



Technical Assistance Report

Project Number: 34389-04
Capacity Development Technical Assistance (CDTA)
December 2009

Kingdom of Cambodia: Implementation of
Subprogram 4 of the Financial Sector Program II
(Cofinanced by the Japan Special Fund and the Government of
Luxembourg).

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 11 November 2009)

Currency Unit	–	riel/s (KR)
KR1.00	=	\$0.0002396
\$1.00	=	KR4,174

ABBREVIATIONS

ADB	–	Asian Development Bank
CIS	–	credit information sharing system
DFI	–	Department of Financial Industry
FSP	–	Financial Sector Program
GDP	–	gross domestic product
MEF	–	Ministry of Economy and Finance
MFI	–	microfinance institution
MOC	–	Ministry of Commerce
NAC	–	national arbitration center
NBC	–	National Bank of Cambodia
PCSS	–	payments, clearance, and settlement system
PPU	–	Payments Policy Unit
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Capacity development technical assistance
Targeting classification	–	General intervention
Sector (subsector)	–	Finance (finance sector development)
Themes (subthemes)	–	Economic growth (promoting economic efficiency and enabling business environment), governance (economic and financial governance)
Location impact	–	National (high)
Partnership	–	Government of Luxembourg

NOTES

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. To implement the reform triggers and milestones under subprogram 4 of the second Financial Sector Program Cluster (FSP II), the government has requested capacity development technical assistance (TA) from the Asian Development Bank (ADB) for the National Bank of Cambodia (NBC), which is the executing agency, and the Ministry of Economy and Finance (MEF) and Ministry of Commerce (MOC), which are the implementing agencies. ADB's country strategy and program, 2005–2009¹ and country operations business plan, 2009–2012² have supported ADB's continued involvement as the lead development partner in the financial sector. A combined fact-finding mission to process the subprogram 3 loan together with this TA was fielded during 22–28 April 2009, and agreement was reached with the government on the TA's purpose, scope, implementation arrangements, and financing. The design and monitoring framework is in Appendix 1.³

II. BACKGROUND AND ISSUES

2. The development framework for Cambodia's financial sector is based on the 2001–2010 Financial Sector Blueprint that was updated as the Financial Sector Development Strategy (2006–2015)⁴ and adopted by the government in February 2007. Through ADB's first Financial Sector Program (FSP I), the government was able to lay the legal and regulatory foundations necessary for a sound, market-oriented financial sector. The government took strong measures to consolidate the banking system and introduce more stringent requirements for capital adequacy, governance, and risk management. Since 2001, implementation of the Financial Sector Blueprint has yielded some notable achievements as well as lessons (from international and domestic experience). Those experiences, coupled with new challenges to the financial sector, have prompted the government to request continuing ADB support to the sector to ensure the durability of its reform program and to make the formal financial system more efficient and accessible to ordinary citizens. This led to the design and approval of the second financial sector cluster program (FSP II) in 2007. FSP II comprises a series of four single-tranche subprograms to be implemented during September 2006 to December 2010. Subprograms are linked by policy triggers and expected milestones.

3. With a growing, resilient, and more efficient financial system as the expected outcome, FSP II was designed to implement the following reform activities during subprograms 1–4:

- (i) **Improve financial intermediation.** Includes upgrading the payments, clearance, and settlement system to support growing financial services; enhancing market confidence by improving public financial disclosure and establishing a credit information bureau; supporting market development by establishing an interbank market and/or tradable government securities; and improving the outreach of microfinance institutions (MFIs) in a sustainable manner.
- (ii) **Enhance resilience of the financial sector.** Includes revising and updating for the adoption of the law on banking and financial institutions, as well as introducing supportive regulations to strengthen financial activities; tightening prudential supervision and regulations of banks and microfinance institutions;

¹ ADB. 2005. *Country Strategy and Program: Cambodia, 2005–2009*. Manila.

² ADB. 2009. *Country Operations Business Plan: Cambodia, 2009–2012*. Manila.

³ The TA first appeared in the business opportunities section of ADB's website on 5 November 2009.

⁴ ADB. 2007. *Financial Sector Development Strategy 2006–2015: Cambodia*. Manila

- and building on the legal and regulatory foundation by adopting a new law on commercial contracts that includes specific sections on agencies and franchising.
- (iii) **Promote good governance.** Includes implementing international initiatives on anti-money laundering and combating the financing of terrorism; enhancing corporate governance and transparency in the insurance industry; establishing commercial dispute resolution mechanisms; and improving the capability and increasing the number of qualified national accountants and auditors.
 - (iv) **Enhance efficiency.** Includes computerizing the management information system of the NBC, as well as upgrading the skills and capacity of microfinance agencies' staffs.

4. To support the implementation of the FSP II medium-term framework, a program of technical assistance (TA) projects, to be implemented annually, was identified. TA projects for each year were to be processed together with the corresponding subprogram loan, when grant finance was available. The primary purpose of these TA projects is to help the government improve the capacity of the NBC, MEF, and MOC to implement the reform triggers and milestones under FSP II. Each subsequent TA project is designed to continue where the previous TA support left off. The TA projects provide technical inputs and targeted on-the-job support to equip the key government agencies with the required knowledge and skills to ensure that the outputs and outcome of FSP II are achieved and the reforms sustained beyond FSP II.

5. A TA for \$1.7 million was approved together with subprogram 1 to support NBC, MEF, and MOC in implementing the policy and institutional reforms under subprogram 2 and some of the reform triggers and milestones for subprogram 3.⁵ This TA will end in February 2010 even as two of its core activities are still ongoing (upgrading the payments system and installing NBC's integrated information technology system). TA for \$300,000 was also approved together with subprogram 2 to continue some activities initiated under the subprogram 1 TA but with a focus on (i) further strengthening on-site supervision and surveillance of the banking system, (ii) further strengthening off-site and on-site supervision of MFIs, and (iii) strengthening supervision and surveillance of the insurance industry.⁶ This TA is being implemented until January 2010. This TA will consolidate the work began under the subprograms 1 and 2 TA toward completing target outputs of the FSP II medium-term program.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

6. FSP II's overall impact is to promote the development of a sound, market-oriented financial system in order to enhance resource mobilization and support sustainable economic growth. The TA will contribute to achieving that goal. The expected outcome for FSP II and the TA is a growing, resilient, and efficient financial system. The TA will continue with the ongoing implementation of reform initiatives under subprogram 4 of FSP II that were began by TAs under both subprograms 1 and 2 (footnote 5 and 6) but are yet to be completed.

⁵ Attached to 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 (TA 4999-CAM).

⁶ Attached to ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Subprogram 2 to the Kingdom of Cambodia for the Financial Sector Program II Cluster*. Manila (TA 7185-CAM).

7. The following provides a brief background on contributions made by the TA of subprograms 1 and 2 and the components of this TA:

- (i) **Strengthen bank supervision and surveillance.** The Subprogram 1 TA has helped NBC adopt an on-site supervision procedure that enables free interface between the off-site and on-site supervision teams, assisted banks, and other financial institutions, through NBC, to prepare the type of corporate and financial data required for planning on-site inspections. It has helped NBC establish a registry to track correspondence during planning, field inspection, and completion of on-site reviews. The TA also provided on-the-job guidance during inspection of the five largest commercial banks from November 2008 to June 2009. The Subprogram 2 TA helped NBC strengthen the on-site supervision capacity of the bank regulator in tandem with implementing activities related to combating money laundering and the financing of terrorism, as well as assess the feasibility of rating major banks. This TA will help guide NBC supervision teams in undertaking targeted on-site follow-up inspections to ensure that corrective actions recommended by the subprogram 1 TA are addressed and remedial measures are put in place to deal with high-risk banks that are adversely affected by the global economic slowdown and with the flow-on effects on Cambodia's economy.
- (ii) **Strengthen supervision of MFIs with appropriate regulations.** The Subprogram 1 TA has helped NBC improve prudential regulations for MFIs and strengthened the capacity of the regulator within NBC to implement those regulations through both off-site and on-site supervisory activities. An updated uniform chart of accounts was introduced in 2008 and implemented with subprogram 1 TA support, and a comprehensive review of two MFIs that were awarded licenses to mobilize public deposits voluntarily was completed. The Subprogram 2 TA continued in 2009 to provide on-the-job training for off-site and on-site inspection teams, and assisted NBC to develop a code of conduct for registered money changers. This TA will help strengthen coordination between the off-site and on-site supervision staff; update prudential regulations to reflect recent domestic and international developments; provide on-the-job guidance to on-site inspection staff who will work closely with at least six MFIs; and assist the staff concerned to review the progress on implementing the new uniform chart of accounts, review the effects of the global economic slowdown, prepare proper documentation of those reviews, and discuss the final inspection reports.
- (iii) **Assist in improving the legal and regulatory framework for insurance and strengthen the supervision capacity of staff.** The Subprogram 1 TA helped MEF and the insurance industry implement the newly adopted accounting and reporting framework for insurance firms in 2008. The Subprogram 2 TA helped MEF undertake a comprehensive revision of the insurance law and associated regulations. Consultations with the industry and related stakeholders were held to obtain feedback on the draft revised insurance law and sub-decree before they will be submitted to the Council of Ministers later in 2009. This TA will provide legal advice to MEF during discussions on the draft revised law by the Council of Ministers, assist with finalizing the revised implementing sub-decree and ministerial pronouncements, and provide on-the-job training to staff of the Insurance Supervision Division.
- (iv) **Assist with installing the integrated accounting system for NBC.** The Subprogram 1 TA has helped NBC finalize the technical architecture, procure the hardware and software systems through international bidding, evaluate bids, negotiate contracts, install the hardware and software systems, and conduct

testing and training. The system is expected to go live by the end of January 2010. The proposed TA will help provide NBC with troubleshooting support following the go-live phase and provide hands-on training and guidance to the user departments on process changes, maintenance arrangements, etc.

- (v) **Assist with operation of the newly established national arbitration center (NAC).** The Subprogram 1 TA helped MOC adopt the implementing sub-decree, recruit the founding members of NAC, establish the board and management structure, formulate the rules and administrative procedures, and adopt a code of conduct and operating budget for the NAC by the end of 2009. The International Finance Corporation is currently providing training to the founding arbitrators. The TA will help the NAC board and management apply the rules, administrative procedures, and code of conduct. It will also assist the NAC staff establish internal records, develop a working relationship with the municipal and commercial court, and provide training support as required to ensure the independent functioning of the NAC.
- (vi) **Assist MOC with adopting the draft commercial contract law.** The Subprogram 1 TA has supported the government in its efforts to review the requirements for a detailed set of rules for commercial transactions, review relevant international models and approaches, and draft a new harmonized law on commercial contracts for submission to the Council of Ministers in 2009. This TA will provide legal support to MOC during discussions of the draft law by the Council of Ministers and National Assembly. It will also assist in finalizing the implementing regulations.
- (vii) **Continue upgrading the national payment, clearance, and settlement system (PCSS).** The Subprogram 1 TA has helped NBC implement phase 1 of the approved road map for upgrading the national PCSS; guided the Payments Policy Unit (PPU) in consultations with banks that resulted in adoption of the revised PCSS road map; and guided NBC toward adoption of regulations covering standardized checks, implementation of the interim software solution to improve the efficiency of check clearance, and adoption of clearance and settlement rules and procedures in 2009. This TA will continue to provide practical guidance to help staff of the PPU, NBC, Treasury, and commercial banks implement the approved revised road map (through legal, technical, and capacity building support) and upgrade the PCSS to a real-time gross settlement system in the near future.
- (viii) **Assist NBC to establish a credit information bureau.** A credit information sharing system (CIS) that focused on negative data from banks was established under an ADB program in 2006 to support the credit appraisal processes of participating banks.⁷ Rules, regulations, procedures, and a governing structure are in place, but implementation has been very challenging. Nevertheless, NBC has continued to resolve systematic issues related to the CIS, strengthened bank compliance, and added MFIs' reports to the system in 2009. This TA will provide NBC with practical guidance to improve the operating efficiency of the CIS, upgrade the CIS to include positive credit data, and advise on how to establish a credit bureau as a corporate body with private shareholding.

⁷ ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Kingdom of Cambodia for the Small and Medium Enterprise Development Program*. Manila (Loan 2129-CAM).

B. Methodology and Key Activities

8. The TA consultants will provide expertise in the following: (i) on-site supervision of banks and training (4 person-months), (ii) supervision of MFIs (4 person-months), (iii) insurance regulations and supervision (4 person-months), (iv) information technology (3 person-months), (v) commercial dispute resolution (3 person-months), (vi) commercial contract law (2 person-months), (vii) PCSS (10 person-months), and (viii) credit information system (3 person-months). One national consultant, an IT expert (15 person-months), will be engaged to assist the international credit information and integrated accounting IT experts. The remaining local counterparts will be provided by the implementing agencies to assist the international experts.

C. Cost and Financing

9. The TA is estimated to cost the equivalent of \$1,400,000, of which \$750,000 will be financed on a grant basis by the Japan Special Fund, funded by the Government of Japan, and \$500,000 will be financed on a grant basis by the Government of Luxembourg and administered by ADB. The Government of Cambodia will provide the remaining \$150,000 equivalent in kind in the forms of office space, counterpart staff, and other support (cost estimates and financing plan in Appendix 2). The payment system and credit information experts will be funded from the Government of Luxembourg grant. The disbursements under the TA will be made in accordance with the ADB's *Technical Assistance Disbursement Handbook*⁸. Equipment will be procured in accordance with ADB's Procurement Guidelines (2007, as amended from time to time), and will be duly handed over to the government upon TA completion.

D. Implementation Arrangements

10. NBC will be the executing agency while MEF and MOC will be the implementing agencies. The three agencies will provide the necessary office space, counterpart staff, and other support services to the consultants. These agencies will closely coordinate with other stakeholders involved in the TA implementation.

11. The TA will require a total of 48 person-months of consulting inputs, comprising international (33 person-months) and national (15 person-months) inputs. As most of the activities will continue from the ongoing subprograms 1 and 2 TA to ensure successful completion of FSP II outputs and consistency with the training approach, consultants previously hired will also be considered. ADB, in coordination with the government, will engage consultants on an individual basis in accordance with ADB's Guidelines on the Use of Consultants (2007, as amended from time to time). Detailed terms of reference are in Appendix 3.

12. The consultants will produce inception, interim, and draft final reports for each component. The inception report will be submitted within 3 weeks of the start of services and will contain a time-bound work plan of activities and deliverables based on the agreed terms of reference. The interim report will be submitted halfway through the contract and the draft final report at least 2 weeks before completion of the assignment. Tripartite meetings may be held to review the draft final reports. The final report, incorporating comments of the executing and implementing agencies and ADB, should be submitted upon completion of the services. The TA is scheduled to commence by 1 March 2010 and be completed by 31 December 2011.

⁸ ADB. 2008. *Technical Assistance Disbursement Handbook*. Manila.

IV. THE PRESIDENT'S DECISION

13. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of \$500,000 to be financed on a grant basis by the Government of Luxembourg, and (ii) ADB providing the balance not exceeding the equivalent of \$750,000 on a grant basis, to the Government of Cambodia for Implementation of Subprogram 4 of the Financial Sector Program II, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact A sound, market-based financial system that enhances resource mobilization and sustainable economic growth</p>	<p>Real GDP growth at 3%–8% by 2011 (6.7% in 2008)</p> <p>(i) Increased ratio of M2 money supply to GDP to 30.0% or above by 2011 (29.3% in 2008)</p> <p>(ii) Total private sector credit of banks to GDP at 24% or above by 2011 (23.6% in 2008)</p> <p>(iii) Total bank deposits to GDP at 25% or above by 2011 (22.8% in 2008)</p>	<p>National accounts, economic reports, and official statistics of the government and other international development agencies</p> <p>Annual reports, including audited financial reports of banks; insurance firms; and licensed MFIs</p> <p>Mission discussions and consultations with the government; representatives of banks, insurance firms, MFIs, and audit firms; and other stakeholders</p> <p>ADB staff assessments</p>	<p>Assumptions Continuing political stability</p> <p>Overall macroeconomic recovery from global economic shocks</p> <p>Risk Slow recovery from global international financial and economic shocks</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 (all complied with in 2008)</p> <p>Ratio of nonperforming loans to total loans of banks maintained below 10% (3.7% in 2008)</p> <p>Regular on-site reviews of risky financial institutions and prompt follow-up actions (ongoing in 2009)</p> <p>New financial products and wider range of financial services (growing number of ATMs, point-of-sale payment terminals, and electronic payment cards in December 2008)</p> <p>Information technology system for core operating functions operational at NBC, with payment and settlement</p>	<p>Economic reports and statistics published by regulatory authorities and other international development agencies</p> <p>Published audited reports of banks, MFIs, and insurance firms</p> <p>ADB review missions, and consultants' assessments and final reports</p> <p>Reports from the Bankers Association of Cambodia</p> <p>NBC reports on information technology system progress and project manager's reports</p>	<p>Assumptions Government remains committed to reforms and to implementing the Financial Sector Development Strategy 2006–2015</p> <p>Economic growth remains positive in 2009–2011</p> <p>Good coordination continues among government agencies. Complementary support from other development partners will continue.</p> <p>Risk Timing and magnitude of impact from the global economic downturn on the overall financial system</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
	systems enhanced by 2011 (good progress on information technology system for NBC as of October 2009)	Payment consultant's progress reports	
<p>Outputs</p> <p>1. Improved capacity for on-site supervision of banks</p> <p>2. Improved regulations and capacity to supervise MFIs</p> <p>3. Improved regulations and capacity to supervise the insurance industry</p> <p>4. Complete the installation of and training of staff on the new integrated accounting system for NBC</p> <p>5. An operational commercial arbitration center</p> <p>6. A commercial contract law adopted</p> <p>7. Upgraded payment, clearance, and settlement</p>	<p>Surveillance of banks through on-site supervision strengthened, and prompt corrective actions continuously undertaken to maintain the solvency ratio above 15% for all banks</p> <p>Prudential regulations for MFIs introduced, and staff trained on their application by 2010</p> <p>Maintain the solvency ratio of all MFIs above 15% and NPLs below 3%</p> <p>Revised insurance law adopted with updated regulations, and staff trained on their application by 2011</p> <p>NBC operating an integrated management information system with staff trained by 2011</p> <p>Monthly departmental operations reports and consolidated trial balance produced instantly</p> <p>A national arbitration center for commercial disputes in operation with at least 50 trained arbitrators by 2011</p> <p>The commercial contract law adopted by 2011 with implementing regulations developed by the MOC</p> <p>PCSS upgraded, including standardized checks and a more efficient clearing and settlement system by 2011</p>	<p>Progress and final reports of international consultant and quarterly reports from NBC</p> <p>Approved regulations issued by NBC and final report of international consultant</p> <p>Copy of the enacted revised insurance law and official regulations, final report of international consultant</p> <p>Final report confirming successful installation, testing of software systems, training of staff on use of application; progress and final reports from international consultants</p> <p>Progress and final reports of international consultant</p> <p>Official copy of the enacted commercial contract law and implementing regulations from MOC</p> <p>A copy of the adopted revised roadmap, and final report of international consultant</p>	<p>Assumptions</p> <p>Larger commercial banks take the lead to introduce systems to enhance the PCSS</p> <p>NBC management information system will be developed and established prior to upgrading the PCSS</p> <p>Risk</p> <p>Poor telecommunications and energy supply infrastructure restricts reach of PCSS to provincial branches</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>system (PCSS)</p> <p>8. Credit information bureau</p>	<p>Number of checks cleared daily to reach 2,000 by 2011 (1,800 in 2009)</p> <p>The credit information sharing system corporatized into a credit bureau by 2011</p>	<p>Quarterly reports from NBC</p> <p>Reports from NBC and the international consultant</p>	
<p>Activities with Milestones</p> <p>1.1. Coordinate off-site and on-site activities to provide inputs to the on-site visits to banks. Adopt an annual program for on-site visits to banks (early 2010).</p> <p>1.2. Guide on-site supervision staff during the planning phase, field visits, report preparation, and discussion of findings for at least six large commercial banks (2010).</p> <p>2.1. Review and update prudential regulations covering MFIs for adoption by NBC (2010).</p> <p>2.2. Provide training to MFI supervision staff on application of the prudential regulations for both off- and on-site reviews (2011).</p> <p>3.1. Assist Ministry of Economy and Finance in the arrangements for adopting the revised insurance law and associated regulations. Arrange and lead public awareness workshops with the insurance industry (2010).</p> <p>3.2. Provide training to insurance supervision staff on the application of prudential regulations for both off- and on-site reviews (2010).</p> <p>4.1. Assist the NBC staff in final testing of the new integrated accounting system and provide troubleshooting support (2010).</p> <p>4.2. Provide guidance to the user departments on process changes (2010).</p> <p>5.1. Guide the management of the national arbitration center (NAC) in the daily operation of the NAC, including application of the adopted rules, procedures, and code of conduct (2010).</p> <p>5.2. Assist the staff of the NAC to establish key internal records, as well as working relationships with the commercial court. Provide on-the-job training as required (2010).</p> <p>6.1. Provide legal support to MOC during discussions of the draft commercial contract law by the Council of Ministers and National Assembly (2010).</p> <p>6.2. Assist MOC in formulating and adopting the implementing regulations for the new commercial contract law (2010).</p> <p>7.1. Assist NBC in formulating and adopting rules and procedures to help improve efficiency of the national PCSS (2010).</p> <p>7.2. Guide NBC and the affected stakeholders in advancing the payment system from paper-based to electronic-based (2010 – 2011).</p> <p>8.1. Assist NBC to improve the functionality of the credit information sharing system (CIS) (2010).</p> <p>8.2. Guide NBC in arrangements to corporatize the CIS into a credit bureau (2010).</p>			<p>Inputs</p> <p>ADB (Japan Special Fund): \$750,000</p> <p>Government: \$150,000</p> <p>Cofinancing from the Government of Luxembourg: \$500,000</p>

ADB = Asian Development Bank; ATM = automated teller machine; CIS = credit information sharing system; GDP = gross domestic product; MFI = microfinance institution; NAC = national arbitration center; NBC = National Bank of Cambodia; PCSS = payments, clearance, and settlement system.

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Total Cost
A. Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration and per diem (international consultants)	490.00
b. International and local travel	100.00
c. Reports and communications	7.00
2. Seminars and workshops	8.00
3. Equipment (server) for credit information sharing system	95.00
4. Contingencies	50.00
Subtotal (A)	750.00
B. Government of Luxembourg Financing^b	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	320.00
ii. National consultant	30.00
b. International and local travel	75.00
2. Seminars and workshops	5.00
3. Miscellaneous administration and support costs	30.00
4. Contingencies	40.00
Subtotal (B)	500.00
C. Government Financing	
1. Office accommodation and secretarial services	50.00
2. Remuneration and per diem of counterpart staff	80.00
3. Others	20.00
Subtotal (C)	150.00
Total	1,400.00

^a Financed by the Japan Special Fund, funded by the Government of Japan.

^b Administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultants (33 person-months)

1. **Bank supervision expert** (4 person-months, intermittent). The international expert must have extensive working experience in various areas of banking supervision, including on-site supervision, and be familiar with international standards and best practices. Familiarity with the legal and regulatory framework for banking in Cambodia will be an advantage. The expert will assist the Department of Supervision at National Bank of Cambodia (NBC) during three field visits and enhance the on-site supervision capacity of its staff. In addition, the expert will perform the following tasks:

- (i) Review existing prudential regulations and procedures against the Basel Core Principles for bank supervision, then propose appropriate changes or new regulations and arrange for adoption by NBC. The new or revised regulations must show cognizance of the banking environment in Cambodia and the region in terms of the various types of legal framework, businesses, products, and practices.
- (ii) Together with NBC, formulate an on-site inspection schedule for banks during 2010–2011. The schedule should include targeted follow-up inspections of medium- to high-risk banks to ensure recommended corrective actions have been addressed. The schedule should also include review of compliance with the reporting requirements for combating money laundering and the financing of terrorism.
- (iii) Provide training and on-the-job guidance to the on-site inspection teams in the initial planning and during the on-site visits (to at least six commercial banks), as well as assist staff members in documenting their findings and the follow-up actions.
- (iv) Assist NBC in preparing an appropriate plan of action (including sanctions and penalties) to address any prudential issues arising from on-site inspection.
- (v) Assist NBC in adopting and implementing a procedural manual for banks that are showing signs of distress (a procedural manual for distressed banks).
- (vi) Provide inception, interim, and final reports as required to Asian Development Bank (ADB) and NBC.

2. **Microfinance supervision expert** (4 person-months, intermittent). The international expert must have extensive knowledge and hands-on experience in microfinance development, regulations, surveillance, and enforcement. He or she must be familiar with international standards and best practices, and familiarity with the legal and regulatory framework for microfinance in Cambodia will be an advantage. The expert will assist NBC's Microfinance Supervision Division during four field visits and enhance the supervision capacity of its staff. In addition, the expert will perform the following tasks:

- (i) Review existing prudential regulations and propose appropriate changes for adoption by NBC. The changes must reflect recent domestic, regional, and international developments.
- (ii) Provide hands-on training to enhance staff knowledge and application of off-site supervision tools, including testing for effective application of the uniform chart of accounts, and ensure close interface between the off-site and on-site inspection teams.
- (iii) Provide training and on-the-job guidance to the on-site inspection team in the initial planning and during the on-site visits (to at least four MFIs for testing the

application of the uniform chart of accounts), as well as assist staff members in documenting their findings and follow-up actions. Discuss findings with managements of both the reporting MFI and NBC prior to finalizing each inspection report. Coordinate closely with the review team on evaluating MFIs' compliance with the reporting requirements for combating money laundering and the financing of terrorism.

- (iv) Assist NBC in preparing an appropriate action plan (including sanctions and penalties) to address any prudential issues arising from off- and on-site inspections of MFIs.
- (v) Provide inception, interim, and final reports as required to ADB and NBC.

3. **Insurance supervision expert** (4 person-months, intermittent). The international expert must have extensive knowledge and hands-on experience in insurance supervision and regulations. He or she should be familiar with international standards and best practices, and familiarity with the legal and regulatory framework for insurance in Cambodia and the region will be an advantage. The expert will assist the Department of Financial Industry (DFI) at the Ministry of Economy and Finance during four field visits and strengthen the supervision capacity of its staff. In addition, the expert will perform the following tasks:

- (i) Assist DFI staff in the arrangements for adopting the revised insurance law and associated regulations. Assist DFI staff in arranging public awareness workshops with the insurance industry to discuss the revised law and accompanying regulations, and lead those workshops when required.
- (ii) Review existing prudential regulations against the insurance core principles and propose appropriate changes or new regulations for adoption by the Ministry of Economy and Finance. Assist DFI in preparing new regulations on investment guidelines, bankruptcy, and liquidation of nonlife insurance companies. The changes must also show cognizance of recent domestic, regional, and international developments.
- (iii) Provide hands-on training to enhance staff knowledge and application of off-site supervision tools.
- (iv) Provide training and on-the-job guidance to the on-site inspection team in the initial planning and during the on-site visits, as well as assist staff members in documenting their findings. Discuss findings with managements of both the reporting insurance firm and DFI prior to finalizing each inspection report. Assist DFI in preparing an appropriate action plan (including sanctions and penalties) to address any prudential issues arising from off- and on-site inspections.
- (v) Provide inception, interim, and final reports as required to ADB and DFI.

4. **IT systems expert** (3 person-months, intermittent). The international IT systems expert must have a strong background in banking application systems, extensive knowledge of both front and back office procedures of central bank operations, a background in central banking, and practical experience in the training of business users and system operators. Familiarity with the legal and regulatory framework for banking in Cambodia and the operating systems of NBC will be an advantage. The expert will assist NBC during three field visits to provide training and troubleshooting support in application of the new integrated accounting system. In addition, the expert will perform the following tasks:

- (i) Assist the NBC staff in the final testing of the new integrated accounting system and provide troubleshooting support.
- (ii) Provide hands-on training and guidance to the user departments on process changes and maintenance arrangements.

- (iii) Provide interim and final reports as required to ADB and NBC.

5. **Commercial dispute resolution expert** (3 person-months, intermittent). The international expert must have a legal background in commercial dispute and arbitration law, with practical experience in the development and management of a national arbitration center (NAC). Regional experience (as a commercial arbitrator and/or administrator of an arbitration center) and familiarity with the legal and regulatory framework of the financial sector in Cambodia will be an advantage. The expert, during three field visits, will assist the NAC and perform the following tasks:

- (i) Guide the management of the NAC in the daily operation of the center, including application of the adopted rules, procedures, and code of conduct.
- (ii) Assist the staff of the NAC to establish internal records, develop a working relationship with the commercial court, and provide training support as required.
- (iii) Provide interim and final reports as required to ADB and the Ministry of Commerce (MOC).

6. **Commercial contracts law expert** (2 person-months, intermittent). The international expert must have a strong legal background in commercial contracts law and practical experience in its application. Regional experience and familiarity with the legal and regulatory framework of the commercial and financial sector in Cambodia will be an advantage. The expert, during two field visits, will assist MOC in performing the following tasks:

- (i) Provide legal responses to questions from members of the Council of Ministers and the National Assembly during discussion of the draft commercial contract law.
- (ii) Help MOC finalize the implementing regulations for the same law, as well as in conducting public awareness workshops to discuss the law and its implementing regulations.
- (iii) Provide a final report to ADB and MOC.

7. **Payment system expert** (10 person-months, intermittent). The international expert must have extensive knowledge and hands-on experience of central banking and banking operations, policy formulation, and development of national payment and settlement systems. Regional experience in developing and/or administering a payments and settlement system, as well as familiarity with the legal and regulatory framework and the financial sector of Cambodia, will be an advantage. The expert will assist NBC over 12 field visits to upgrade the national payments, clearance, and settlement system (PCSS). In addition, the expert will perform the following tasks:

- (i) Provide practical guidance to help staff of the Payments Policy Unit (PPU), NBC, Treasury, and commercial banks to implement the approved revised road map for upgrading the PCSS.
- (ii) Assist NBC in formulating and adopting the regulations, rules, and procedures to improve the efficiency of the national PCSS.
- (iii) Lead the staff of the PPU in formulating payment and/or transfer instruments, accompanying documents, and operating instructions.
- (iv) Provide training and on-the-job guidance to the PPU staff, their immediate supervisors, and staff of the commercial banks that will be involved in implementing the various payment instruments, clearance and settlement procedures, system software and hardware, etc.
- (v) Lead staff of the PPU in consultation with banks and financial institutions in developing the PCSS architecture toward a real-time gross settlement system

while undertaking tests of systems (both software and hardware) that are designed to enhance the efficiency of the national PCSS.

- (vi) Provide inception, interim, and final reports as required to ADB and NBC.

8. **Credit information systems expert** (3 person-months, intermittent). The international expert must have extensive knowledge and hands-on experience of central banking and banking operations, policy formulation, and development (system analysis and design) of a credit information sharing system (CIS). Regional experience in developing and/or administering a credit information bureau and familiarity with the legal and regulatory framework and the financial sector of Cambodia will be an advantage. The expert will assist NBC during three field visits to upgrade the CIS to a credit bureau. In addition, the expert will perform the following tasks:

- (i) Provide practical guidance to improve operating efficiency of the CIS, including through upgrade of the systems software and procurement of the server and associated hardware.
- (ii) Assist NBC in formulating and adopting the regulations, rules, and procedures to improve the reporting compliance with the CIS.
- (iii) Conduct awareness workshops involving NBC staff plus staffs of banks and MFIs to raise awareness of the CIS and its benefits, as well as promote the need to establish a credit bureau.
- (iv) Guide NBC staff in the arrangements for establishing a credit bureau as a corporate body with private shareholding.
- (v) Provide inception, interim, and final reports as required to ADB and NBC.

B. National Consultant (15 person-months)

9. **National IT expert** (15 person-months). One national consultant will be engaged to assist the international credit information and integrated accounting IT experts. The national consultant must have the appropriate qualifications in programming and information technology infrastructure design with adequate practical experience in banking and credit information systems support services. The consultant's tasks will include the following:

- (i) Provide coordination and administrative support to the international IT systems expert and the credit information systems expert, including coordination of training workshops or seminars and liaising with government counterparts.
- (ii) Support both international experts on functional assignments and related areas.
- (iii) Provide translation and interpretation support and participate in training workshops as a resource person.