



Not for Quotation: Work-in-Progress

Title: **CAM: Proposed Evaluation Approach Paper for PPER on Loans
1859/1951/2185-CAM: First Financial Sector Program Loan Cluster**

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A. Background, Objective, and Scope of the Proposed Evaluation

1. **Background.** OED plans to prepare a country assistance program evaluation (CAPE) for Cambodia in 2009 for the new Country Partnership Strategy (CPS) planned by SERD. In this regard, there is a need for OED to undertake sector assistance program evaluation (SAPE) of Cambodia's financial sector-cum-private sector development for the CAPE and the new CPS. As one of the inputs to the SAPE, it is proposed for OED to prepare a program performance evaluation report (PPER) on the 2001 First Financial Sector Program Loan Cluster (FSPL I). FSPL I was ADB's core financial sector intervention over the period of 2001-2007 and thus is one of the major loans to be considered in the SAPE. A PPER is also regarded necessary because of the differences in the assessment of the program completion report (PCR) and its PCR validation (para. 11 below). Specifically, SERD proposed OED to undertake its PPER before the end of 2008 through PCR of the FSPL I (para. 14 of Appendix 2).

2. **Objective.** The operations evaluation mission (OEM) will produce a PPER on the FSPL I cluster. Based on this study and the scoping exercise in the field, a SAPE on financial sector-cum-private sector development would be proposed by the OEM for OED management's consideration. This would require close consultation with SERD country team.

3. **Scope.** The PPER will (i) assess the relevance, effectiveness, and efficiency in achieving its outputs and objectives, sustainability of the outcomes, and the institutional development and other socioeconomic impacts of the sector program; (ii) assess the performance of ADB and executing agency (EA); and (iii) identifying key issues and lessons for future ADB operations.

B. ADB's Financial Sector Assistance in Cambodia and the FSPL I Cluster

4. Since 2000, ADB undertook a series of major financial sector project and programs in Cambodia with 5 loans of \$60 million, including the FSPL I cluster for 3 loans of \$30 million in total (Appendix 1). Nine advisory TA and 2 project preparatory TA grants supported the sector intervention. The sector assistance focused on promoting rural credit and reforming and developing the financial system that had remained at a rudimentary stage into a sound, market-based one to support resource mobilization for economic growth and address various sector constraints.

5. FSPL I adopted a program cluster approach with three subprogram loans, each of which was to be processed sequentially upon completion of the previous subprogram. The expected outcomes were: (i) enhanced bank intermediation and soundness, (ii) an established legal and regulatory framework for insurance development, (iii) an established foundation for development of interbank and money markets, and (iv) a developing financial infrastructure that included accounting and auditing practices. The first subprogram for \$10 million was approved on 15 November 2001, subprogram 2 for \$10 million was approved on 28 November 2002, and finally subprogram 3 for \$10 million was approved on 29 September 2005, which was released on 30 October 2007. The project completion report (PCR) of June 2008 rated the program performance as *highly successful (highly relevant, highly effective, highly efficient, most likely sustainable)*.

6. Cambodia's financial system underwent a rebuilding process from the earlier monobanking system. In 1996, with the promulgation of the Law on the Organization and Conduct of the National Bank of Cambodia, NBC was established as the country's central bank. In 1999, the Government enacted the Law on Banking and Financial Institutions. At the end of August 2007, the formal financial system comprised NBC, 16 commercial banks, 7 specialized financial institutions, and 2 representative offices of foreign-based banks; 17 licensed and 26 registered microfinance institutions; and 6 insurance companies. Cambodia has yet to establish bond or securities markets. The predominantly rural nature of the economy, high transaction costs, inability of the real sector to put together bankable projects, and low creditor confidence have been the main factors resulting in low formal financial intermediation and outreach within the sector, slow development in nonbank financial institutions, and limited range of products and services offered. An overview of the financial sector is presented in Appendix 2.

C. Evaluation Approach and Methodologies

7. The PPER will involve (i) a review of the project documentation and other related background materials (desk research), and (ii) collection of secondary data and first hand perception and opinions through meetings with key stakeholders in Cambodia including representatives of central ministries, central bank, commercial banks, key financial institutions, chambers of commerce and industry, private sector enterprises, donor agencies, and nongovernment organizations (field work). Structured interviews will also be conducted with ADB Resident Mission, as well as ADB staff involved in the formulation and implementation of the program loan cluster. The data collected by OEM will be used as a main input to the SAPE (para. 2), once it is determined. The workload will be shared among the Mission Leader, Evaluation Officer, an international consultant, and a domestic consultant. Their terms of reference are attached as Appendix 3.

8. The PPER will follow the OED guidelines for evaluating program lending operations (*Guidelines for the Preparation of Performance Evaluation Reports for Public Sector Operations* dated January 2006). The methodologies prescribed in the OED guidelines will be used as appropriate. An indicative program evaluation framework is presented in Appendix 4.

9. OEM's field work would start from the fourth week of November 2008 and would last for 2 weeks, subject to a Government concurrence.

D. Key Issues for the OEM to Address

10. The evaluation mission will focus on the issues and aspects including:
 (i) Program design ;

- (ii) Implementation management arranged by ADB and EAs;
- (iii) Compliance of conditions and covenants (Appendix 5: Status of Tranche Release Conditions) and their implications;
- (iv) Coordination with development partners, including Government and other aid donors;
- (v) Actions taken for correcting mistakes and lessons, if any; and
- (vi) How CSPs addressed the weaknesses and follow-on developments.

11. The initial findings by OED’s PCR validation review raise several questions about the performance assessment by the PCR and point out the following specific issues that require close examination in the field:

- (i) While the envisaged reforms of the Program Cluster Loan have been introduced satisfactorily, confirmation was needed as to whether a proper institutional and HR capability had been set up to enforce them effectively and on a sustainable basis. The Program had introduced a large number and a diverse range of reforms covering a number of subsectors (banking, insurance, commerce, interbank/money markets, anti-money laundering, and accounting/ auditing). Considering the limited capacity in the agencies responsible, the envisaged Program outcomes may not have been achieved on an effective and sustainable basis.
- (ii) OED would also collect some detailed information on enforcement status to clarify the effectiveness in achieving outcome intended by the program loans, which was not properly provided by the PCR. OEM would also examine in the field the implications of the Financial Sector Blue Print (Appendix 2 of PCR), especially its Phase 2 (2008–2010), for any additional ADB assistance in order to establish an effective and sustainable reform enforcement capability.
- (iii) Other information the OEM would need to clarify in the field is related to the actual cost of the structural adjustment and the amount of loan proceeds used for the structural adjustment and/or general development purposes, and procurement procedures followed in the use of the loan proceeds (this information was not available in the PCR).

E. Resource Requirements and Proposed Schedule

12. The indicative schedule for the PPER (subject to Government concurrence on the field mission) is:

Approval of Position Paper	III November 2008
Field Mission	IV November–I December 2008
Draft for Peer Review	III January 2009
Draft for Interdepartmental/Government	II February 2009
Review: Draft to Editor	I March 2009
Approval by Director General, OED	IV March 2009

13. Suganya Hutaserani, OED1, who was team leader for the earlier CAPE for Cambodia, will be the peer reviewer for this review.

14. **Knowledge dissemination plan.** The PPER report will be available to the public after OED management has approved them. The reports will be uploaded on the ADB external and internal websites, and will provide inputs to ADB's evaluation information system.