

Summary of Achievements under Financial Sector Program I and II

FSP I			FSP II		
Design Summary	Performance Indicators/Targets	Results Achieved end 2006	Design Summary	Performance Indicators/Targets	Results Achieved end 2010
<p>Goal Develop a sound, market-based financial system to support resource mobilization and sustainable economic growth</p>	<p>Increased M2/GDP</p> <p>Increased financial assets/GDP ratio</p> <p>Increased capital adequacy and bank profitability</p> <p>Reduced nonperforming assets</p> <p>Tightened interest rate spread</p> <p>Diversified financial services</p> <p>Enhanced rural financial services</p> <p>Diversified insurance products</p> <p>Increased interbank market activities</p> <p>Established legal basis for capital market development</p>	<p>M2/GDP 2006: 20.8% (2001: 13%)</p> <p>Total private sector credit/GDP 2006: 12.3% (2001: 6.2%)</p> <p>Capital adequacy ratio 2006: 26%</p> <p>Average ROA 2006: 2.8%</p> <p>NPL 2006: 9.8% (2001: 8%)</p> <p>Average interest spread 2006: 11.9% (2001: 15%)</p> <p>Deposit services now include debit and credit cards</p> <p>Number of MFI borrowers 2006: 471,000 (2001: 410,000)</p> <p>The three compulsory nonlife categories now include marine cargo</p> <p>Not much development as most banks are highly liquid</p> <p>Several commercial laws have been enacted and are being implemented</p>	<p>Impact A sound, market-based finance sector that enhances financial resource mobilization</p>	<p>Increased ratio of M2 to GDP of 29.0% or above by 2011, from 20.5% in 2006</p> <p>Total private sector credit of banks to GDP of 24.0% or above by 2011, from 12.2% in 2006</p> <p>Total bank deposits to GDP of 25.0% or above by 2011, from 17.9% in 2006</p>	<p>M2 to GDP reached 38.3% in December 2010</p> <p>Total private sector credit reached 28% in December 2010. Total credit slowed down between 2008 and 2009 due to the international economic crisis but picked up in 2010</p> <p>Total bank deposit reached 34.4% of GDP in December 2010</p>
<p>Purpose 1. Enhance banking intermediation, public confidence, and capacity building</p>	<p>Strengthened banking supervision</p> <p>Developed core information infrastructure and safety net</p>	<p>Bank supervision unit fully staffed and functioning with hands-on training provided by ADB consultants</p> <p>Uniform chart of accounts for banks adopted</p>	<p>Outcome A growing, resilient, and efficient financial system</p>	<p>All banks, insurance firms, and MFIs meet minimum capital adequacy requirements set by regulatory authorities</p> <p>Ratio of nonperforming</p>	<p>Average CAR of banks above 30% throughout 2010 and for MFIs above 20% during 2010. Minimum CAR of 15%</p>

<p>2. Establish legal and regulatory framework for insurance development</p> <p>3. Lay foundation for the development of interbank/ money markets</p> <p>4. Create an enabling environment for capital market development</p> <p>5. Develop financial infrastructure</p>	<p>Strengthened human capacity in public and private sectors</p> <p>Strengthened insurance supervisory system and prudential regulations</p> <p>Developed private sector participation in the insurance subsector</p> <p>Developed compulsory insurance enforcement/monitoring mechanism</p> <p>Established basic legal framework for interbank/money markets</p> <p>Established legal system</p> <p>Established accounting/auditing standards and enforcement mechanism</p>	<p>CBS established with short- and medium-term training programs offered</p> <p>Supervision unit established at MEF and staff trained</p> <p>State-owned insurance firm restructured as a first step in the privatization process</p> <p>Monitoring mechanism established and adopted</p> <p>Negotiable instrument and payment transactions law enacted with implementing regulations adopted</p> <p>Commercial arbitration law and secured transactions law enacted</p> <p>15 accounting and 10 auditing standards (internationally based) adopted and being implemented</p>		<p>loans to total loans of banks maintained below 10.0% (9.8% in 2006)</p> <p>Access to credit by the total population to reach 6% by 2011 (3% in 2006)</p> <p>New financial products and wider range of financial services (growing number of ATMs, EFTPOS, and electronic payment cards by 2010)</p> <p>Increased number of qualified Kampuchea Institute of Certified Public Accountants and Auditors members by 2011 (10 in 2006)</p>	<p>Nonperforming loans reached 3.1% of total loans in December 2010</p> <p>Access to credit by the total population reached 9.3% in December 2010</p> <p>New credit facilities introduced for trade financing and personal purposes. New payment instruments and electronic transfers commenced since 2006 (data in 1.1 below)</p> <p>47 qualified Cambodians at the end of 2010</p>
<p>Outputs</p>	<p>Improved confidence and financial intermediation</p>				
<p>1.1 Foundation for developing the payments, clearance, and settlement system</p>	<p>NBC to submit to the National Assembly a draft law on negotiable instruments and payment transactions</p> <p>Adoption of a law on negotiable instruments and payment transactions by the</p>	<p>Draft law was submitted to the National Assembly in January 2005</p> <p>Law adopted by the National Assembly in September 2005</p>	<p>1.1 Modernized payments, clearance, and settlement system (PCSS)</p>	<p>PCSS upgraded, including standardized checks and a more efficient check clearing system by 2011</p>	<p>All check standardized since 2009 with an interim software for on-line clearance introduced in May 2009 – working effectively</p>

	<p>National Assembly</p> <p>NBC to draft and adopt implementing regulations for the law on negotiable instruments and payment transactions</p>	<p>Three implementing regulations adopted in December 2006</p>		<p>Number of checks cleared daily to reach 2,000 by 2011 (1,100 in 2006)</p> <p>Number of ATMs to reach 400 by 2011 (64 in 2006)</p> <p>Number of EFTPOS facilities to reach 3,500 by 2011 (0 in 2006)</p> <p>Number of debit cards issued to reach 400,000 by 2011 (introduced in 2006)</p>	<p>Number of checks cleared daily reached 2,195 in December 2010</p> <p>Number of ATMs reached 501 in December 2010</p> <p>Number of EFTPOS reached 3,529 in December 2010</p> <p>Number of debit cards reached 592,000 in December 2010</p>
<p>1.2 Establish foundation for establishment of credit information sharing system</p>	<p>NBC and the bankers association to establish a working group to establish interbank market arrangements, arrangements for sharing credit information among the members of the bankers association, and a banking institute</p> <p>NBC to adopt guidelines for the arrangements for sharing credit information among the members of the bankers association; NBC and the bankers association are to establish such arrangements</p>	<p>An online CIS was launched in August 2006 and the banking institute was established in 2002</p> <p>MOU to establish a CIS was signed by all commercial banks in 2004 and an online CIS launched in August 2006</p>	<p>1.2 Consumer access to credit and market confidence enhanced</p>	<p>A credit bureau for banks and MFIs by 2010 and NPLs of MFIs maintained below 3%</p> <p>All audited financial statements of banks and the remaining prudential regulations published on the NBC website by 2008</p>	<p>A credit bureau to be established incorporated in 2011 jointly owned by the Association of Bankers in Cambodia, MFI Association and an international service provider. Reported MFI NPLs/total loans at 1.2% in December 2010</p> <p>All audited financial statements of banks and prudential regulations uploaded to the NBC website since 2008</p>
<p>1.3 Establish foundation for development of interbank and money markets</p>	<p>NBC to recognize bankers association as a self-regulatory organization</p> <p>Approved articles of association must include</p>	<p>Bankers association has been operating independently since 2002</p> <p>Articles of association have been adopted; work on</p>	<p>1.3 Interbank market and tradable government securities developed</p>	<p>Established interbank market by 2010</p>	<p>Infrastructure for interbank market established with NBC certificates of deposits as collateral—still excess liquidity</p>

	provisions for the establishment of interbank market arrangements, arrangements for sharing credit information among the members of the bankers association, and a banking institute for private bank staff	establishing a CIS has commenced; and a banking institute has been established and is fully operational after ADB provided initial technical support; MDPF has since taken it over		Survey results identifying number, scale, and scope of MFIs outside formal sector by 2008	Survey completed in October 2008 identifying the scale and scope, and concluded that the size of the informal finance sector is smaller than the formal finance sector
			1.4 Outreach in the formal sector promoted in a sustainable manner	Number of domestic commercial banks extending credit to MFIs to reach five by 2011 (one in 2006) Number of deposit-taking MFIs to reach four by 2011 (0 in 2006)	Seven commercial banks are extending credit to MFIs beginning of 2010—two in local currency Number of deposit-taking MFIs reached four in December 2010
Maintain stability in the finance sector					
2.1 Establish legal and regulatory framework for banks	NBC to adopt a formal procedure for soliciting comments from the private sector on proposed or revisions to laws, regulations, procedures, and policies affecting banking subsector	Being implemented since 2002	2.1 Updated legal and regulatory framework for banks	Revised law on banking and financial institutions adopted and updated regulations to comply with international standards, and staff trained by 2010 Average interest spread below 9.5% by 2011 (11.8% in 2006) Average return on assets for banks	Revised Law on Banking and Financial Institutions withdrawn from the Council of Ministers in 2010. Further inputs from the 2010 FSAP before resubmission in 2012 Average interest spread declined to 9.5% in 2008 then rose to 12.7% in December 2010 due to the effect of the international economic crisis Average return on assets declined to

				maintained above 2.0% (2.8% in 2006)	1.4% at end of 2010 due to the effects of the financial crisis
2.2 Strengthen bank supervision and prudential regulations	<p>NBC to reconcile old prudential regulations with new ones and issue clarifying guidance to commercial banks</p> <p>NBC to fully staff the on-site inspection division of the Banking Supervision Department, acceptable to ADB</p> <p>NBC to adopt surveillance and inspection procedures including standardization of reports submitted by commercial banks; unless specified otherwise in the NBC regulations, these procedures are also to be applied to licensed MFIs</p> <p>NBC to adopt a prompt corrective action system for commercial banks, acceptable to ADB; a similar system is to be applied to licensed microfinance institutions with modified capital adequacy standards</p> <p>NBC to adopt a uniform chart of bank accounts and disclosure rules for commercial banks consistent with IAS</p> <p>NBC to apply the uniform chart of bank accounts and disclosure rules for commercial banks, consistent with IAS, to the Rural Development Bank</p>	<p>Fully implemented in 2002 with periodic updates since</p> <p>Fully implemented in 2002 with ongoing training provided</p> <p>Fully implemented since 2002; separate prudential regulations were issued for MFIs</p> <p>The system was adopted in 2002 and initial implementation required technical support</p> <p>NBC <i>prakas</i>^a issued in December 2002 requiring all banks to adopt the uniform chart of accounts</p> <p>Uniform chart of accounts adopted by all banks in December 2004 and audited financial statements made publicly available since 2005</p>	2.2 Strengthened bank supervision capacity and measures adopted to sustain financial stability	<p>Trained staff to monitor implementation of Basel I requirements and undertake on-site inspection of banks once a year</p> <p>Surveillance of banks strengthened and prompt corrective actions undertaken to maintain the solvency ratio above 15% and liquidity ratio above 50% for all banks</p>	<p>Capacity building TA support to on-site staff throughout the FSP II. Completed average of 20 on-site inspection of banks annually</p> <p>Bank surveillance strengthened and prompt follow-up actions instituted. Average CAR remained above 30% and liquidity ratio of banks above 100%</p>

	and other specialized banks				
			2.3 Prudential supervision and regulations for MFIs strengthened	MFI regulations for new product approval process and foreign exchange risk management revised, and staff trained on their application by 2010 Maintain the solvency ratio of all MFIs above 15% Code of conduct for registered money changers introduced by 2010	MFI regulations updated and supervision staff trained on their application through ADB TA support throughout FSP II Solvency ratio (CAR) maintained above 20% throughout 2009 Code of conduct for money changers introduced in October 2009—being enforced in 2010
2.4 Legal foundation to support financial and commercial transactions	MOC to submit to the National Assembly a draft law on commercial enterprises MOC to submit to the National Assembly a draft secured transactions law MOC to adopt a plan to establish a public registry for secured transactions acceptable to ADB Adoption of a law on commercial enterprises Adoption of a secured transactions law by the National Assembly	Draft commercial enterprises law submitted to the National Assembly and adopted in May 2005 Draft secured transactions law submitted to the National Assembly in July 2005 MOC adopted the plan in May 2005 and design of an online registry commenced Law on commercial enterprises enacted in May 2005 Secured Transactions law was adopted in May 2007	2.4 Legal foundation to support financial and commercial transactions enhanced	Implementing regulations for secured transactions law approved by 2009 Draft Commercial Contracts Law, including chapters on franchise and agency law, submitted to the Council of Ministers by 2009 and National Assembly by 2010 Implementing subdecree for the new insolvency law approved by 2010	Ministry of Commerce circular issued in 2007 Submitted to the COM in October 2009. Being discussed at the COM for submission to the National Assembly in 2011 Ministry of Justice declared that the insolvency law is very detailed and does not require a separate sub-decree

	<p>MOC to establish a public registry for secured transactions</p> <p>Submission of an insolvency law to the National Assembly</p> <p>MOC to ensure dissemination of commercial laws via the internet</p> <p>MOC to work with the relevant law institutes to develop commercial law curricula based on the new commercial laws for training judges, lawyers, and legal clerical staff</p>	<p>MOC officially launched the online filing registry in December 2007</p> <p>Draft insolvency law submitted to the National Assembly in July 2007 and adopted in October 2007</p> <p>Webpage established and all commercial laws uploaded in December 2005</p> <p>Curriculum for commercial law program adopted by the three selected legal faculties in May 2007</p>			
Promote good governance					
3.1 Commence work to support international initiatives on anti-money laundering and combating the financing of terrorism	<p>NBC to adopt an anti-money laundering regulation; unless otherwise specified in the NBC regulations, this regulation is also to be applied to licensed MFIs</p> <p>NBC to form a unit and undertake the preparatory work needed to establish a FIU responsible for anti-money laundering and combating the financing of terrorism</p>	<p>Two key regulations were adopted in 2002: Know Your Customer and Reporting Suspicious Transactions</p> <p>Pilot-FIU was established in June 2005 with six staff members under the Bank Supervision Department</p>	3.1 International initiatives on anti-money laundering and combating the financing of terrorism promoted	<p><i>Prakas</i> on anti-money-laundering and combating the financing of terrorism adopted and awareness campaign completed by 2009</p> <p>Functioning CAFIU with at least 20 suspicious transactions reports processed by 2010</p>	<p><i>Prakas</i> on anti-money laundering and combating the financing of terrorism adopted in 2008</p> <p>CAFIU was established with six staff in January 2009. Of the 69 STRs received in 2010, two have been referred to the police for prosecution.</p>
3.2 Establish the legal and regulatory foundation for developing insurance industry	<p>MEF to establish an insurance supervisory unit</p> <p>MEF to ensure issuance of a subdecree to implement the Insurance Law</p>	<p>Insurance supervisory unit has been established within MEF since 2002</p> <p>Implementation of the subdecree commenced in 2002</p>	3.2 Corporate governance and transparency in the insurance industry enhanced	MEF instruction issued and insurance firms adopt basic financial reporting standards by 2009	MEF instructions was issued in July 2008 and reporting standard enforced in the 2009 financial year

	<p>MEF, in consultation with related ministries, to adopt interministerial regulations for development of compulsory insurance</p> <p>MEF to establish a joint venture between the state-owned insurance company and a private insurance company</p> <p>MEF to review, update, and implement appropriate prudential regulations to enhance solvency, liquidity, and corporate governance requirements; and support technical assistance to the insurance regulator</p> <p>MEF to implement the key actions of the plan to restructure Caminco, as agreed with</p> <p>ADB with a view to divest Government shares at the earliest opportunity</p>	<p>Three interministerial prakas on motor vehicle third-party insurance, construction workers, and passenger transport liability were adopted in 2002</p> <p>No private investor expressed interest so the Government agreed to restructure the state-owned insurance company</p> <p>Prudential regulations formally approved by the senior minister of MEF in March 2007</p> <p>Restructuring plan approved in August 2005 and implementation commenced in December 2005</p> <p>Arrangements to divest shares did not materialize and internal restructure continues with the intention to grow market share and profitability</p>		<p>Gross insurance premium to reach \$22 million by 2011 (\$13 million in 2006)</p>	<p>Gross insurance premium reached \$24.9 million at the end of 2010</p>
3.3 Legal foundation for commercial dispute resolution	Adoption of a law for commercial arbitration by the National Assembly	Adopted in March 2006	3.3 Commercial dispute resolution mechanism established	<p>Subdecree for the commercial arbitration law approved by 2009</p> <p>National arbitration center with at least 50 trained arbitrators operational by 2010</p>	<p>Subdecree for commercial arbitration law approved by the COM in July 2009</p> <p>54 founding arbitrators have been trained, qualifying examinations sat in early 2011 before</p>

					formally establishing the center
3.4 Accounting and auditing profession developed	<p>MEF to submit to the National Assembly a draft law on corporate accounts, their audit, and the accounting profession</p> <p>MEF to adopt IAS and ISA, to be applied upon adoption of the law on corporate accounts, their audit, and the accounting profession</p> <p>Adoption of a law on corporate accounts, their audit, and the accounting profession</p> <p>MEF to adopt a subdecree to apply IAS and ISA to all companies (including insurance companies) incorporated in Cambodia, and to establish a national accounting council to set and interpret standards</p> <p>MEF to establish an association of accountants and auditors including (i) adopting a code of ethics that complies with the requirements of the International Federation of Accountants, and (ii) establishing committees on education and ethics within the association</p> <p>MEF to ensure financial support for at least 70 scholarships a year for the development of professional members of KICPAA</p>	<p>Accounting law enacted in 2002</p> <p>15 accounting and 10 auditing standards (internationally based) adopted and implementation started</p> <p>The National Assembly passed the law in July 2002</p> <p>Subdecree for the establishment of the National Accounting Council was adopted in March 2003 and council members were appointed (March 2003)</p> <p>The subdecree to create KICPAA was adopted in March 2003. KICPAA was formally established with bylaws in February 2004</p> <p>MEF continues to annually sponsor 70 scholarships with awardees selected on a competitive basis</p>	3.4 Accounting and auditing profession developed	<p>70 CPA scholarships awarded annually by MEF</p> <p>Number of qualified local accountants to reach 40 by 2011 (10 in 2006)</p>	<p>70 CPA scholarships awarded annually—nine have successfully completed at the end of 2010</p> <p>47 CPA qualified Cambodians at the end of 2010.</p>

Enhance efficiency in the finance sector					
			4.1 Key operating functions of NBC fully computerized and integrated	NBC operating an integrated management information system by 2010	NBC's core banking system was successfully launched at the headquarters on 2 February 2010. The same system has been rolled out to all of the NBC branches in April 2011.
4.2 Institutions for capacity building and staff development	<p>NBC to establish a CBS as an NBC subsidiary with separate management and accounts NBC to ensure that FTB management adopts a comprehensive staff training program, including accounting, risk management, asset/liability management, and a management information system</p> <p>NBC to ensure that CBS establishes a central banking course for NBC professional staff, including a mandatory training program for entry-level professional staff</p>	<p>CBS was established and is operating its own budget sourced from trainees Staff training program was adopted in 2002 followed by the privatization process, which was completed in 2005</p> <p>CBS commenced preparation of the courses in October 2002 and launched the programs in July 2003</p>	4.2 Capacity of MFI staff upgraded	Center for Banking Studies courses on foreign exchange risk management, good business practice, bank credit requirements, MFI loan appraisal procedures, record keeping, and good lending practice by 2010	Two new MFI courses designed through ADB TA support. Both have been introduced during first semester 2010—150 students enrolled

Note: FSP I has been re-grouped to fit into the framework for FSP II.