

## TECHNICAL ASSISTANCE COMPLETION REPORT<sup>1</sup>

Division: SEFM

TA 4656-CAM: Financial Sector Program Implementation		Amount Approved: \$500,000	
		Revised Amount: N/A	
Executing Agency: National Bank of Cambodia (NBC)	Source of Funding: TASF	Amount Undisbursed: \$72,500.98	Amount Utilized: \$427,499.02
TA Approval Date: 29 September 05	TA Signing Date: 11 November 05	Fielding of First Consultant: Peter Lian Tiong Chuan – 9 March 06	TA Completion Date Original: 31 Mar 07      Actual: 31 Dec 07  Account Closing Date Original: 31 March 07      Actual: 30 April 08

**Description** The primary purpose of the piggy-back TA was to help the Government improve the capacity of the National Bank of Cambodia (NBC),- the executing agency (EA), and the Ministry of Economy and Finance (MEF) and Ministry of Commerce (MOC) - the implementing agencies, to implement the policy actions under subprogram III of the first Financial Sector Program Cluster (FSP I). The required technical inputs and targeted on-the-job support were aimed at equipping key government agencies such as NBC, MEF, and MOC to impart appropriate knowledge and skills so that the required reforms initiated under subprograms I and II could be continued on a sustainable basis.

**Expected Impact, Outcome and Outputs** The TA supported the overall objective of FSP I: to promote the development of a sound, market-based financial system to support resource mobilization and sustainable economic growth. The immediate outcome was the establishment of a foundation for the growth and development of banking, insurance, and the supporting financial infrastructure. Built on accomplishments under subprograms I and II of FSP I, the TA focused on achieving three major outputs in support of the subprogram III policy initiatives: (i) strengthened supervision of banks and the development of a legal framework for the payment system; (ii) strengthened the capacity of the insurance regulator and restructured the state-owned insurance company (Caminco); and (iii) developed implementing regulations and enhanced capacity to understand and effectively apply new commercial laws and associated regulations.

**Delivery of Inputs and Conduct of Activities** Six international and five national consultants were deployed over a period of 36.5 person months (18.5 international and 18 national). The overall performances of the consultants were satisfactory. The following activities were completed:

**Strengthening bank supervision.** A comprehensive review of all prudential regulations that had been issued by NBC was undertaken resulting in the cancellation of duplicating and redundant regulations, several regulations were revised/updated, and two new regulations were drafted. The staff of the Supervision Department were guided on the application of prudential regulations (prakas) and the application of on-site inspection procedures. On-the-job guidance was provided during the on-site inspection of three selected banks.

**Legal Foundation for the payment and settlement system.** The law on negotiable instruments and payment transactions was enacted in October 2005 providing the legal basis for further developing the payment and settlement system, operationalizing negotiable instruments, and promoting the development of a money market. Three implementing regulations were adopted in December 2006 covering: (i) the control on systemic risks, (ii) the operation of settlement accounts, and (iii) payment clearing systems. Public awareness workshops were organized in 2006 to disseminate the new law and the implementing regulations. Assistance was also provided to NBC to formulate a roadmap that would upgrade its payment, clearance, and settlement system.

**Strengthening insurance supervision.** A revised organization structure for the department aimed at strengthening surveillance, enforcement, regulatory development, public relations, and industry education was formulated. A strategic action plan (SAP) was also formulated to support human resource development, policy and institutional development, regulatory and supervisory development, consumer protection and education, and ICT. A comprehensive review of regulations was also undertaken resulting in the revisions made to the solvency and

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liquidity prudential regulations and the new regulation covering corporate governance. Guidelines and procedures (off- and on-site supervision manuals) were adopted to guide staff in the performance of their supervisory functions. On-the-job guidance was provided during the field inspection of selected insurance firms and a study tour to Thailand was organized in November 2006. A draft accounting and reporting standard was formulated for insurance companies - discussed with insurance firms and private sector auditors and subsequently adopted in July 2008.

**Restructuring Caminco.** Technical support helped MEF implement key activities of Caminco's restructuring. A three-member Board Audit Committee was established in December 2005 and became functional in 2006. A 3-year business plan (including a training plan for 2006 and a marketing strategy) was developed and adopted by the Board of Caminco in December 2005. Implementation commenced in 2006. Accounting policies and internal procedures to enhance financial disclosure by Caminco were approved and implemented in 2006. In preparing for the privatization of Caminco, a long-list of 20 international firms was put together, following which a shortlist was prepared by an inter-ministerial privatization committee. Invitations for expressions of interest were sent out and three firms responded. Each signed a confidential agreement and was provided with an information memorandum with a request that formal proposals be made by 7 February 2007. Two of the three firms (from New Zealand and Singapore) later informed Caminco Management that they were no longer interested in pursuing a due diligence study. The third firm, Prudential Insurance, requested an extension by 1 month to put together its proposal but had not made further contact since 7 March 2007. The Caminco Board assumed that Prudential Insurance was no longer interested in pursuing its bid and decided to continue with the internal restructuring of Caminco and focus on building its market share in 2007.

**Training curricula on new commercial laws.** A compact disc containing training modules based on existing commercial laws was developed by MOC. ADB provided consultancy support to MOC in its effort to develop, in conjunction with three selected legal institutions, a commercial law curriculum based on the new commercial laws that could be used to train judges, lawyers, and legal and clerical staff. The commercial law curriculum for the 4-year Business Degree program has been adopted and the teaching of the program commenced in late 2007.

**Implementing sub-decree for the commercial arbitration law.** The commercial arbitration law was adopted by the National Assembly in March 2006 providing the legal basis for dispute resolution alternatives for small commercial transactions. ADB provided technical assistance to help develop the implementing sub-decree and guide the MOC in the initial arrangements for establishing the National Arbitration Center. Several workshops involving the private sector and donor community were held to discuss the draft implementing sub-decree in preparation for submission to the Council of Ministers. **Evaluation of Outputs and Achievement of Outcome**

TA outputs by consultants were well received by NBC, MEF and MOC and contributed towards fulfilling key reform initiatives under subprogram III of the first financial sector program. New and revised prudential regulations have been issued by NBC to reflect the current level of development in the banking system. Corrective reports have been promptly generated to track compliance with prudential requirements and corrective measures initiated. NBC was able to sign an MOU with banks covering the roadmap for upgrading the payment and settlement system. Implementation is continuing under the second financial sector program cluster (FSP II). The insurance supervision unit carried out the off and on-site supervision of insurance companies in 2008 and maintained inter-ministerial dialogue to improve enforcement of the compulsory insurance products. With the improved financial results in 2007, Caminco commenced negotiation with new investors (a joint venture comprising an insurance firm from Thailand and a Cambodian investor) in early 2008 and resulted in the divestment of 75% of the Government's shares in November 2008. MOC continues to liaise with the selected legal institutions to upgrade the training curricula on new commercial laws. Following several consultation workshops with the private sector and the Chamber of Commerce, MOC submitted the draft sub-decree for commercial arbitration to the Council of Ministers in November 2008 – expected to be adopted in March 2009.

**Overall Assessment and Rating** With the technical support provided, the Government has been able to make commendable progress in establishing the foundation for further developing the banking, insurance and the supporting infrastructure. All the TA outputs were completed on time and within the TA Budget – contributing to the achievement of the TA outcomes. Overall the TA is rated highly successful.

**Major Lessons** Rebuilding Cambodia's financial sector following the conflicts during the 1970s and 80s requires a long-term blueprint that is wholly owned by the Government. The unwavering commitment of the executing and implementing agencies to lead the reforms is essential and so is the selection of qualified and experienced international experts who are sensitive to local culture.

**Recommendations and Follow-Up Actions** It is expected that the momentum of reforms initiated under TA 4656-CAM will be maintained under the second financial sector program cluster (approved in December 2007) and its associated TAs.

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