



Completion Report

Project Numbers: 42305-013, 42305-023, 42305-033
Loan Numbers: 2815, 3002, and 3185
June 2016

Cambodia: Third Financial Sector Program

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Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – riel (KR)

Subprogram 1		At Appraisal (2 November 2011)	At Program Completion 31 July 2015
	KR1.00	= \$ 0. 00024	\$0. 00024
	\$1.00	= KR4,104	KR4,119
Subprogram 2		At Appraisal (as of 1 April 2013)	
	KR1.00	= \$ 0.00025	
	\$1.00	= KR3,995	
Subprogram 3		At Appraisal (as of 23 October 2014)	
	KR1.00	= \$ 0.000245	
	\$1.00	= KR4,080	

ABBREVIATIONS

AML	–	anti-money laundering
ADB	–	Asian Development Bank
CBC	–	Credit Bureau Cambodia
CFT	–	countering the financing of terrorism
CPS	–	country partnership strategy
FATF	–	Financial Action Task Force
FSAP	–	Financial Sector Assessment Program
FSDS	–	Financial Sector Development Strategy
FSP	–	Financial Sector Program
MEF	–	Ministry of Economy and Finance
MFI	–	microfinance institutions
MOC	–	Ministry of Commerce
NBC	–	National Bank of Cambodia
NSDP	–	National Strategy and Development Plan
SECC	–	Securities and Exchange Commission of Cambodia
TWG	–	technical working group

NOTE

- (i) In this report, "\$" refers to US dollars.

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BASIC DATA

A.	Loan Identification	
1.	Country	Cambodia
2.	Loan Numbers	2815 (Subprogram 1) 3002 (Subprogram 2) 3185 (Subprogram 3)
3.	Program Title	Third Financial Sector Program
4.	Borrower	Kingdom of Cambodia
5.	Executing Agency	National Bank of Cambodia
6.	Amount of Loan	Subprogram 1 SDR9.571 million (\$14.740 million) Subprogram 2 SDR9.887 million (\$15,224 million) Subprogram 3 SDR9.876 million (\$13.798 million)
7.	Program Completion Report Number	1562
B.	Loan Data	
1.	Appraisal – Date Started – Date Completed	
2.	Loan Negotiations – Date Started – Date Completed	Subprogram 1 4 October 2011 4 October 2011 Subprogram 2 26 February 2012 26 February 2012 Subprogram 3 28 August 2014 28 August 2014
3.	Date of Board Approval	Subprogram 1 29 November 2011 Subprogram 2 14 May 2013 Subprogram 3 18 November 2014
4.	Date of Loan Agreement	Subprogram 1 20 December 2011

		Subprogram 2 26 August 2013
		Subprogram 3 18 December 2014
5.	Date of Loan Effectiveness	Subprogram 1 20 March 2012
	– In Loan Agreement	8 February 2012
	– Actual	None
	– Number of Extensions	
		Subprogram 2
	– In Loan Agreement	24 November 2013
	– Actual	22 November 2013
	– Number of Extensions	
		Subprogram 3
	– In Loan Agreement	18 March 2015
	– Actual	27 March 2015
	– Number of Extensions	1
6.	Closing Date	Subprogram 1 31 May 2012
	– In Loan Agreement	31 May 2012
	– Actual	None
	– Number of Extensions	
		Subprogram 2
	– In Loan Agreement	31 December 2013
	– Actual	31 December 2013
	– Number of Extensions	
		Subprogram 3
	– In Loan Agreement	30 June 2015
	– Actual	31 July 2015
	– Number of Extensions	1
7.	Terms of Loan	Subprogram 1
	– Interest Rate – grace period	1%
	– amortization period	1.5%
	– Maturity (number of years)	24
	– Grace Period (number of years)	8
		Subprogram 2
	– Interest Rate – grace period	1%
	– amortization period	1.5%
	– Maturity (number of years)	24
	– Grace Period (number of years)	8
		Subprogram 3
	– Interest Rate – grace period	1%
	– amortization period	1.5%
	– Maturity (number of years)	24
	– Grace Period (number of years)	8
8.	Terms of Relending (if any)	Not applicable
	– Interest Rate	
	– Maturity (number of years)	

- Grace Period (number of years)
- Second-Step Borrower

9. Disbursements

a. Dates

	Initial Disbursement	Final Disbursement	Time Interval
Subprogram 1	12 March 2012	Single Tranche	
Subprogram 2	20 December 2013	Single Tranche	
Subprogram 3	17 July 2015	Single Tranche	
	Effective Date	Original Closing Date	Time Interval
Subprogram 1	8 February 2012	31 May 2012	3.7 months
Subprogram 2	22 November 2013	31 December 2013	1.3 months
Subprogram 3	27 March 2015	30 June 2015	3.1 months

b. Amount (\$ million)

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Subprogram 1 7501	15.000			15.000	14.740	
Subprogram 2 7501	15.000			15.000	15.224	
Subprogram 3 7501	15.000			15.000	13.798	
Total	45.000			45.000	43.762	

10. Local Costs (Financed)

- Amount (\$) None
- Percent of Local Costs None
- Percent of Total Cost None

C. Program Data

1. Program Cost (\$ million)

Cost	Appraisal Estimate ^a	Actual
Foreign Exchange Cost		14.740
Subprogram 1		15.224
Subprogram 2		13.798
Subprogram 3		
Total		43.762

^a No appraisal mission conducted.

2. Financing Plan (\$ million)

Cost	Appraisal Estimate^a	Actual
Implementation Costs		
ADB-Financed (Single Tranche)		
Subprogram 1		14.740
Subprogram 2		15.224
Subprogram 3		13.798
Total		43.762

ADB = Asian Development Bank.

^a No appraisal mission conducted.

3. Cost Breakdown by Program Component (\$ million)

Component	Appraisal Estimate^a	Actual
Foreign Cost		
Subprogram 1		14.740
Subprogram 2		15.224
Subprogram 3		13.798
Total		43.762

^a No appraisal mission conducted.

4. Program Schedule (\$ million)

Item	Appraisal Estimate^a	Actual
Other Milestones		
Single Tranche		
Subprogram 1	15.000	14.740
Subprogram 2		15.224
Subprogram 3		13.798
Total		43.762

^a No appraisal mission conducted.

5. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
	Not applicable	

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members^a
Subprogram 1				
Fact-Finding	18–28 July 2011	4	31	a, a, b, c
Consultation	19–21 Sept 2011	3	8	a, c, d

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members ^a
Loan Negotiations	4 Oct 2011	1	4	a, a, b, e
Loan Inception	30 Jan –3 Feb 2012	2	10	a, a
Program completion review	23–24 Feb 2016	3	6	a, a
Subprogram 2				
Reconnaissance	17–23 May 2012	3	9	a, a, b
Consultation	6 July 2012	2	2	a, a
Fact-Finding	13–21 Sept 2012	3	27	a, a, b
Review Mission ^b	15–17 Jan 2013	4	10	a, a, b, c
Loan Negotiations	26 Feb 2013	3	3	a, b, d
Loan Inception	19–24 June 2013	2	12	a, b
Program Completion review	23–24 Feb 2016	2	4	a, a
Subprogram 3				
Country Partnership Strategy Retreat	30 Oct–1 Nov 2013	2	6	a, b
	20–26 Nov 2013	2	14	a, b
Consultation Review Mission ^b	18–24 March 2014	4	28	a, b, c, d
Fact-Finding	3–9 June 2014	2	14	a, b
Loan Negotiations	28 August 2014	4	4	a, b, f, e
Loan Inception	27 Nov–1 Dec 2014	2	10	a, d
Program completion review	23–24 Feb 2016	3	6	a, a

^a a = financial sector specialist; b = counsel; c = economics and financial sector officer; d = director; e = financial control specialist.

I. PROGRAM DESCRIPTION

A. Finance Sector to Support Growing Economy

1. Cambodia has enjoyed robust economic growth, with one of the world's fastest-growing economies in the first decade of the 21st century—real gross domestic product grew at an annual average of 9.1% during 1998–2008. The indirect impact of the global economic crisis led to a slowdown in 2009 and 2010, but the recovery has been relatively quick and stable, even overcoming the negative impact of floods in 2011 and 2013. Economic growth has been achieved as a result of macroeconomic stability and prudent fiscal policies. Cambodia has also made significant progress in poverty reduction and became one of the top five countries globally in terms of attainment of the Millennium Development Goals. On the other hand, the country's economy is characterized as reliant on a narrow economic base (mostly garments and tourism) for its foreign exchange earnings. Fiscal space is also limited due to low fiscal revenues and insufficient capacity to mobilize revenue, which remains a major constraint to meeting the country's development priorities. While the expanding manufacturing and service sectors could make the country's economy more inclusive and resilient to external shocks, a robust market-based finance sector is needed to support the growing economy. Greater connectivity and competition from within the Association of Southeast Asian Nations (ASEAN) economic community will be another challenge for Cambodia.

B. Cambodia's 10-Year Rolling Financial Sector Development Strategy

2. The development framework for Cambodia's finance sector is based on the government's 10-year rolling Financial Sector Development Strategy (FSDS). The strategy was last updated for 2011–2020.¹ Reforms under the FSDS have been fully discussed with all relevant government agencies, industry associations, and development partners. The FSDS has also incorporated the recommendations of the 2010 Financial Sector Assessment Program (FSAP) of the International Monetary Fund and the World Bank. The Asian Development Bank (ADB) meets regularly with all development partners in the finance sector to discuss current issues, and development partner coordination was further strengthened during the update of the FSDS for 2011–2020. Comprising three single-tranche subprograms,² the Third Financial Sector Program (FSPIII) was designed to support the first phase of the FSDS for 2011–2020.

C. Third Financial Sector Program

3. FSPIII employed the programmatic cluster approach. It comprised three single-tranche subprograms implemented from December 2010 to December 2013. Under a well-defined medium-term framework, fundamental reforms were required to be completed before each subprogram could be considered by ADB's Board of Directors. The subprograms were linked by key actions (triggers) deemed essential for the success of the medium-term program. The expected overall impact of FSPIII was the development of a sound, market-based financial

¹ ADB provided project preparatory technical assistance (TA). ADB. 2010. *Technical Assistance to the Kingdom of Cambodia for Preparing the Third Financial Sector Program Cluster*. Manila (TA 7520-CAM).

² ADB. 2011. *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 Third Financial Sector Program*. Manila (Loan 2815-CAM and TA 7934-CAM); ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to the Kingdom of Cambodia for the Third Financial Sector Program*. Manila (Loan 3002-CAM); ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 3 to the Kingdom of Cambodia for the Third Financial Sector Program*. Manila (Loan 3185-CAM).

sector, capable of mobilizing resources and supporting sustainable economic growth. The expected outcome was a growing, resilient, and efficient financial system.

4. FSPIII has focused on creating an enabling environment for all sector stakeholders, including the various regulators. The scope has shifted from the establishment of regulatory frameworks to their effective implementation and oversight, and increased transparency. The increasing needs of the market for more efficient and diverse financial services require a proper financial infrastructure, and further development of its legal foundations to ensure smooth financial transactions. These reforms require coordination within the government and careful sequencing, including dialogue with the private sector. FSPIII has facilitated closer coordination.

5. This program completion report gives an overview of FSPIII and evaluates its initial impact and benefits. The updated design and monitoring framework is in Appendix 1, and the policy matrix and medium-term program is in Appendix 2.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

6. The FSDS for 2011–2020 was aligned with Cambodia’s updated National Strategy and Development Plan (NSDP) for 2009–2013 and its Rectangular Strategy on Growth, Employment, Equity, and Efficiency, as well as with ADB’s country partnership strategy (CPS) for Cambodia, 2011–2013.³ The government launched the 2009–2013 update of the NSDP in mid-2010, with the overarching objective of reducing poverty from 30.1% in 2007 to 19.5% by 2015. The policy priorities of the NSDP update intersect closely with ADB’s Strategy 2020, especially in the core areas of infrastructure, education, and finance.⁴ The CPS for 2011–2013 has singled out the finance sector as one of five priority sectors. The finance sector assessment in the CPS also identified lack of public confidence in the overall financial system as a key constraint to the development of Cambodia’s finance sector. FSPIII was designed in line with the overall direction of FSDS 2011–2020, with inputs from the government, relevant stakeholders, and the project preparatory technical assistance (TA) (footnote 1) consultants.

B. Program Outputs

7. FSPIII had four outputs: (i) improved legal, regulatory, and institutional framework; (ii) improved financial infrastructure; (iii) strengthened finance sector governance; and (iv) enhanced finance sector efficiency. The following achievements were made within budget during the program implementation period.

1. Improved Legal, Regulatory, and Institutional Framework

8. Confidence in the finance sector has been improved under this output. The progressive steps, which help make the financial system more resilient to external shocks, were made possible by close coordination between development partners and efforts to increase the leverage of policy reforms. The risk-weighted capital adequacy ratio of banks and microfinance institutions (MFIs) has been maintained at around 20%, compared to the minimum ratio of 15%. Moreover, the trust scheme to protect the capital of MFIs, the consumer protection scheme, and

³ ADB. 2011. *Country Partnership Strategy: Cambodia, 2011–2013*. Manila.

⁴ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

improvement of the secured transaction registry have helped strengthen risk-mitigation and boost confidence in the finance sector.

a. Update and Enhance Legal Foundation for Banks and Microfinance Institutions

9. Under the Second Financial Sector Program (FSPII),⁵ a comprehensive review of the Law on Banking and Financial Institutions (LBFI), conducted with the Technical Assistance for Implementing Subprogram 2 of the Third Financial Sector Program (TA 7934), raised issues relating to consumer protection, bank secrecy provisions to support the development of a credit information-sharing system, administrative procedures for insolvent or distressed banks, and protection or immunity of bank regulators. The National Bank of Cambodia (NBC) wanted to incorporate other FSAP (para. 2) inputs into the LBFI and the law on the organization and conduct of the NBC during FSPIII. The First Initiatives (a trust fund administered by the World Bank) provided additional support and enabled consultations on the two laws between the World Bank and government agencies. The consultation process further delayed the implementation of the required policy actions, so the NBC decided to expedite the process by covering the issues raised through regulations rather than amendments to the laws in December 2014. The NBC will continue to work on the revision of the two laws to address current and emerging issues relating to supervision, as stipulated in the FSDS for 2011–2020.

b. Strengthen Bank Supervision Capacity and Adopt Measures to Sustain Financial Stability

10. To coordinate finance sector supervision and to prepare for the event of financial crisis, a memorandum of understanding between the NBC, the Ministry of Economy and Finance (MEF), and the Securities Exchange Commission of Cambodia was prepared with World Bank TA that included workshops on and simulation of a financial crisis. Following the consideration of the draft under subprogram 2, the memorandum of understanding, which establishes procedures for practical information exchange and coordination between (and accountability of) domestic supervisors in a financial crisis, was signed in July 2014. It is a critical achievement given Cambodia's highly dollarized economy. NBC also drafted a national strategy for inter-ministerial consultation on promoting of the use of riels. Further, based on the *prakas* (administrative order) on internal control and corporate governance,⁶ the NBC has completed a corporate governance profile of each licensed bank to be used for onsite inspection.

c. Strengthen Prudential Supervision and Regulations of Microfinance Institutions

11. The NBC has been working to improve the quality of MFI supervision under subprograms 1 and 2. The Economist Intelligence Unit report on microfinance in 2013 ranked Cambodia as fifth among 55 countries in the regulatory framework category.⁷ Under subprogram 3, the NBC assessed compliance of its microfinance activities with the Core Principles for Effective Banking Supervision;⁸ 8 of the 29 principles have yet to be complied with, which relate to the compatibility of the regulatory framework with the banking industry and

⁵ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan and Technical Assistance Grant to the Kingdom of Cambodia for the Second Financial Sector Program Cluster (Subprogram 1)*. Manila (Loan 2378-CAM and TA 4999-CAM).

⁶ A *prakas* is an administrative order issued by government agencies.

⁷ Economist Intelligence Unit. 2013. *Global Microscope on the Microfinance Business Environment – 2013*. London.

⁸ Bank for International Settlements. 2010. *Microfinance Activities and the Core Principles for Effective Banking Supervision*. Basel.

the risk management capacity of MFIs. Further work will help improve the quality of MFI services and increase the inclusiveness of Cambodia's finance sector.

d. Enhance Legal Foundation to Support Financial and Commercial Transactions

12. A strong legal foundation to support financial and commercial activities is critical for sound economic development in Cambodia. Subprogram 2 supported the upgrade of the financial legal infrastructure, including the drafting of a consumer protection law and a financial trust law. Under subprogram 3, a draft consumer protection law and a draft comprehensive trust law have been submitted to the Council of Ministers, and the new Law on Insurance was cleared by the Council of Ministers and has been approved by the National Assembly. Initially, the trust law under subprogram 3 was intended to cover only MFIs, but after consultation with stakeholders, the government requested an expansion in scope to include broader economic activities and the supervision of leasing companies. ADB agreed and provided additional TA for drafting a comprehensive trust law. The secured transaction registry, an integral part of lending activities to protect collaterals, was strengthened under the Secured Transaction Law as part of subprograms 2 and 3. Effective coordination between development partners prompted the International Finance Corporation to join efforts to support the government in further improving the registry.

2. Improved Financial Infrastructure

13. Financial infrastructure has been improved under this output. The growth of the banking system has further advanced the shift from risky cash-based transactions to safer and more transparent transactions that require proper records. The National Clearing System is essential to settle the increasing number of check payments, remittances, and e-payments. The number of checks cleared per day reached 4,041 in 2014 from 2,195 in 2010, with increased volume of electronic payments and transfers transacted. The e-Commerce Law aims to lay the legal foundation for e-payments. The Credit Bureau Cambodia (CBC) with its broad database, effectively solved the issue of overlending to a single entity. The third program has been supporting the development of the bond and capital markets. It is expected that these markets will open investment opportunities for the nonbanking industry (insurance and pension) in the medium term.

a. Modernize National Payments, Clearance, and Settlement System

14. Continued from subprogram 1, the National Clearing System was commissioned during subprogram 2 and the NBC held consultations with the banking industry to establish the shared switch system during subprogram 3.⁹ The Ministry of Commerce (MOC) continued consultations with the NBC and the Ministry of Post and Telecommunications on the drafting of the e-Commerce Law. The draft law has been submitted to the Council of Ministers under subprogram 3.

b. Enhance Consumer Access to Credit, Consumer Protection, and Market Confidence

15. Continued from subprograms 1 and 2, the privately owned CBC was established in 2011 as a joint venture of the Association of Banks in Cambodia, the Cambodia Microfinance

⁹ The system for sharing information on the transactions of clients including balance and payments.

Association, and an international service provider. It began operating in March 2012 during subprogram 2. The CBC's comprehensive coverage for both banking and MFIs received positive feedback for addressing the over-indebtedness issues. Under subprogram 3, the NBC introduced a governance structure to maintain confidentiality of data and a fee table acceptable to both the Association of Banks in Cambodia and the Cambodia Microfinance Association. While working on strengthening the institutional framework, the NBC, together with industry associations, also carried out financial literacy programs for the public, with women making up a majority of participants.

c. Develop Interbank and Government Securities Markets

16. MEF began developing market procedures for treasury bills under subprogram 2, and continued this activity under subprogram 3. However, the government's debt management strategy envisages that the issuance of government bonds would not take place until 2018. In September 2013, the NBC introduced the negotiable certificate deposit program to improve liquidity management of banks; this was an additional initiative under subprogram 3 to further broaden the risk management options available to banks.

d. Develop Domestic Securities Market

17. The draft sub-decree on bankruptcy was initially prepared during subprogram 2; under subprogram 3, the Securities and Exchange Commission of Cambodia (SECC) submitted the sub-decree to the Council of Ministers, and initiated an evaluation of the legal framework for new markets, including collective investment schemes, credit rating agencies, and securities borrowing and lending. SECC also concluded the self-assessment on compliance with the core principles of the International Organization of Securities Commissions (which commenced during subprogram 2) in preparation for a future membership application. SECC established an in-house customer complaint center to deal with investor protection issues; to increase its own capacity, the SECC began giving financial support to its staff for attending the chartered financial analyst program.

e. Develop Insurance Industry

18. ADB and MEF agreed to cancel the actuarial study on life insurance to develop a mortality table, which was deemed premature in view of the nascent character of the life insurance business, which began in 2012. However, the accounting guidelines for the insurance sector were developed under TA during subprogram 3 (footnote 2), creating the foundation for sound growth of this important subsector.

3. Strengthened Finance Sector Governance

19. Good governance has been a priority throughout, and the third program in particular has supported the government's commitments to the international community. This will improve the finance sector's reputation and the international community's confidence in the country. The audited financial statements of financial institutions are publicly disclosed. The support for anti-money laundering (AML) and combating the financing of terrorism (CFT) effectively contributed to Cambodia's removal from the Financial Action Task Force (FATF) gray list after completion of FSPIII. The promotion of corporate governance and adoption of internationally recognized financial reporting standards will further assure investors. The establishment of an alternative dispute resolution mechanism outside the courts confirms Cambodia's commitment to World Trade Organization membership.

a. Promote International Initiatives on Anti-Money Laundering and Combating

20. Cambodia has gained membership in the Asia Pacific Group on Money Laundering and is committed to complying with FATF recommendations, international conventions, and United Nations Security Council resolutions. Cambodia is undergoing the FATF International Co-operation Review Group process and since July 2011 has been on the gray list of jurisdictions that have AML and CFT strategic deficiencies, but high-level political commitment to rectifying the shortcomings through an action plan has been made. Cambodia issued a sub-decree on the establishment of a national AML and CFT coordination committee in April 2012. Under subprogram 3, the Prime Minister has granted approval to implement the national risk assessment recommended by FATF, and authorized the Cambodian Financial Intelligence Unit to coordinate it with all relevant ministries and agencies.

b. Enhance Corporate Governance and Transparency in Finance Sector

21. Under subprogram 2, SECC began promoting use of the code of corporate governance for listed companies and conducted an educational campaign emphasizing the responsibilities of boards of directors, corporate secretaries, and management. Under subprogram 3, the coverage was expanded to non-listed companies. NBC began regularly collecting gender-segregated data.

c. Establish Commercial Dispute Resolution Mechanism

22. Under subprogram 2, MOC had undertaken to establish the National Commercial Arbitration Center with the joint support of ADB and International Finance Corporation. NAC's first general assembly for the election of the first board of directors was held in January 2013, and the directors, including private sector representatives, were appointed. Subprogram 3 helped in the recruitment and training of new arbitrators and finalized NAC's business plan to ensure its operational and financial sustainability. MOC has committed to support NAC by granting it office space. NAC became operational at the first meeting of the board of directors in July 2014.

d. Improve Accounting and Auditing Profession

23. Although the draft Accounting and Auditing Law was submitted to the Council of Ministers under subprogram 2, it was returned to MEF because of a deficiency relating to sanctions. The draft law has been resubmitted to the COM under subprogram 3. The number of local qualified accountants is increasing as a result of financial support for a new university curriculum based on International Financial Reporting Standards and an existing scholarship program.

4. Enhanced Finance Sector Efficiency

24. The company registration system and its corporate data are a prerequisite for lenders and investors to conduct initial credit evaluations. The absence of affordable and reliable data increases the cost and length of the evaluation process. Establishment of a proper, efficient system will lead reduce transaction costs, with leading financial institutions setting more affordable lending rates in response; economies of scale resulting from expansion of the small and medium-sized enterprise sector will serve to maintain returns.

a. Modernize Business Registration System

25. An assessment conducted under subprogram 1 concluded that the MOC's corporate registration system should be consolidated and upgraded to improve the national database of corporate entities and make corporate information more accessible to financial market stakeholders (e.g., investors, lenders, or the general public). This will reduce transaction costs and improve efficiency. Under subprogram 3 and with ADB TA (footnote 2) from ADB, an adequate budget was provided and the consolidation process commenced. The World Bank approached MOC and agreed to continue the initiative with support from the Trade Swap Fund (a trust fund administered by the World Bank). This is expected to be a more comprehensive endeavor.

C. Program Costs

26. The government, relevant statutory agencies, banks and financial institutions are likely to bear most of the FSP III costs. The total policy adjustment costs of FSP III are estimated at \$59 million, including the investment, administrative, enforcement, and fiscal costs to the government in implementing and enforcing reforms; and the investment, administrative, and business costs to banks and financial institutions in complying with the reforms. The costs for government and statutory agencies are estimated at \$31.5 million, with investment and administrative costs of \$26.5 million and recurring and enforcements costs of \$5.0 million. The costs to private banks and financial institutions are estimated at \$27.5 million, with investment and administrative costs of \$3.5 million and the business compliance costs of \$24.0 million. ADB supported FSP III with three subprogram loans totaling about \$45 million to cover the government's investment costs and recurring costs during the 4-year implementation period.

D. Disbursements

27. The three subprograms, totaling \$43.762 million—comprising subprogram 1 (Loan 2815-CAM for \$14.740 million), subprogram 2 (Loan 3002-CAM for \$15.224 million), and subprogram 3 (Loan 3185-CAM for \$13.798 million)—were fully disbursed on schedule. FSP III was closed in July 2015.

E. Program Schedule

28. FSP III comprises three single-tranche subprograms that were to be implemented from December 2010 to December 2013. Because of the delay caused by the general election in Cambodia in July 2013, the implementation period was extended to June 2014.

F. Implementation Arrangements

29. The NBC was the executing agency, and MEF, MOC, and SECC were the implementing agencies. The finance sector steering committee and the technical working group (TWG), as updated under regulation 393 of 21 June 2011, has been overseeing the implementation of the FSDS for 2011–2020 and coordinating with government ministries and agencies. To ensure timely program implementation, the TWG—chaired by a senior MEF official and comprising senior officers from MEF, MOC, NBC, SECC, and other relevant government agencies—met as needed to review progress and address pending issues. The TWG was supposed to report to the steering committee, chaired by the governor of the NBC, and propose concrete actions to resolve any issues that arose. A senior officer of the NBC was appointed as program director

and assisted ADB in coordinating day-to-day program implementation with MEF, MOC, NBC, SECC, and other agencies. The program director was required to submit quarterly progress reports and an annual report on the overall progress of subprogram implementation and, in particular, on progress in implementing policy actions adopted for the program.

G. Conditions and Covenants

30. Anchored by the government-approved FSDS 2011–2020, the policy actions were selected based on the sequence of reforms identified in terms of urgency and priority. The government submitted a Development Policy Letter for each subprogram to confirm its commitment to implement the agreed policy reforms. The government satisfactorily fulfilled all 60 policy actions under FSPIII (20 under each of the three subprograms).

31. Changing domestic circumstances and development priorities caused the executing and implementing agencies to request minor modifications to some FSPIII policy triggers and milestones approved for subprograms 2 and 3. The requested modifications were subject to endorsement by ADB management. They were within the medium-term program framework and would not adversely impact the program.

32. For subprogram 2, three policy triggers related to 2010 FSAP recommendations (legal reform of the central bank law and banking industry law, and financial crisis management) were modified to reflect progress based on the agreement between the International Monetary Fund review mission and the government. The policy trigger on the trust law was modified based on a request by the government to expand the scope from financial to comprehensive trust law, and the 2013 Budget Law and implementation sub-decree were supported as an interim measure. The policy trigger to submit a new Insurance Law to the National Assembly was deferred to (and later completed under) subprogram 3 because of a prolonged discussion at the Council of Ministers.

33. The two subprogram 3 policy triggers related to 2010 FSAP recommendations (legal reform of the central bank and banking industry laws) were modified to reflect progress made with World Bank support, and instead relevant regulations were issued. The policy trigger related to trust law expanded the scope to comprehensive trust law, as indicated by the government under subprogram 2. A policy trigger was added as a significant achievement that NBC introduced the Negotiable Certificate of Deposits program to improve the liquidity management of the banking sector. The policy trigger related to the processing of a sub-decree on bankruptcy for the capital market was modified to reflect intensive consultations with relevant stakeholders. A part of the policy trigger to complete an actuarial study on life insurance was dropped because the life insurance business did not commence until 2012. The policy trigger related to the Accounting and Auditing Law was modified (the draft submitted under subprogram 2 was returned by the Council of Ministers). The policy trigger related to the company registration system was modified as a result of additional support from the World Bank trust fund.

H. Related Technical Assistance

34. In addition to the program preparatory TA (footnote 1), TA was approved in November 2011 as part of FSPIII (footnote 2). Total funding was \$1.1 million, including \$0.8 million from ADB's Technical Assistance Special Funds (TASF), and \$0.3 million from the Cooperation Fund for Regional Trade and Financial Security Initiative. The primary objective of the TA was to help the government further strengthen the capacity of the executing agency (NBC) and

implementing agencies (MEF, MOC and SECC) to implement key reforms in the financial sector, including specific policy triggers under subprogram 2.

35. It was envisaged that further TA funding was to be subsequently identified to implement some policy triggers under subprogram 3. The supplemental outputs and activities and the increased TA funding were proposed to ensure that substantial progress is made on the original TA outputs, enabling the policy measures under FSPIII to continue without interruption. This was in line with FSPIII and TA objectives, which deliberately sought to sequence the required policy measures, and maintain momentum uninterrupted. The proposal for the major change in scope to cover subprogram 3 and the increase in TA funding of \$0.8 million (\$0.3 million from ADB's TASF and \$0.5 million from the Financial Sector Development Partnership Fund) was approved in December 2012.

36. The TA mainly involved: (i) updating the roadmap for payments, clearance, and settlement system development and TA for NBC; (ii) supporting the Cambodia Financial Intelligence Unit to implement measures under the core FATF recommendations; (iii) supporting the legal reforms on commercial laws for the financial sector (e-Commerce Law and Consumer Protection Law under MOC, and the Comprehensive Trust Law under MEF); (iv) strengthening the institutional capacity of SECC to develop emerging capital markets; and (v) strengthening the institutional capacity of MEF to develop the emerging life insurance sector. TA implementation has been smooth and was physically completed in November 2015. Overall, the TA is rated *successful*.

I. Consultant Recruitment

37. As planned, all individual consultants under the TA project were hired according to the *ADB Guidelines on the Use of Consultants* (2013, as amended from time to time).

J. Performance of Consultants

38. The performance of the individual consultants was rated *highly satisfactory* or *satisfactory* in the TA completion report (Appendix 5). With a major scope change and increase in TA amount, the TA approved under subprogram 1 (footnote 2) effectively supported the sequence of policy actions over subprograms 2 and 3 without interruption. Relatively long-term engagement of the same consultants (even on intermittent basis) worked favorably during implementation due to the consistency of support provided and confidence of the government, based on the long-term relationship.

K. Performance of the Borrower and the Executing Agency

39. The government showed a firm commitment to implementation of FSDS 2011–2020, with ownership of the updated long-term vision and a clearly presented framework for the continued reform of the financial sector. FSDS 2011–2020 was formally adopted by the Council of Ministers in November 2011. In addition, the government further confirmed its ongoing commitment to reform implementation by submitting a Development Policy Letter for each subprogram. The commitment of the executing and implementing agencies to the agreed policy actions enabled successful completion of FSPIII.

40. NBC was successful in terms of implementing further reform of the banking sector. The additional achievement of the introduction of the Negotiable Certificate of Deposits market under subprogram 3 to improve liquidity management should be noted. NBC also commissioned the

National Clearing System to effect early clearance and settlement nationwide. The Cambodian Financial Intelligence Unit successfully laid the foundation for implementation of AML and CFT measures compatible with international standards.

41. MEF worked to enhance the non-banking sector, especially the insurance sector, including supervisory capacity for new life insurance businesses and amendment of the Insurance Law to accommodate new developments in the market, including the provision of micro insurance. MEF managed to process the comprehensive trust law by expanding the scope from the original financial trust law.

42. MOC has continued to work on the legal reforms, mainly of commercial laws for the development of the financial sector and business infrastructure, including the National Arbitration Center, the company registration system, and the secured transaction registry.

43. SECC was a new implementing agency; as a relatively new capital market supervisor, it focused mainly on the capital market regulatory framework, and building SECC capacity.

44. Review missions received regular progress reporting from the program director mainly during the mission and enabled to provide good opportunities for ongoing policy dialogue with executing and implementing agencies. In addition to individual meetings between the missions and each agency, representatives from all four agencies met at the mission conclusion to confirm its findings. Coordination among executing and implementing agencies was effective.

45. The overall performance of the government is rated *highly satisfactory*.

L. Performance of the Asian Development Bank

46. ADB staff, both at headquarters and at the Cambodia Resident Mission, coordinated closely in monitoring the progress of reform activities and ensuring the successful completion of all subprogram triggers. ADB staff also responded appropriately and on time to requests from executing (NBC), and implementing agencies (MEF, MOC, and SECC) for technical support and guidance. Over the FSPIII period, ADB maintained its role as the leading development partner in the financial sector, led effective policy dialogue with the government, and continued to assist with reform implementation beyond the program period.

47. Some of the policy actions, especially the legal reforms, have progressed in sequential manner over several subprograms. ADB has provided the TA in a consistent manner while considering requests—including for adjustment of scope—from NBC, MEC, MOC and SECC based on changing domestic circumstances and developmental priorities to ensure ADB support was adequate and timely.

48. The performance of ADB has been *highly satisfactory*.

III. EVALUATION OF PERFORMANCE

A. Relevance

49. The FSPIII design remained relevant throughout implementation. The program design was *highly relevant* to the government's reform agenda and goals of developing a market oriented financial sector and private sector-led economy. FSPIII addressed key short- to long-term policy priorities from the updated FSDS 2011–2020, which was prepared in line with

Cambodia's updated NSDP for 2009–2013 and its Rectangular Strategy on Growth, Employment, Equity, and Efficiency, as well as with the ADB CPS for Cambodia, 2011–2013.

50. FSPIII also incorporated the lessons from the performance evaluation report prepared by the Independent Evaluation Department for the first Financial Sector Program (FSPI) and the FSPII program completion report as appropriate during the implementation of FSPIII.¹⁰

B. Effectiveness in Achieving Outcome

51. FSPIII was *highly effective* in achieving its expected outcome of a growing, resilient, and efficient financial system.

52. With respect to the target of increasing the broad money supply (M2) to 45% of gross domestic product or above by 2014 (from 38% in 2010), there was an ongoing increase in M2 during program implementation, reaching 63% in 2014. Financial intermediation has grown substantially as a result of the increased number of registered banks and MFIs. The competition has increased banking sector efficiency, as evidenced by a narrowing of the average interest spread from 12.7% in 2010 to 7.3% in 2014. The growing networks of MFIs, especially in rural areas, made a significant contribution to financial inclusion (the number of MFI branches expanded from 1,538 in 2010 to 2,338 in 2014).

53. With respect to the target of maintaining the solvency ratio of banks and MFIs above 15% throughout the program period, both banks and MFIs maintained adequate average capital adequacy ratios (CARs), although these trended downward, reflecting increased sector competition. The CAR for banks declined from 31% in 2010 to 22% in 2014, while the CAR for MFIs decreased from 22% in 2010 to 19% in 2014.

54. With respect to maintaining the ratio of banks' non-performing loans to total loans below 10% (from a baseline of 3% in 2010), the ratio decreased to 2% in 2014. Ongoing efforts by NBC to improve supervision capacity through on and offsite monitoring helped banks maintain the quality of their loan portfolios despite increased competition in the banking and MFI industry.

C. Efficiency in Achieving Outcome and Outputs

55. FSPIII was *efficient*, considering the accomplishments with regard to outcome (paras. 51–54) and outputs (paras. 7–25). Project activities were translated into project outputs with the help of ADB TA support throughout implementation.

56. The use of single-tranche subprograms, with agreed triggers that had to be completed prior to submission of each subprogram to the ADB Board of Directors for approval, improved the efficiency of program implementation and strengthened the commitment of the government, which used its own resources up front to meet the triggers. It also provided flexibility to refine policy actions proposed for succeeding subprograms to reflect the government's achievements, changes in the policy environment, and lessons from previous subprograms.

¹⁰ ADB. 2009. *Performance Evaluation Report: First Financial Sector Program Loan Cluster in Cambodia*. Manila; ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to the Kingdom of Cambodia for the Financial Sector Program Cluster (Subprogram 1)*; Manila (Loan 1859-CAM); and ADB. 2011. *Program Completion Report Second Financial Sector Program Cluster*. Manila.

57. Subprograms 1 and 2 were completed on schedule, while subprogram 3 was delayed as a result of national elections being held during implementation. Loan effectiveness and disbursement were completed as agreed in the financing agreements. Proceeds for each subprogram were subsequently disbursed as budget support to defray government fiscal costs and administrative expenses incurred through implementation of FSP III reforms.

D. Preliminary Assessment of Sustainability

58. FSP III is *likely to be sustainable*. The design of FSP III is based on the achievements under the previous financial sector programs (footnotes 5 and 12) and was anchored by the updated FSDP 2011–2020, with renewed commitment by the government to implementation of the intended reforms. While enhanced government capacity is needed to carry out and implement the reforms (including enforcement, monitoring and evaluation), ADB TA was considered very effective in providing momentum to reforms. ADB TA has been extended to ensure successful completion of the reforms under FSP III. The additional resources allocated from the government's budget will be required after FSP III completion to ensure reform sustainability. A post-program partnership framework will maintain policy dialogue beyond program completion. The risk that reforms will be reversed is considered limited.

E. Impact

59. The performance of the financial sector in Cambodia (2010–2014) (presented in Appendix 4) indicates substantial positive developments in the financial sector. These developments have positively impacted the extension of financial services to rural areas, economic growth, and poverty reduction. FSP III has added value to these developments, and ADB played a major role as the leading development partner for financial sector development, in coordination with other development partners. The financial sector has remained resilient despite the indirect effects of international financial market turmoil. Financial intermediation has increased, with increased public confidence in domestic financial markets, and the sector has increased its contribution to Cambodia's growing economy. Under FSP III, the financial sector's scope has expanded significantly to include the non-banking sector for life insurance, pensions and the capital markets.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

60. FSP III, comprising three single-tranche subprograms, was to be implemented from December 2010 to December 2013. Because of the delay caused by the general election in Cambodia in July 2013, the implementation period was extended to June 2014. The program design of FSP III was *highly relevant* to the government's reform agenda and goals of developing a market-oriented financial sector and private sector-led economy. Project activities translated into project outputs with significant ADB TA support throughout implementation. FSP III can be considered *highly efficient* considering accomplishments with respect to the outcome and outputs. In addition to achieving the program output, the expected outcome was achieved on schedule and within budget, and the program is considered *highly effective* in achieving the outcome. Institutional development of the executing and implementing agencies has been required to enable supervisors to fulfill their expanded responsibilities, and the need for increased human resources and TA will be discussed under the post-program partnership framework. On that basis, the sustainability of the program is deemed *likely*. Overall, FSP III is rated *highly successful*.

B. Lessons

61. Efforts to build a more broad-based, resilient finance sector in Cambodia have yielded several lessons.

62. **Institutional coordination capacity.** As the scope of the financial sector expands, there is increased need for consultation, coordination, and consensus building between government ministries and agencies, and with the private sector over issues that include financial stability and crisis management, e-commerce (e-banking), consumer protection, and AML and CFT. Coordination will require time and strong leadership to plan and execute policy measures.

63. **Technical assistance.** Financial sector development should be based on a sequence of well-planned steps, with each step supported by solid technical inputs. TA is essential in this regard; given the limited availability of ADB funding, strong development partner coordination is essential. FSP III experienced positive outcomes resulting from close consultation with development partners whose timely technical inputs enabled completion of policy actions. Also, some initiatives developed by ADB have now been implemented by other development partners

64. **Long-term engagement and trust.** A long-term engagement establishes understanding and trust, which is vital for any reform program to succeed but indispensable for the finance sector, where policy actions such as those relating to interest rates or foreign exchange may involve significant externalities. Implementation of FSP III benefited from the strong relationship that ADB built with government counterparts in over a decade of engagement in the sector. The steps taken and progress made under FSP III should be viewed as building blocks, which will ultimately need to be assessed from a long-term perspective.

65. **Close coordination among development partners.** Some of the policy actions under FSP III have been supported by TA from other development partners, which can help mobilize increased resources for policy reforms. In addition, involvement of several development partners can create momentum in support of proposed policy actions. However, development partners may have differing time frames for completion of specific actions, which may result in delays in implementation of ADB-supported programs.

66. **Sequential development issues in financial sector.** Past reform actions mainly took place within a single subsector (e.g., banking and non-banking, including insurance and pensions). The complex interrelationships among subsectors is a new issue that must be resolved. For example, the insurance sector has grown significantly, and life insurance is a new area of activity. But there are few domestic investment opportunities: there is no treasury bond market and a nascent capital market. The insurance industry and pension funds are both service providers and users of the financial market. Without deep and liquid investment markets, insurance and pensions are not sustainable. From a debt management perspective, external borrowing is not reasonable given opportunities for inexpensive financing. Establishment of a treasury bond market could enable the financial sector to support sustainable economic development, and should be considered by the government. The issue should be discussed through high-level policy dialogue.

C. Recommendations

67. **Future monitoring.** Although significant progress on financial sector reforms has been achieved under FSP III, some have not been fully completed. For example, laws submitted to the

Council of Ministers under FSPIII must be forwarded to the National Assembly for approval and enactment. Continued processing and implementation will be required to fulfill the achievement of the FSPIII outcome and impact. It is recommended that further progress in achieving the program objectives be closely monitored as part of the policy dialogue under the post-program partnership framework, especially with regard to adequate resource allocation for financial sector supervision of the expanding scope of the financial sector in Cambodia. The monitoring of financial sector statistics is also important to ensure consistency between reform achievements and the financial sector development.

68. **Covenants.** The government indicated its preference for the current programmatic approach because of its experience during prior financial sector programs that it enabled more rapid disbursements. The covenants in the loan agreement should be maintained in the existing form.

69. **Further action or follow-up.** Some policy reforms under FSPIII have not been fully completed (para. 67), with further action or follow-up needed. In addition, development of financial sector is a continuous process. For example, FSPIII has supported the upgrading of the payment system at NBC, but the roadmap for system development must be updated to meet regional standards. This is a primary reason ongoing, long-term ADB support for Cambodia is needed.

70. **Additional assistance.** The development of financial sector is an ongoing process, and is less advanced in Cambodia than in other member countries of the Association of Southeast Asian Nations (e.g., Singapore, Malaysia and Thailand). To reduce this gap, further program interventions should be designed and implemented in accord with updates of the 10-year FSDDS framework. The Financial Inclusion and Private Sector Development Program (planned for approval in September 2016) and the updated FSDDS 2016–2025 to be adopted in latter part of 2016 will continue reform momentum and provide support for further development that builds on achievements of previous ADB financial sector programs. Accompanying TA will support specific policy actions under the new program.

71. **Timing of the program performance evaluation report.** The independent program performance evaluation for FSPI was issued in 2009 (footnote 12). The PCR for FSPII was circulated in 2011. The independent program performance evaluation for FSPIII should be prepared after one is issued for FSPII.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Achievements of FSP III to 31 December 2014	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact A sound, market-oriented finance sector to enhance the mobilization of financial resources</p>	<p>Total private sector credit of banks at 35% of GDP or more by 2017 (Baseline: 29% in 2010)</p> <p>Total bank deposits at 45% of GDP or more by 2017 (Baseline: 35% in 2010)</p> <p>Access to credit for 15% or more of the population by 2017, of which at least 60% are women (Baseline: 9% of total population in 2010, of which women are 59%).</p>	<p>As of December 2014: Total private sector credit of banks reached 57% of GDP.</p> <p>Bank deposits equaled 59% of GDP.</p> <p>14.6% of the population had access to credit (74.1% were women)</p>	<p>Annual reports, including audited financial reports of banks, and the NBC annual reports</p> <p>NBC annual reports</p> <p>Key financial data from NBC</p>	<p>Assumptions Continuing political stability</p> <p>Macroeconomic recovery from global economic downturn</p> <p>Risk Slow recovery from global financial and economic shocks</p>
<p>Outcome A growing, resilient, and efficient financial system</p>	<p>Increase of M2 to 45% of GDP or above by 2014 (Baseline: 38% in 2010).</p> <p>Solvency ratio of banks and MFIs maintained above 15% throughout the program period (Baseline: 15% in 2010).</p> <p>Ratio of NPL to total loans of banks maintained below 10% (Baseline: 3% in 2010).</p>	<p>As of December 2014: Achieved, 63% of GDP.</p> <p>Achieved, 22% for banks and 19% for MFIs.</p> <p>Achieved, 2.2%</p>	<p>Government of Cambodia (national accounts, economic reports and official statistics) and international development agencies</p> <p>Published audited reports of bank and NBC annual reports</p> <p>Published audited reports of banks, and NBC annual reports</p>	<p>Assumptions The government commitment to reforms and implementation of the FSDS, 2011–2020</p> <p>Risk Systemic risks in the financial system which are not contained or managed in a coordinated manner</p>
<p>Outputs 1. Improved legal, regulatory, and institutional framework</p>	<p>Revised law on banking and financial institutions and revised law on organization of the NBC adopted, and updated regulations to align with appropriate international standards by 2014.</p> <p>Average interest spread below 10.0% by 2013 (Baseline: 12.8% in 2010).</p> <p>Average return on assets for banks maintained above 2.0% (Baseline: 1.4% in 2010).</p> <p>Core Basel principles adopted for effective supervision by 2013, and on-site inspection of banks undertaken once a year.</p>	<p>Partly achieved, applicable <i>Prakas</i> (administrative orders) were issued by NBC as interim measures.</p> <p>Achieved, 7.3% in December 2014.</p> <p>Partly achieved, 1.9% in December 2014.</p> <p>Achieved.</p>	<p>Official copy of the approved revised laws and the approved regulations</p> <p>Progress reports from the NBC</p> <p>Progress reports from the NBC</p> <p>NBC progress report on the implementation of Core Basel principles</p>	

Design Summary	Performance Targets and Indicators with Baselines	Achievements of FSP III to 31 December 2014	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>Core Basel principles implemented with suitable adjustments, as elaborated in BCBS Guidelines, by 2014.</p> <p>The solvency ratio of all MFIs maintained above 15% annually (Baseline: average capital adequacy ratio of 22% in 2010).</p> <p>Financial trust law reviewed by the Council of Ministers and insurance law enacted by 2013.</p> <p>Consumer protection law reviewed by the Council of Ministers by 2013.</p>	<p>Achieved.</p> <p>Achieved, 19% in December 2014.</p> <p>Achieved.</p> <p>Achieved.</p>	<p>Progress reports from the NBC</p> <p>Progress reports from the NBC</p> <p>Copy of the financial trust law submitted to the Council of Ministers and insurance law as approved by the National Assembly</p> <p>Consumer protection law submitted to the Council of Ministers</p>	
2. Improved financial infrastructure	<p>“Full solution” phase for check clearance commissioned by 2012</p> <p>Shared switch for electronic payment procured and installed by 2013</p> <p>Number of checks cleared daily reaching 2,250 or more by 2014 (Baseline: 2,195 in 2010)</p> <p>Number of ATMs reaching 600 or more by 2013 (Baseline: 501 in 2010)</p> <p>A working credit information bureau for banks and MFIs by 2013, and NPL of MFIs maintained below 3% (Baseline: 1.2% in 2010)</p> <p>A study of indebtedness of MFI customers, at least 50% women, completed by 2013</p> <p>Life insurance introduced by 2012</p> <p>Gross insurance premium reaching \$28 million by 2013 (Baseline: \$24 million in 2010)</p>	<p>Achieved.</p> <p>Partly achieved.</p> <p>Achieved, 4,041 in December 2014</p> <p>Achieved, 940 in December 2014</p> <p>Achieved, officially launched in March 2012 and 0.6% in December 2014.</p> <p>Achieved.</p> <p>Achieved, four insurance firms in December 2014</p> <p>Achieved, \$60 million in December 2014</p>	<p>Reports of the NBC on payment system working group with banks</p> <p>Progress report of consultants on implementation of the payments system road map</p> <p>Progress reports from the NBC</p> <p>Progress reports from the NBC</p> <p>Progress reports from the Credit Bureau of Cambodia</p> <p>Copy of report on level of indebtedness</p> <p>Progress reports from the MEF on life insurance development and insurance premiums</p>	

Design Summary	Performance Targets and Indicators with Baselines	Achievements of FSP III to 31 December 2014	Data Sources and Reporting Mechanisms	Assumptions and Risks
3. Strengthened finance sector governance	CAFIU fully compliant with Financial Action Task Force 40+9 recommendations by 2013 Banks and financial institutions implementing international financial reporting standards by 2014 National arbitration center operated by qualified arbitrators by 2012 At least 20 locally qualified certified public accountants under the government scholarship by 2013 (Baseline: 11 qualified in 2010)	Achieved. Partly achieved. Achieved. Achieved, 30 in 2013.	Progress reports from CAFIU Annual audited financial statements of banks and financial institutions MOC letter confirming establishment of national arbitration center Progress reports from the National Accounting Council of the MEF	
4. Enhanced finance sector efficiency	Company registration systems consolidated and fully operational	Achieved after being taken over by the World Bank.	Reports available from the registry to the public	
Activities with Milestones for Subprogram 3 1. Improved legal, regulatory, and institutional framework 1.1 NBC to issue the necessary regulations to address the issues on LNBC and LBFI (December 2014) 1.2 NBC, MEF, and SECC to sign the MOU recommended by 2010 FSAP (July 2014) 1.3 NBC to arrange for self-assessment of compliance with the Basel Core Principles on microfinance (December 2013) 1.4 MOC to submit the draft Consumer Protection Law to the COM (August 2014) 2. Improved financial infrastructure 2.1 MOC to submit the draft e-Commerce Law to the COM (December 2014) 2.2 NBC to make CBC operational by developing governance structure (December 2013) 2.3 NBC to introduce NCD program to improve liquidity management of banking sector (March 2014) 2.4 SECC to submit the draft (bankruptcy) sub-decree by the COM (October 2014) 2.5 MEF to develop accounting guidelines for life insurance business (March 2014) 3. Strengthened finance sector governance 3.1 CAFIU Board to adopt national risk assessment framework (August 2014) 3.2 SECC to promote use of Code of Corporate Governance and conduct educational campaign (June 2014) 3.3 MOC to continue recruitment and training of new arbitrators (June 2014) 3.4 NAC to re-submit new Accounting and Auditing Law to the Council of Ministers (December 2014) 4. Enhanced finance sector efficiency 4.1 MOC to initiate consolidate the company registration system (July 2014)				Inputs ADB loans for subprograms 1, 2 and 3: \$15 million equivalent each \$1.9 million ADB TA (\$1.1 million from ADB TA resources, \$0.5 million from Financial Sector Development Partnership Fund, and \$0.3 million from Cooperation Fund for Regional Trade and Financial Security Initiative) The government provided counterpart support in the form of counterpart staff, office and other in kind contributions.

ADB = Asian Development Bank, AML/CFT = anti-money-laundering and combating the financing of terrorism, ATM = automated teller machine, BCBS = Basel Committee on Banking Supervision of the Bank of International Settlements, CAFIU = Cambodian Financial Intelligence Unit, COM = Council of Ministers, CPA = certified public accountant, FSAP = Financial Sector Assessment Program, FSADS = Financial Sector Development Strategy, GDP = gross domestic product, IFRS = International Financial Reporting Standards, LBFI = Law on Banking and Financial Institutions, LNBC = Law on Organization and Conduct of the NBC, M2 = broad money supply, MEF = Ministry of Economy and Finance, MFI = microfinance institution, MOC = Ministry of Commerce, NAC = National Accounting Council, NBC = National Bank of Cambodia, NPL = non-performing loan, SECC = Securities and Exchange Commission of Cambodia, TA = technical assistance.
 Source: Asian Development Bank.

POLICY MATRIX AND MEDIUM-TERM PROGRAM
Policy Actions for Subprograms 1, 2, and 3

Output and Milestones	Subprogram 1 Policy Actions 2011	Subprogram 2 Policy Triggers and Milestones 2012	Subprogram 3 Policy Triggers and Milestones 2013–2014	Post-Program Partnership Framework
1. Improved Legal, Regulatory and Institutional Framework				
1.1 Update and enhance the legal foundation for banks and MFIs	i. NBC, MEF, MOC, SECC to organize a workshop attended by members of the FSDS TWG to discuss laws that have overlapping or conflicting provisions and the need to strengthen institutional cooperation among national regulators	i. NBC in consultation with MEF, MOC, MOJ and SECC to prepare amendments to the LNBC incorporating recommendations of the 2010 FSAP ii. NBC in consultations with MEF, MOC, MOJ and SECC to prepare amendments of the LBFI incorporating recommendations of the 2010 FSAP	i. NBC to issue the necessary regulations to address the issues on the LNBC raised by the 2010 FSAP ii. NBC to issue the necessary regulations on the LBFI to address issues, including those raised by the 2010 FSAP	Updated legal and regulatory framework to support banking and microfinance activities
1.2. Strengthen bank supervision capacity and measures adopted to improve financial stability	ii. NBC supervision departments to reinforce coordination with the CAFIU iii. NBC to develop framework for assessing finance sector risks and issue appropriate supervisory guidelines iv. NBC to adopt roadmap for complete fulfillment of the Basel core	iii. (a) NBC, MEF, and SECC to set up a two-step approach recommended by the IMF in instituting a comprehensive coordination and cooperation framework. Under this approach, an initial MOU will be signed that identifies areas of cooperation and information sharing in order to achieve coordinated surveillance and crisis prevention. Following that, in due course, a second MOU will be signed setting a time-bound process for instituting a comprehensive crisis management framework, and (b) NBC to require banks to provide consolidated financial statements iv. NBC to arrange for bilateral agreements covering supervision cooperation with	iii. NBC, MEF and SECC to jointly establish clear and transparent plan of action in the event of a systemic crisis iv. NBC, MEF and SECC to develop and arrange for adoption of the strategy to promote the use of the Riel v. To enhance enforcement of good corporate governance, NBC to complete a corporate profile of each licensed bank	Framework established to allow authorities to act swiftly in the event of a crisis and in dealing with problem banks

Output and Milestones	Subprogram 1 Policy Actions 2011	Subprogram 2 Policy Triggers and Milestones 2012	Subprogram 3 Policy Triggers and Milestones 2013–2014	Post-Program Partnership Framework
	principles for effective bank supervision	countries of incorporation of certain foreign banks with subsidiaries licensed in Cambodia v. NBC to implement key actions towards fulfillment of the Basel core principles for effective bank supervision		
1.3 Strengthen prudential supervision and regulations for MFIs	v. NBC to ensure full implementation of the MFIS to enhance quality of offsite reporting	vi. NBC to continue development of onsite supervision methodologies and improvement of quality of offsite supervision reports of MFIs	vi. NBC to arrange for an self-assessment of compliance with the Basel core principles with suitable adjustments under BCBS Guidance for Effective Supervision of Microfinance Activities	Enhanced supervision of MFIs based on Core Principles for Effective Banking Supervision as applied to microfinance activities
1.4 Enhance legal foundation to support financial and commercial transactions	vi. NBC, MOC, MOJ and MEF to review potential conflicts between the Civil Code, the Law on Secured Transactions, and Law on Financial Leasing, with respect to provisions on financial leasing vii. MOC to review the operation and utilization of the on-line secured transactions registry	vii. MOC to obtain guidance from CoM on the approach for setting up commercial courts for enforcement of financial and commercial laws viii. MOC to prepare a draft Consumer Protection Law ix. NBC to issue regulations for implementing the financial leasing law x. MOC to organize workshops with banks and financial institutions to help increase the use of the secured transactions registry and discuss with	vii. MOC to submit the draft Consumer Protection Law to the CoM viii. NBC to strengthen supervision of leasing ix. MOC to initiate to expand secured transactions registry to include leasing transactions x. MEF to submit draft comprehensive Trust Law to the CoM xi. MEF to submit	Complete commercial legal framework and develop structures, systems, procedures and capacity to operationalize the commercial court Move towards effective enforcement of Consumer Protection Law Resolve legal overlaps and/or conflicts with the financial leasing law and strengthen its implementation

Output and Milestones	Subprogram 1 Policy Actions 2011	Subprogram 2 Policy Triggers and Milestones 2012	Subprogram 3 Policy Triggers and Milestones 2013–2014	Post-Program Partnership Framework
		<p>relevant agencies the risks and challenges on the use of the registry</p> <p>xi. MEF to submit the legal provisions covering public trust monies in the 2013 Budget Law to the CoM and prepare a draft sub-decree for its implementation.</p>	the new Law on Insurance to the National Assembly	<p>Facilitate usage of secured transactions registry</p> <p>Enactment of the comprehensive Trust Law to enhance resource mobilization</p> <p>Enactment of the Insurance Law and development of life insurance market</p>
2. Improved Financial Infrastructure				
2.1 Modernize national payments, clearance, and settlement system	<p>viii. To support the rollout of the payment system, PPU to prepare and submit the draft Law on the National Payments System to the NBC Management</p> <p>ix. SECC to accredit three commercial banks as cash settlement agents for securities transactions</p>	<p>xii. NBC to commission the National Clearing System to effect early clearance and settlement nationwide, and procure the shared switch</p> <p>xiii. MOC, in coordination with NBC, undertake consultations to update the draft e-Commerce Law</p>	xii. MOC to submit the draft e-Commerce Law to the CoM	Continue to align payments system with Core Principles for Systemically Important Payment Systems while extending services to match market requirements for the entire country. Over the medium-term, move towards high-value transactions, such as the Real-Time Gross Settlement System.
2.2 Enhance consumer access to credit, customer protection, and market confidence	x. NBC to issue regulations covering the operations of the CBC	<p>xiv. NBC to assist the ABC and the CMA to incorporate and register the CBC</p> <p>xv. NBC in coordination with CMA to conduct a study on over-</p>	xiii. NBC to make CBC operational by developing governance structure to maintain confidentiality of data and	Reliable credit information readily available to creditors to prevent market abuses, improve client

Output and Milestones	Subprogram 1 Policy Actions 2011	Subprogram 2 Policy Triggers and Milestones 2012	Subprogram 3 Policy Triggers and Milestones 2013–2014	Post-Program Partnership Framework
		indebtedness (at least 50% of participants to be female) and disseminate results to relevant stakeholders	affordability of its services fees xiv. NBC to liaise with ABC and CMA to formulate and implement a financial literacy program with at least 50% female participants	literacy and customer over-indebtedness, reduce credit risk and improve efficiency of financial intermediation
2.3 Develop interbank market and government securities markets	xi. NBC to encourage the operation of the interbank market using certificates of deposit as collateral	xvi. MEF to develop capacity and consider the timing of issuance of treasury bills of short duration in riel based on a predetermined borrowing program xvii. MEF to develop a system for accreditation of government securities primary market dealers, in cooperation with NBC (September 2012)	xv. MEF and NBC to develop bidding procedures, and auction system for government securities and procedures for awarding of winning bids xvi. MEF to establish a system for accreditation of government securities primary market dealers, in cooperation with NBC xvii. NBC to introduce NCD program to improve liquidity management of banking sector	Develop broad-based government securities market. This will also be critical to conducting monetary policy through the use of open market operations in the future
2.4 Develop domestic securities market	xii. SECC to approve CSX listing rules, and ensure a support infrastructure for securities market is established (e.g., underwriters, dealers, brokers, and investment advisors) xiii. CSX under SECC guidance is registered and officially launched	xviii. SECC in consultation with relevant financial regulators to draft sub-decree on bankruptcy related to the securities market. xix. SECC in consultation with NBC and MEF to conduct a self-assessment to confirm if the trading and settlement system conforms to the IOSCO core principles and the	xviii. SECC to submit the draft sub-decree on bankruptcy to the CoM xix. SECC in coordination with NBC to undertake study on regulatory framework for credit rating agency.	Develop primary and secondary markets for equities and long-term debts to provide long-term financing for industry, agriculture and infrastructure

Output and Milestones	Subprogram 1 Policy Actions 2011	Subprogram 2 Policy Triggers and Milestones 2012	Subprogram 3 Policy Triggers and Milestones 2013–2014	Post-Program Partnership Framework
	<p>xiv. SECC to, design educational materials needed, conduct investor education across the country and set up feedback mechanisms</p>	<p>Committee on Payment and Settlement Systems and IOSCO Recommendations on Securities Settlement Systems</p> <p>xx. SECC to conduct licensing, approval, and accreditation examinations for all securities market participants including fit and proper testing</p> <p>xxi. (a) SECC in consultation with relevant stakeholders to establish customer complaint center within the SECC to address public complaints; and (b) develop capacity building and education plan, and secure funding for 3 CFA scholarships for its staff</p>	<p>xx. SECC to evaluate the legal framework for (a) corporate bond market, (b) collective investment schemes, and (c) securities borrowing and lending</p> <p>xxi. SECC to conduct a self-assessment to confirm if the trading and settlement system conforms to the IOSCO core principles and the Committee on Payment and Settlement Systems/IOSCO Recommendations on Securities Settlement Systems</p> <p>xxii. SECC to implement capacity and education plan, and secure funding for three CFA scholarships for its staff</p> <p>xxiii. SECC to establish customer complaint center within the SECC to address public complaints</p>	
2.5 Develop the insurance industry		<p>xxii. MEF to undertake a promotional campaign to increase awareness about insurance to help increase market penetration</p>	<p>xxiv. MEF to develop accounting guidelines for life insurance</p>	<p>Develop new insurance products that meet varying needs of the population and diversify the insurance</p>

Output and Milestones	Subprogram 1 Policy Actions 2011	Subprogram 2 Policy Triggers and Milestones 2012	Subprogram 3 Policy Triggers and Milestones 2013–2014	Post-Program Partnership Framework
				portfolio. Develop life funds that can be a source of long-term funds critical to the development of the domestic capital market
3. Strengthened Financial Sector Governance				
3.1 Promote International initiatives on AML and CFT	<p>xv. Based on Mutual Evaluation Report 2011, CAFIU to undertake measures to meet compliance with applicable Financial Action Task Force 40+9 recommendations</p> <p>xvi. CAFIU to strengthen cooperation with neighboring FIUs and related international organizations</p>	<p>xxiii. CAFIU to undertake risk assessment of NBC-supervised institutions, and other market institutions on AML and CFT in coordination with the SECC and develop a national risk assessment framework together with a strategic implementation plan</p> <p>xxiv. CAFIU to conduct awareness raising on AML and CFT among casinos, non-profit organizations, and realtors</p>	xxv. CAFIU Board to adopt national risk assessment framework together with a strategic implementation plan	Strengthen internal systems and capabilities for dealing with AML and CFT through constant surveillance and practice, extend coverage to both financial and non-financial organizations, and increase international cooperation network
3.2 Enhance corporate governance and transparency in the financial sector	xvii. SECC to develop framework for implementing Code of Corporate Governance for listed companies	<p>xxv. NBC to require banks and MFIs to disclose loan terms and conditions according to a uniform framework, as well as other relevant matters that will help inform and protect clients</p> <p>xxvi. NBC to develop a program for aligning accounting and prudential standards with IFRS</p> <p>xxvii. SECC to implement Code of Corporate Governance for listed companies while strengthening the monitoring and</p>	<p>xxvi. NBC to arrange the Association of Banks in Cambodia (ABC) to provide the gender segregated data on regular basis</p> <p>xxvii. SECC to promote use of Code of Corporate Governance among non-listed companies and conduct educational campaign with emphasis on responsibilities of board of directors,</p>	Operationalize disclosure requirement for the protection of MFI clients and promulgate guidelines for the protection of MFI clients until the Consumer Protection Law is in force and develop financial literacy among the population to promote access to and use of formal financial services

Output and Milestones	Subprogram 1 Policy Actions 2011	Subprogram 2 Policy Triggers and Milestones 2012	Subprogram 3 Policy Triggers and Milestones 2013–2014	Post-Program Partnership Framework
		compliance framework	corporate secretaries and management	Promote good corporate governance among listed and unlisted corporate entities
3.3 Establish commercial dispute resolution mechanism	xviii. MOC to arrange for registration of the qualified arbitrators and the first meeting of members	xxviii. MOC to arrange the election of the Board of Directors of the national arbitration center, officially establish and help operationalize the national arbitration center and provide support for development of local dispute resolution techniques	xxviii. MOC to continue recruitment and training of new arbitrators	Enhance use of dispute resolution procedures and mechanisms to speed up resolution of local commercial cases
3.4 Improve the accounting and auditing profession	xix. National Accounting Council to provide 35 CPA and 35 CAT scholarships and maintain financial support for the ongoing scholarship holders.	xxix. NAC to update the Accounting and Auditing Law to remove inconsistencies and reflect international developments and submit the revised law to the CoM xxx. NAC to maintain financial support for the ongoing scholarship holders, training needs assessment, and training of trainers to implement the standardized IFRS curriculum at 10 universities	xxix. NAC to resubmit the revised draft Accounting and Auditing Law to the Council of Ministers xxx. NAC to maintain financial support for the ongoing scholarship holders, and support the implementation of the standardized IFRS curriculum at 10 universities	Strengthen accounting and audit in the country and align with international standards, where applicable
4. Enhanced Financial Sector Efficiency				
4.1 Modernize the business registration system	xx. MOC to review current systems to register all commercial enterprises and identify areas for improvement		xxxi. MOC to initiate to consolidate systems of company registration and storage of company data for regulatory and public access to	Develop system of business registration that will help monitor company and SME financial data and disclosures and

Output and Milestones	Subprogram 1 Policy Actions 2011	Subprogram 2 Policy Triggers and Milestones 2012	Subprogram 3 Policy Triggers and Milestones 2013–2014	Post-Program Partnership Framework
			information	compliance with the enterprise law and regulations

ABC = Association of Banks in Cambodia, ADB = Asian Development Bank, AML = anti-money laundering, BIS-BCBS = Basel Committee on Banking Supervision of the Bank of International Settlements, CAFIU = Cambodian Financial Intelligence Unit; CAT = certified accounting technician, CBC = Credit Bureau Cambodia, CFA = chartered financial analyst, CFT = combating the financing of terrorism, CMA = Cambodia Microfinance Association, CoM = Council of Ministers, CPA = certified public accountant, CSX = Cambodia Securities Exchange, FSAP = financial sector assessment program, FSDS = financial sector development strategy, IFRS = International Financial Reporting Standards, IOSCO = International Organization of Securities Commissions, LBFI = Law on Banking and Financial Institutions, LNBC = Law on the Organization and Conduct of the NBC, MEF = Ministry of Economy and Finance, MFI = microfinance institution, MFIS = Microfinance Information System, MIS = management information system, MOC = Ministry of Commerce, MOJ = Ministry of Justice, MOU = memorandum of understanding, NAC = National Accounting Council, NBC = National Bank of Cambodia, NCD = Negotiable Certificate of Deposits, PPU = Procurement Policy Unit, SECC = Securities and Exchange Commission of Cambodia, TWG = Technical Working Group.

Source: Asian Development Bank.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
<p>Loan 2815 - 3002 - 3185</p> <p>In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.</p> <p>The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.</p> <p>The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.</p> <p>As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.</p> <p>Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.</p>	<p>Section 4.01</p> <p>Section 4.02. (a)</p> <p>Section 4.02. (b)</p> <p>Section 4.03. (a)</p> <p>Section 4.03. (b)</p>	<p>Complied with.</p> <p>Complied with.</p> <p>Complied with.</p> <p>Complied with.</p> <p>Complied with.</p>

KEY FINANCIAL SECTOR DATA FOR ADB

Indicators	2010	2011	2012	2013	2014
M2/GDP (%)	39.7	41.7	50.5	53.0	63.0
% of total bank assets to GDP	57.4	62.7	76.6	82.8	98.3
No. of registered banks	36	38	39	43	44
Average CAR (%)	31	26	25	25	22
Average liquidity ratio of banks (%)	90.6	82.8	82.2	78.3	80.0
Private sector credit/GDP (%)	29	34	41	48	57
No. of loan accounts ('000)	286	294	353	385.421	443.482
No. of female borrowers ('000)	149	189	182	192	219
Total deposits/GDP (%)	35.6	41.0	47.3	49.1	59.2
Number of bank depositors (000s)	1,067	1,266	1,489	1,765	2,260
No. of female accountholders ('000)	406.7	404	602.3	736.8	920.2
No. of bank branches	360	386	415	496	557
No. of bank employees (000s)	11	12	13	17	20
No. of female employees ('000)	4.4	4.9	5.5	7.1	8.8
NPLs/total loans (%)	3.05	2.43	2.45	2.70	2.22
Average return on assets of banks (%)	1.44	1.89	1.92	1.92	1.92
Average interest spread of banks (%)	12.71	11.07	7.17	7.13	7.28
Total assets of five largest banks/total assets (%)	65.68	62.63	57.27	55.12	53.88
Total deposits of five largest banks/total deposits (%)	74.81	68.53	67.95	65.21	62.51
No. checks cleared daily	2,195	2,515	2,981	3,664	4,041
No. of ATMs	501	588	681	766	940
No. of EFTPOS	3,529	3794	4,236	4,838	5,831
Number of debit cards (in 000s)	592	764	958	1,001	1,297
No. of licensed and registered MFIs	53	58	67	71	75
Average CAR of MFIs (%)	22	21	21	20	19
Total no. of MFI borrowers ('000)	1,020.7	1,141.91	1,301.7	1,550.6	1,774.8
No. of female borrowers ('000)	796.0	945.71	1,075.2	1,272.0	1,425.0
Total amount of MFI loans (\$ million)	439.2	641.6	885.8	1,317.1	2,017.0
NPLs/total loans (%)	1.20	0.22	0.29	0.59	0.59
Total amount of MFI deposit (\$ million)	42.5	113.8	273.9	438	888.5
Total no. of MFI depositors ('000)	240.1	242.1	686.7	829	1,047
No. of female deposit holders ('000)	99.5	167.0	468.0	581.9	743.1
No. of MFI branches (including head office)	1,538	1,648	1,919	1,925	2,338
No. of MFI employees	7,715	9,744	12,618	15,806	19,590
No. of female employees	2,004	2,617	3,671	4,786	5,927
Insurance firms (including CAMRE)	7	8	12	12	13
Total insurance premium (\$ million)	24.81	30.22	36.09	43.89	60.32
Total no. of Insurance Policies	48,023	59,588	67,899	87,024	169,880
Total no. of insurance employees	352	370	391	728	1,055
No. of female insurance employees	109	116	185	283	425

CAMRE = Cambodia Reinsurance Company, CAR = capital adequacy ratio, EFTPOS = Electronic Funds Transfer Point of Sale, GDP = gross domestic product, MFI = microfinance institutions, NPL = non-performing loan. Source: Ministry of Economy and Finance, National Bank of Cambodia and Asian Development Bank staff estimates.

TECHNICAL ASSISTANCE COMPLETION REPORT

TA Number, Country, and Name: TA 7934-CAM: Implementing Subprogram 2 of the Third Financial Sector Program			Amount Approved: \$1,100,000 Revised Amount: \$1,900,000	
Executing Agency: the National Bank of Cambodia (NBC)		Source of Funding: Asian Development Bank Technical Assistance Special Fund, Cooperation Fund for Regional Trade and Financial Security Initiative, and Financial Sector Development Partnership Fund ^b	Amount Undisbursed: \$427,968.90	Amount Utilized: \$ 1,472,031.10
TA Approval Date: 29 November 2011	TA Signing Date: 30 December 2011	Fielding of First Consultants: 2 May 2013	TA Completion Date Original: 14 July 2013	Actual: 30 November 2015
			Account Closing Date Original: 14 July 2013	Actual: 18 March 2016
<p>Description: The development framework for Cambodia's finance sector is based on the 10-year rolling finance sector development strategy (FSDS) of the Government of Cambodia for 2011–2020, which was recently updated. The proposed Third Financial Sector Program (FSPIII) is a cluster of three subprograms, and was requested by the government to implement the FSDS.^c The reforms were discussed with all relevant government agencies, industry associations, and development partners.</p> <p>The technical assistance (TA) was a part of the FSPIII, focused on enhancing the capacities of the executing and the implementing agencies to implement financial sector reforms, including policy triggers under the program. The executing agency was the National Bank of Cambodia (NBC); the implementing agencies were the Ministry of Economy and Finance (MEF), Ministry of Commerce (MOC) and the Security of Exchange Commission of Cambodia (SECC).</p> <p>Expected Impact, Outcome, and Outputs: The primary objective of the TA is to help the government strengthen the capacity of NBC, MEF, MOC, and SECC to implement financial sector reforms. The TA impact was a sound, market-oriented financial sector to enhance the mobilization of financial resources. The TA outcome was a growing, resilient, and efficient financial system. The TA has the following nine outputs: (i) strengthened bank supervision capacity; (ii) prudent supervision and regulation for microfinance institutions (MFIs) strengthened; (iii) enhanced customer protection and market confidence; (iv) strengthened supervision capacity of the insurance industry; (v) enhanced legal foundation to support financial and commercial transactions; (vi) interbank market and tradable government securities operationalized; (vii) developed domestic securities markets; (viii) international initiatives on anti-money laundering and combating the financial terrorism promoted; and (ix) modernized payment, clearance, and settlement systems.</p> <p>Delivery of Inputs and Conduct of Activities: A change in scope was done in August 2012 to include subprogram 3, and the amount increased by \$0.8 million. The TA was implemented in about 4 years, from November 2011 to November 2015, with an extension of about 28 months. In addition to the change in scope, Cambodia's general election in 2013 and delays in the implementation of subprogram 3 also contributed to the delay in TA implementation.</p> <p>As explained in the program completion report (PCR) all individual consultants under the TA project were hired according to the <i>ADB Guidelines on the Use of Consultants</i> (2013, as amended from time to time). With a major scope change and the increase of TA amount, the TA effectively supported the sequence of policy actions over subprograms 2 and 3 without interruption. Relatively, long-term engagement of the same consultants (even on an intermittent basis) benefitted implementation because of the consistency of the support provided and confidence from the government based on the long-term relationships. The performance of the individual consultants was rated either <i>highly satisfactory</i> or <i>satisfactory</i>, and the performance of both the government and ADB was <i>highly satisfactory</i>.</p> <p>Evaluation of Outputs and Achievement of Outcome: The TA achieved the following targets: (i) maintained stability in the finance sector by updating legal and regulatory framework for banks and MFIs; strengthened bank supervision capacity and adopted measures to sustain financial stability; strengthened prudential supervision and regulations for MFIs; enhanced the legal foundation to support financial and commercial transactions; (ii) improved confidence and financial intermediation by developing a modern payments, clearance, and settlement system; enhanced consumer access to credit, customer protection and market confidence; operationalized the interbank market and tradable government securities; and developed the domestic securities market; and (iii) promoted good</p>				

governance by promoting international initiatives on anti-money laundering and combating the financing of terrorism; enhanced corporate governance and transparency in the finance sector; established a commercial dispute resolution mechanism; developed the accounting and auditing profession; enhanced the efficiency of the financial sector, and updated and modernized the business registration system and developed the insurance industry.

As in its design and monitoring framework (DMF), the qualitative achievements of the TA outputs have contributed to the achievement of the intended outcome, i.e. a growing resilient and efficient financial system. They have also directly contributed to the achievements of the performance targets and indicators set in the DMF: (i) increase in the broad money supply from 38% in 2010 to 63% of gross domestic products by 2014 (higher than the 45% target); (ii) solvency ratios of 22% for banks and 19% for MFIs in December 2014, higher than the 15% target; and (iii) ratio of nonperforming loans (NPLs) to total bank loans 3% in December 2014, much lower than the target of below 10%. Most achievements for both outputs and outcome more than met the intended targets.

Overall Assessment and Rating: The TA enabled the government to properly support government staff in enhancing their capacity to implement the financial sector reforms, including delivering specific policy triggers under the three subprograms. Subprogram 1 and 2 of the FSPIII were successfully completed. The TA also supported the executing and implementing agencies to deliver policy triggers and milestones in the policy matrix for subprograms 2 and 3. As presented in the PCR, the three subprograms supported by this TA have been highly successful. Overall, the TA is rated *successful*.

Major Lessons: Flexibility is required to adjust TA to meeting changing country needs for specific support. The TA was expanded in scope (from the two initial subprograms to three subprograms) by adding supplementary funding from other sources; this required an extension of more than two years. Complementarities among consultants were beneficial, following up the needs of each policy reform during the extended period. The TA provided by ADB to support government updating of the national policy and strategy for the microfinance sector was timely. In terms of the regulatory environment for microfinance operations, Cambodia has been rated as one of the top countries in the region and the business performance of microfinance sector, both in terms of growth and low the NPL ratio, has been recognized as quite impressive. The credit bureau covering both banking and non-banking microfinance sectors has been working well to address over-indebtedness. Despite some significant achievements, financial inclusion supported by improved access to finance remains a major issue. Less than 15% of the population has access to formal financial services. Informal financial schemes have some advantages over formal financial schemes, in terms of convenience and easy access, despite significantly higher interest rate charges.

Recommendations and Follow-Up Actions: Monitor the progress of the next financial sector program (FSP), with indicative funding of \$40 million in 2016, and assess how lessons from this TA can inform this new initiative. This TA will contribute to the expected policy action under the next program, which is oriented to support financial inclusion; this should be a core output of the next FSP, along with banking and non-banking reforms. Small and medium-sized enterprises will be an important vehicle to improve access to finance and boost private sector development. It is necessary to support a smooth transition to the next program.

^a In addition, the MEF, MOC, NBC, and SECC provided about \$0.15 million equivalent in the form of office space, counterpart staff, and other support facilities.

^b \$1.1million from the ADB Technical Assistance Special Funds, \$0.3 million from the Cooperation Fund for the Regional Trade and Financial Security Initiative, and \$0.5 million from Financial Sector Development Partnership Fund.

^c (i) ADB. 2011. *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 Third Financial Sector Program*. Manila (Loan 2815-CAM and TA 7934-CAM) (\$15.0 million, approved in Nov 2011 and closed in May 2012); (ii) ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 2 to the Kingdom of Cambodia for the Third Financial Sector Program*. Manila (Loan 3002-CAM) (\$15.0 million, approved in May 2013 and closed in Dec 2013); and ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 3 to the Kingdom of Cambodia for the Third Financial Sector Program*. Manila (Loan 3185-CAM) (\$15.0 million, approved in Nov 2014 and closed in July 2015).

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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.

CONTRIBUTION TO THE ADB RESULTS FRAMEWORK

No.	Results Framework Indicators (Level 2)	Targets	Methods / Comments
1	None	Not applicable	<p>Microfinance accounts opened and end borrowers reached 1,774,800 in 2014</p> <p>Quarterly data provided by MFIs to the NBC as part of their on-site reports</p>
2	SME loan accounts opened and end borrowers reached (number)	Not available	NBC reported that banks and MFIs do not maintain nor report on SME data as there is no clear definition of SMEs and majority are not registered

MFI = microfinance institutions; NBC = National Bank of Cambodia; SME = small and medium-sized enterprises.
Source: ADB Staff.