies and civil societies, as a means of promoting financial literacy and the provision of responsible finance. (NBC/MEF/SECC)	3. To increase the effectiveness of financial inclusion efforts, the Government integrated the forum on financial inclusion into the framework for monitoring and evaluating the implementation of the National Strategy for Financial Inclusion. (NBC/MEF/SECC)	An evaluation of implementation of the National Strategy of Financial Inclusion conducted jointly with private sector and civil society organizations.
<p>1.3 Framework for consumer protection established.</p> <p>TA7934-CAM: Implementing FSPIII</p> <p>TA8502-CAM: Fourth Financial Sector Program</p> <p>Associated TA under the proposed program</p>	To provide for and enhance consumer confidence, and to promote the expansion of the financial sector, the Government has initiated a process to establish a framework to ensure adequate consumer protections including the establishment of a deposit protection scheme.			
	4. The Government completed a draft Consumer Protection Law and commenced consultation with the Council of Ministers for the approval of the Prime Minister. (MOC)	4. The Government submitted a proposed Consumer Protection Law to the National Assembly for approval. (MOC)	4. The Government implemented the Consumer Protection Law, established an enforcement framework and assigned an enforcement agency. (MOC)	Consumer protection enforced and formal education programs contribute to the improved financial literacy for youth population.
	5. NBC established a consumer protection unit and launched the “Let’s	5. The Government formed a Consumer Protection Working Group to	5. The Government started pilot programs for financial literacy in	

Policy Actions	Accomplishments Under Subprogram 1 (2014 –2016)	Subprogram 2 2016–2018 Triggers in bold	Subprogram 3 2018–2020 Triggers in bold	Medium-term directions and expected results (2020–2025)
	Talk Money” campaign targeting young people between 15-30 years old to strengthen economic empowerment in low-income households. (NBC)	formulate a consumer protection framework for the financial sector. (NBC/MEF/SECC)	formal education. (NBC/MEF/SECC)	
<p>1.4 New banking and financial products introduced.</p> <p>TA7934-CAM: Implementing FSPIII</p> <p>TA8502-CAM: Fourth Financial Sector Program</p> <p>Associated TA under the proposed program</p>	<p>To increase the availability of credit in the short-to medium term, and to support increased economic activity, the Government has taken initiatives to increase the amount and diversity of financial products available to the public.</p> <p>6. To increase financing to SME’s the Government designed and implemented a national consultation to support development of a credit guarantee scheme with an emphasis of the participation of female entrepreneurs. (MEF)</p> <p>7. The Government enacted the Law on Insurance and introduced provisions to support the introduction of micro-insurance. (MEF)</p>	<p>6. The Government has finalized policy and regulations for the establishment of the SME credit guarantee scheme and encouraged the participation of female entrepreneurs. (MEF)</p> <p>7. The Government conducted research and drafted implementing policies to support the introduction of microinsurance which include parameters to address the specific needs of women. (MEF)</p>	<p>6. The Government established and implemented the SME credit guarantee scheme and collected gender disaggregated data. (MEF)</p> <p>7. The Government authorized and licenses the formation of microinsurance operators pursuant to the Law on Insurance.(MEF)</p>	<p>Up to15% of total SME credit supported by SME credit guarantee scheme.</p> <p>Coverage of microinsurance reached up to 5% of total population</p>

Policy Actions	Accomplishments Under Subprogram 1 (2014 –2016)	Subprogram 2 2016–2018 Triggers in bold	Subprogram 3 2018–2020 Triggers in bold	Medium-term directions and expected results (2020–2025)
2. Financial sector stability enhanced				
<p>2.1 Framework for financial stability and regulatory coordination strengthened.</p> <p>TA7934-CAM: Implementing FSPIII TA8502-CAM: Fourth Financial Sector Program</p> <p>RETA9058: CB in support of monetary and financial integration of ASEAN (Phase 3)</p> <p>Associated TA under the proposed program</p>	The Government has instituted measures to increase financial sector stability and to enlarge and deepen the bank and nonbank financial sectors.			
	<p>8. To strengthen cross-sector oversight and supervision, the Government activated the Memorandum of Understanding among NBC, MEF and SECC and began to share information pursuant to the MOU. (NBC/MEF/SECC)</p> <p>9. The Government conducted studies on the model of depositor’s protection scheme (DPS) and held public consultation with stakeholders. (NBC/MEF)</p>	<p>8. To ensure financial sector stability, MEF, NBC and SECC established a Joint Financial Stability Technical Group. (MEF/NBC/SECC)</p> <p>9. The Government finalized the model of DPS (NBC/MEF)</p>	<p>8. To formalize cross-sector oversight and supervision, MEF, NBC and SECC established a National Financial Stability Committee. (MEF/NBC/SECC)</p> <p>9. The Government prepared an implementation plan to establish DPS. (NBC/MEF)</p>	<p>The Government continued to improve preparedness for possible financial crises and takes measures to strengthen the resilience of the financial system in Cambodia</p> <p>Eligible retail deposits covered by DPS.</p>
<p>2.2 Framework for a Government bond market launched.</p> <p>TA7934-CAM: Implementing FSPIII TA8502-CAM: Fourth</p>	To lay the foundation for increased intermediation through the emerging nonbank financial sector, the Government has provided a framework for, and introduced a roadmap to develop a Government securities market leading to the eventual establishment of a yield curve and the issuance of corporate debt.			
	<p>10. To improve the liquidity of interbank market, NBC introduced the measures to increase</p>	<p>10. The Government initiated the revision of its debt management strategy and considered to incorporate the issuance of Government</p>	<p>10. The Government established a roadmap to introduce the issuance, registration, trading and settlement of the</p>	<p>Primary dealer system established and 80% of Government debt securities held by</p>

Policy Actions	Accomplishments Under Subprogram 1 (2014 –2016)	Subprogram 2 2016–2018 Triggers in bold	Subprogram 3 2018–2020 Triggers in bold	Medium-term directions and expected results (2020–2025)
Financial Sector Program RETA8635: Support for ASEAN+3 Bond Market Forum	issuance of NCDs and reached the amount of more than \$980 million. (NBC)	Debt Securities. (MEF)	Government Debt Securities (MEF/NBC/SECC)	financial institutions including banking, insurance and pensions.
3. Financial infrastructure upgraded.				
3.1 Financial infrastructure upgraded to progressively adhere to international standards. TA7934-CAM: Implementing FSPIII TA8502-CAM: Fourth Financial Sector Program Associated TA proposed under	To support the wider development of the financial sector and to enable wider participation by foreign firms and foreign investors, the Government has upgraded the financial infrastructure, adopted international standards and increased transparency.			
	11. NBC launched “Fast Payment” for real time fund transfer in local currency with 13 members from commercial banks and deposit taking MFIs. (NBC) 12. NBC expanded coverage of the credit information database to include registered NGOs engaging in providing credit.(NBC) 13. The Government has commenced the NRA for banking sector to meet the requirement of FATF/APG.	11. NBC launched the Central Shared Switch System for ATM and POS. (NBC) 12. NBC further expanded the coverage of the credit information database by including corporate information. (NBC) 13. The Government established an action plan to address the findings of the 2016 APG evaluation.	11. NBC initiated a project to establish a real time gross settlements system (RTGS). (NBC) 12. The Government achieved largely compliance with FATF standards and compliance with AML/CFT laws, regulations and other measures. (CAFIU)	NBC continued to update and development the payment system to ensure inter-connectivity regionally and internationally. More than 30 NGOs engaging credit operations provide the data. Maintain white list status for membership at Egmont Group.

Policy Actions	Accomplishments Under Subprogram 1 (2014 –2016)	Subprogram 2 2016–2018 Triggers in bold	Subprogram 3 2018–2020 Triggers in bold	Medium-term directions and expected results (2020–2025)	
	(CAFIU/ADB)	(CAFIU)			
3.2 Legal foundation for financial sector development provided. TA7934-CAM: Implementing FSPIII TA8502-CAM: Fourth Financial Sector Program Associated TA proposed under	<p>The Government provides an enabling environment to encourage the development of a wider array of financial products and services.</p>	<p>14. To expand the range of financial services, MEF has convened a series of meetings with the Office of the Council of Ministers to discuss Trust Law. (MEF)</p> <p>15. To contribute to the expansion of the range of financial services, the MOC has convened a series of meetings with the Office of the Council of Ministers has discussed the e-Commerce Law. (MOC)</p>	<p>14. To support the introduction of trust business, the Government submitted the Trust Law to the National Assembly for approval. (MEF)</p> <p>15. To support the further development of e-commerce, e-payments, and mobile banking, the Government submitted the e-Commerce Law to the National Assembly to for approval. (MOC)</p>	<p>13. New financial products have been created under the trust scheme to enhance resource mobilization (NBC/MEF/SECC)</p> <p>14. The Government established a payment system infrastructure to facilitate the introduction of e-commerce and payments. (NBC)</p>	<p>The eligible trust funds of financial institutions transferred to trust scheme as required by existing regulations. Pension trust and investment trust products available in the market</p>

ADB = Asian Development Bank, AML/CFT = anti-money laundering/counter financing of terrorism, APG = Asia/Pacific Group, CAFIU = Cambodia Financial Intelligence Unit, FATF = Financial Action Task Force, MEF = Ministry of Economy and Finance, MOC = Ministry of Commerce, NBC = National Bank of Cambodia, SECC = Securities and exchange Commission of Cambodia, SME = small and medium-sized enterprise.