

ASIAN DEVELOPMENT BANK

TAR:CAM 35439

TECHNICAL ASSISTANCE
(Financed by the Government of France)

TO THE

KINGDOM OF CAMBODIA

FOR

CAPACITY BUILDING FOR BANKING AND FINANCIAL MANAGEMENT

November 2001

CURRENCY EQUIVALENTS

(as of 17 October 2001)

Currency Unit	–	Cambodia Riel (KR)
KR1.00	=	\$0.00026
\$1.00	=	KR3835

ABBREVIATIONS

ADB	–	Asian Development Bank
CBS	–	Centre for Banking Studies
CPA	–	certified public accountant
FSPL	–	Financial Sector Development Program
FTB	–	Foreign Trade Bank
GDP	–	gross domestic product
IAS	–	international accounting standards
ISA	–	international standards of auditing
IT	–	information technology
MEF	–	Ministry of Economy and Finance
NBC	–	National Bank of Cambodia
TA	–	technical assistance

NOTE

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

I. INTRODUCTION

1. An underdeveloped financial system in Cambodia is one of the most significant constraints to achieving broad-based sustainable economic growth and the Government's socioeconomic development objectives, including poverty reduction. To develop the financial sector, the Asian Development Bank (ADB) is preparing support under the Financial Sector Program Loan (FSPL), which will be considered by the Board in November 2001. To support the implementation of the FSPL, the Royal Government of Cambodia (the Government) requested technical assistance (TA) during the ADB 2000 Country Program Mission.¹ The ADB TA Fact-Finding Mission² visited Cambodia from 11-12 September 2001 and confirmed an understanding with the Government, reached during earlier 2001 missions, on the objectives, scope, cost, and implementation arrangements for the TA. The TA framework is in Appendix 1.

II. BACKGROUND AND RATIONALE

2. **Financial Sector Issues.** Cambodia's financial sector is at a rudimentary stage with limited financial intermediation and low public confidence. The bank loans and deposits account for approximately 8 percent and 12 percent, respectively, of gross domestic product—one of the lowest rates of banking intermediation in the world. Most money is still held outside of the banking system.

3. The financial sector comprises banks, insurance companies, currency exchange bureaus, and microfinance institutions, with banks dominating in terms of size and types of services. Cambodia has 18 commercial banks, after the relicensing program in 2000 revoked the licenses of 12 nonviable banks. Only 10 percent of the population have access to financial services, most of them in the urban areas. In the rural areas, banking activities are even scarcer, and the sole providers of credit are microfinance operations of nongovernment organizations. The interbank, money, and capital markets have yet to be developed.

4. A number of factors contribute to the low level of intermediation, poor asset quality, and high operating costs for financial institutions. Salient among them is weak financial infrastructure. Cambodia has yet to develop or strengthen laws pertaining to accounting, negotiable instruments, secured transactions, commercial enterprises, bankruptcy, contracts, and commercial credit. In addition, lack of the rule of law has hampered the development of a formal contract-based credit culture, and is the primary impediment to private sector development. Moreover, Cambodia has yet to adopt common accounting and auditing standards. Few companies produce financial statements and they use different standards. Lack of common accounting standards and enforcement has increased the risk and cost of banking operations, and deters capital markets development.

5. Lack of financial information infrastructure impedes bank lending and leads to poor asset quality. Bankers are unable to lend based on cash-flow analysis due to lack of clients' financial information. As a result, they are compelled to lend against collateral such as real estate as the primary source of repayment guarantee, which is further compromised by the lack of infrastructure for secured transactions. Furthermore, Cambodia lacks a credit information system with credit histories that can be accessed and shared by all banks.

¹ The TA first appeared in *ADB Business Opportunities* (Internet Edition) in September 2001.

² The Mission comprised Byoung-Jo Chun (Financial Economist, IWFI/Mission Leader) and Jin Cyhn (Economist, IWFI).

6. Lack of liquidity management mechanisms leads to high opportunity costs for banks. The banking sector maintains abnormally high levels of liquidity due to the lack of interbank markets. Furthermore, the National Bank of Cambodia (NBC) is unable to provide liquidity service to commercial banks to meet temporary liquidity shortages. Although the Central Banking Law provides a legal basis for rediscount facilities, no eligible negotiable instruments (e.g., bills of exchange, and promissory notes) are available due to the lack of a negotiable instruments law and other necessary regulatory framework.

7. Weak supervisory capacity and an inadequate regulatory framework impedes the early identification of banking problems, as well as the timely and orderly resolution of problem banks. The basic framework and capacity for on-site inspection and off-site surveillance have yet to be put in place. In addition, weak capacity and inadequate legal and regulatory framework for bank liquidation have hampered early and orderly liquidation of delicensed banks. The bank regulations and the capacity of the banking supervisory department of NBC need strengthening.

8. Finally, the financial system lacks human resource capacity. Key regulatory bodies such as NBC and the Ministry of Economy and Finance (MEF) need substantial capacity building to properly discharge supervisory and regulatory responsibilities. In addition, capacity building institutions are constrained by limited human and financial resources. Most commercial bank staff lack training in credit analysis, loan monitoring, and problem loan management, although many commercial banks have experienced and competent senior managers.

9. Financial Sector Blueprint for 2001-2010 and Financial Sector Program Loan. Although the recent banking sector restructuring and other policy reforms under the International Monetary Fund's three-year Poverty Reduction and Growth Facility approved in October 1999 have generally been moving in the right direction, the Government believes that Cambodia needs to exert coherent and systematic efforts to develop a sound market-based financial system to support resource mobilization and a broad-based sustainable economic growth.

10. With these objectives in mind, the Government has, with ADB assistance,³ formulated and adopted the Financial Sector Blueprint for 2001-2010 (the Blueprint)⁴ as its long-term vision and development strategy for the financial sector. However, the implementation of the long-term policy reform envisaged under the Blueprint is challenging to the Government due to the limited social capital and capacity. Thus, the Government requests systematic and concerted financial assistance and policy advice from international institutions. As the first step of such assistance, the Government requested for ADB's proposed FSPL, which is an integral part of the Blueprint. The FSPL focuses on

- (i) enhancing banking intermediation and public confidence by establishing and strengthening banking supervision, developing key information infrastructure and safety nets, and building capacity in both public and private sectors by reinforcing capacity building institutions;
- (ii) establishing legal and regulatory frameworks for insurance development by institutionalizing a supervisory system and prudential regulations, fostering

³ TA 3467-CAM: *Preparing for Financial Sector Development Program*, for \$800,000, approved on 7 July 2000.

⁴ On 24 August 2001, the Government formally adopted the Financial Sector Blueprint as its official financial sector development plan for the next 10 years at a Cabinet meeting chaired by the Prime Minister.

private sector development in the insurance business, and developing compulsory insurance;

- (iii) laying a foundation for the development of interbank and money markets through public-private sector partnership and establishing a basic legal framework; and
- (iv) developing financial market infrastructure by establishing common accounting standards consistent with international accounting standards (IAS) and international standards of auditing (ISA) and enforcement mechanisms, and promulgating laws to underpin the commercial activities and financial markets.

III. THE TECHNICAL ASSISTANCE

A. Objectives

11. The primary purpose of the TA is to help the Government comply with the policy conditions of the FSPL. Given the Cambodian situation, the necessary assistance requires technical inputs and targeted training to equip key Government agencies such as MEF and NBC with crucial knowledge and skills for undertaking needed reforms on a sustainable basis.

B. Scope

12. The TA will focus on assistance and training for the Government to comply with policy conditions of the FSPL, particularly in banking, insurance, interbank markets development, and accounting and auditing standards. The TA has four major components.

13. **The Banking Sector.** The TA will help NBC establish basic supervisory framework and prudential regulations in order to bolster public confidence in the banking system. For this, the TA will formulate (i) inspection and surveillance procedures, (ii) a prompt corrective action system to effectively deal with problem banks at an early stage, and (iii) antimoney laundering regulations in order to safeguard the banking system against such activities. These procedures and regulations are to be adopted by NBC, and the TA will provide corresponding implementation manuals. In addition, the TA will help staff of NBC's Banking Supervision Department to institutionalize these procedures and regulations through workshops and on-the-job training. The TA will also draft a uniform chart of bank accounts and disclosure rules for the commercial banks, consistent with IAS.

14. The TA will assist the development of key financial infrastructure to relieve information asymmetry in the credit markets as well as to enhance public confidence in the banking system. The TA will draft institutional design, the central bank guidelines, and operational procedures for credit information sharing arrangements among the members of the Bankers Association. The TA will also draft a plan for establishing a deposit insurance system for small depositors of commercial banks.

15. In addition, the TA will assist NBC to develop information technology (IT). Under this TA, a comprehensive feasibility and demand study for IT requirements for NBC will be undertaken and a time-bound plan for IT investment over the medium term will be developed.

16. The TA will also assist in reinforcing capacity building institutions in the public and private sectors to enable capacity building on a sustainable basis. The TA will draft a plan and regulations to establish the centre for banking studies (CBS) as a subsidiary of NBC with

separate management and accounts. This will enable the CBS to evolve into a prime training institution for the central bank and other government agencies. An independent CBS will facilitate hiring full-time instructors and competent managers with a competitive salary scheme different from that of NBC, and mobilization of external assistance owing to transparent financial management. To support this process, the TA will assist the CBS to establish a central banking course for NBC professional staff and a mandatory course for the entry-level professional staff. The TA will also support the Bankers Association in drafting an institutional design and training program for the Banking Institute to target private sector staff. In addition, to facilitate the completion of the bank restructuring program, the TA will assist the Foreign Trade Bank in instilling commercial orientation through designing for it a comprehensive training program, including accounting, risk management, asset and liability management, and a management information system.

17. **The Insurance Sector.** Assistance in the insurance sector will focus on developing enforcement and monitoring mechanisms for compulsory insurance. To develop compulsory insurance, MEF must mobilize and coordinate the efforts of multiple line ministries that will be involved in the enforcement of compulsory insurance. Thus, the TA will first design a time-bound action plan for establishing compulsory insurance, including the creation of an interministerial working group for this purpose. The plan will include, among others, a timetable for (i) adopting supporting laws, organizational structure, and division of responsibilities in the enforcement and monitoring mechanisms; and (ii) designing these mechanisms.

18. To lay the foundation for effective insurance supervision and regulations, the TA will assist in drafting and implementing MEF regulations for application of IAS and ISA to insurance companies. The TA will also help strengthen the capacity of MEF's Insurance Office through training the staff on supervision (inspection and surveillance, and prudential regulations); implementation of the subdecree of the Insurance Law; and implementation of compulsory insurance.

19. **Interbank Markets.** Under the FSPL, NBC and the Bankers Association will form an interbank market working group to develop interbank markets. To support this effort, the TA will draft the institutional design, operational protocol, and code of ethics for interbank market brokers and dealers. The TA will also draft and assist with the implementation of NBC guidelines for operational procedures for the arrangements as well as NBC regulations for monitoring interbank markets.

20. **Accounting Enforcement System.** The establishment of an enforcement system for accounting and auditing standards is an essential thrust of the FSPL. In line with the draft Law on Corporate Accounts, their Audit, and the Accounting Profession, the TA will assist the association for accountants and auditors in drafting (i) its articles of association, (ii) the organizational structure of education and ethics committees, (iii) a plan for management of a certification system for certified public accountants, and (iv) a code of ethics.

21. To help implement IAS and ISA, the TA will draft (i) a uniform chart of bank accounts and disclosure rules for the commercial banks consistent with IAS, (ii) a regulation for insurance companies to adopt IAS and ISA, and (iii) a subdecree to apply IAS and ISA for all companies incorporated in Cambodia.

22. The Government will establish the National Accounting Council to set and interpret the accounting and auditing standards. To help the council carry out its responsibility, the TA will provide on-the-job training for its key staff. Furthermore, in order to establish an institutional

basis for the continued capacity building in accounting and auditing areas, the TA will assist the Government in two important activities. First, the TA will assist MEF in establishing an accounting resource center under the Council. Second, the TA will conduct workshops on developing an accounting curriculum for professors and instructors of accounting or business departments of universities in Phnom Penh.

C. Cost Estimates and Financing Plan

23. The TA, estimated to cost \$1,180,000 equivalent, includes foreign exchange costs of \$868,000 and local currency costs of \$312,000 equivalent. The Government of France will provide an untied grant in the amount of \$1,000,000 covering the entire foreign exchange cost on a grant basis, and \$132,000 equivalent of the local currency cost. ADB will administer the TA in accordance with the Channel Financing Agreement and its amendment dated 2 May 1989 between the Government of France and ADB. The Government of Cambodia will contribute \$180,000 equivalent in kind for office space, counterpart staff, and other miscellaneous services. Details of the cost estimates are in Appendix 2.

D. Implementation Arrangements

24. NBC will be the Executing Agency for the TA, and NBC and MEF are the implementing agencies. In addition to office space, the implementing agencies will provide counterpart staff and other support services to the consultants. The Financial Sector Steering Committee established under the FSPL will oversee the TA implementation.

25. ADB will engage an international consulting firm to provide consulting services for a total of 38 person-months. This will comprise 22 person-months of international and 16 person-months of domestic consulting input. The outline terms of reference for the consultants are in Appendix 3. The team of consultants will be selected and engaged according to ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB on the engagement of domestic consultants. The simplified technical proposal will be used to select the consultants.

26. The consultants will produce an inception report, an interim report, and a draft final report, and each will be discussed during a tripartite meeting. The inception report will be submitted within three weeks of the start of services, containing a time-bound work plan for TA implementation including workshop series. The interim report will be submitted within four months of the start of services. The draft final report will be submitted at least two weeks before the completion of the TA. The final report, incorporating comments of the Government and ADB, should be submitted upon completion of the services. The TA is scheduled to commence by April 2002 and be completed by December 2002.

IV. THE PRESIDENT'S DECISION

27. The President, acting under the authority delegated by the Board, has approved ADB's administration of the TA grant financed by the Government of France to the Government of Cambodia, in an amount not exceeding the equivalent of \$1,000,000 for the purpose of Capacity Building in Banking and Financial Management, and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal Develop a sound, market-based financial system to support resource mobilization and sustainable economic growth.</p>	<ul style="list-style-type: none"> • A competitive, efficient, and integrated banking system • Increased M2 and gross domestic product (GDP) • Increased ratio of financial assets to GDP • Increased loan and deposit in banking system • Increased capital adequacy and bank profitability • Reduced level of nonperforming assets • Tightened interest rate spread • Increased loan tenure profile • Diversified financial services • Enhanced financial services in rural areas • Increased ratio of insurance premiums and reserves to GDP • Diversified insurance products • Increased interbank market activities • Established legal basis for capital market development 	<ul style="list-style-type: none"> • Economic reports, official statistics • Asian Development Bank (ADB) review missions 	<ul style="list-style-type: none"> • The Government's financial sector strategy (the Blueprint) is implemented • Implementation of policy measures to sustain macroeconomic stability • Full-scale implementation of reforms as specified in the governance action plan
<p>Purposes</p> <ol style="list-style-type: none"> 1. Enhance banking intermediation, public confidence, and capacity building. 2. Establish legal and regulatory framework for insurance development. 3. Lay foundation for the development of interbank and money markets. 4. Create an enabling environment for capital market development. 5. Develop financial infrastructure. 	<ul style="list-style-type: none"> • Strengthened banking supervision • Development of core information infrastructure • Strengthened human capacity in the financial sectors • Strengthened insurance supervisory system and prudential regulations • Development of private sector in the insurance industry • Development of compulsory insurance enforcement and monitoring mechanisms • Establishment of basic legal framework for interbank/money markets • Establishment of legal, and accounting and auditing systems • Establishment of accounting and auditing standards and enforcement mechanisms 	<ul style="list-style-type: none"> • Official copies of laws, decrees, regulations, etc from National Bank of Cambodia (NBC) and Ministry of Economy and Finance (MEF) • Reports of various financial institutions • ADB review missions 	<ul style="list-style-type: none"> • Strong commitment of NBC, MEF, Ministry of Commerce, and all stakeholders • Steady building-up of human capacity to undertake reforms • Full-scale implementation of reform as specified in the governance action plan

(Reference in text: page 1, para. 1)

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Outputs (Related Policy Conditions of FSPL)			
<p>1. The Banking Sector</p> <p>a. Strengthen bank supervision and prudential regulations</p> <p>b. Capacity building</p>	<ul style="list-style-type: none"> • NBC to adopt surveillance and inspection procedures including standardization of the reports submitted by commercial banks • NBC to adopt a prompt corrective action system for commercial banks and acceptable to ADB • NBC to adopt an antimoney laundering regulations; unless specified otherwise in other NBC regulations, this regulation is also to be applied to licensed microfinance institutions • NBC to adopt guidelines for the arrangements for sharing credit information among the members of the Bankers Association, and NBC and the Bankers Association to establish such arrangements • NBC to adopt a uniform chart of bank accounts and disclosure rules for the commercial banks consistent with international accounting standards (IAS) • NBC to adopt a plan to establish a deposit insurance system for commercial banks • NBC to establish the Centre for Banking Studies (CBS) as a subsidiary of NBC with separate management and accounts • NBC to ensure that Foreign Trade Bank (FTB) management adopts a comprehensive training program for FTB staff including accounting, risk management, asset and liability management, and a management information system • NBC to ensure that the CBS establishes a central banking course for NBC professional staff including a mandatory training program for entry-level professional staff • NBC to ensure that the Bankers Association establishes a banking institute for private bank staff under the Bankers Association, pursuant to its approved Articles of Association; establish professional training course for private bank staff; the banking institute should be open to staff of MFIs 	<ul style="list-style-type: none"> • Official copy of the surveillance and inspection procedures • Official copy of NBC regulations on prompt corrective system • Official copy of the antimoney laundering regulations • Official copy of the guidelines for the credit information sharing arrangements • Official copy of a uniform chart of accounts and disclosure rules for banks • Official copy of the plan to establish a deposit insurance system • Official copy of the NBC decision to establish CBS as a subsidiary • Official copy of the training program and budget approved by FTB's board • Official copy of the CBS curriculum • Bankers Association's announcement to establish banking institute • Copy of the banking institute's curriculum 	<ul style="list-style-type: none"> • NBC's commitment to reform • NBC's willingness and commitment to communicate with private sector • Commitment of NBC and FTB management • NBC's commitment for systematic capacity building • Sufficient financial resources to run the required curriculum
<p>2. The Insurance Sector</p> <p>a. Establishing supervisory and regulatory framework</p> <p>b. Establishing framework for compulsory insurance</p>	<ul style="list-style-type: none"> • MEF to adopt a regulation to apply accounting standards consistent with IAS and international standards for auditing (ISA) for insurance companies • MEF to adopt an official plan for the development of compulsory insurance 	<ul style="list-style-type: none"> • Official copy of the regulation for adopting IAS and ISA for insurance companies • Official copy of the plan to develop compulsory insurance 	<ul style="list-style-type: none"> • MEF's commitment • Capacity building in the Insurance Supervisory Unit

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
3. Interbank market arrangements	<ul style="list-style-type: none"> • NBC and bankers association to establish a working group to establish interbank market arrangements for sharing credit information and a banking institute 		<ul style="list-style-type: none"> • Commitment and collaboration of NBC and banks
4. Accounting/ auditing and legal infrastructure	<ul style="list-style-type: none"> • MEF to establish an association of accountants and auditors including, <ul style="list-style-type: none"> ▪ adopting a code of ethics that complies with the requirements of the International Federation of Accountants, and ▪ establishing committees on education and ethics within the association 	<ul style="list-style-type: none"> • Official copy of the Articles of association for the association of Accountants and Auditors • Official copy of code of ethics 	<ul style="list-style-type: none"> • The Government's commitment to establish and enforce the accounting standards
Inputs			
1. Banking expert	<ul style="list-style-type: none"> • Develop credit information sharing arrangements and interbank markets <ul style="list-style-type: none"> ▪ Draft a plan for developing credit information sharing arrangements, and draft NBC guidelines for operational procedures for the arrangements ▪ Develop interbank market arrangements, and draft (i) operational protocol, (ii) code of ethics for dealers and brokers, (iii) qualifications for dealers/brokers, and (iv) NBC regulations for interbank markets ▪ Develop a plan to simulate the proposed credit information system and interbank market arrangement with the participation of all member banks ▪ Draft a plan for establishing a deposit insurance system for commercial banks, and assist NBC in adopting the plan • Conduct workshops for (i) credit information sharing arrangements, (ii) interbank market arrangements, and (iii) deposit insurance system • Develop a self-sustainable CBS <ul style="list-style-type: none"> ▪ Draft NBC administrative circular to establish CBS as a subsidiary of NBC with separate management and accounts ▪ Draft curriculum and training programs of CBS ▪ Develop qualifications of instructors, and assist in recruiting instructors ▪ Develop a medium-term funding plan, and conduct seminars for bilateral agencies • Conduct seminars for CBS management • Draft training program and funding plan for banking institute • Develop training program for FTB <ul style="list-style-type: none"> ▪ Draft FTB curriculum, and develop course materials ▪ Assist FTB management in adopting the training program 	<ul style="list-style-type: none"> • Draft plan for credit information exchange arrangement, and draft NBC guideline for the operational procedures • Draft an operational protocol, a code of ethics for dealers and brokers, qualifications for dealers and brokers, and NBC regulations for interbank markets • Draft a simulation plan for the proposed credit information system and interbank market arrangements • Draft a plan for establishing a deposit insurance system • Draft NBC administrative circular to establish CBS as an NBC subsidiary • Draft curriculum of a central banking course for NBC professional staff in CBS • List of participants in various seminars including CBS and donors • Draft medium-term funding plan for CBS • Draft training program and funding plan for the banking institute • Draft curriculum for FTB training program • Copy of FTB's board decision to adopt the training program 	<ul style="list-style-type: none"> • Competence of and coordination among the consultants • Cooperation of the related government and private agencies

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
2. Bank supervision specialist	<ul style="list-style-type: none"> • Design surveillance and inspection procedures • Design a prompt corrective action system • Design antimoney laundering regulations • Provide on-the-job training for Banking Supervision Department staff 	<ul style="list-style-type: none"> • Draft manual of examination policies (basic examination concepts, inspection procedures, and instructions for preparation of the report) • Draft standardization of the reports submitted by commercial banks • Draft NBC regulation to adopt the surveillance and inspection procedures • Draft implementation manual for the surveillance and inspection procedures, including terms of reference for annual external auditors • Draft NBC regulations to adopt a prompt corrective action system and implementation manual • Draft antimoney laundering regulations and implementation manual • List of NBC staff trained 	
3. Information technology expert	<ul style="list-style-type: none"> • Conduct a demand study for information technology (IT) investment for NBC • Draft a medium-term IT investment plan • Conduct workshops on IT development for NBC 	<ul style="list-style-type: none"> • Consultant report of the demand study • Draft medium-term IT investment plan 	
4. Accounting expert	<ul style="list-style-type: none"> • Draft a uniform chart of bank accounts and disclosure rules for the commercial banks and microfinance institutions consistent with IAS; <ul style="list-style-type: none"> ▪ Train Banking Supervision Department staff on related implementation procedures • Develop accounting enforcement system <ul style="list-style-type: none"> ▪ Draft articles of association for the association of accountants and auditors ▪ Draft a plan for the management of a certification system for certified public accountants (CPAs) ▪ Design the function and structure of education and ethics committee under the association of accountants and auditors ▪ Draft a subdecree to apply IAS and ISA for all companies incorporated in Cambodia ▪ Draft a code of ethics for auditors 	<ul style="list-style-type: none"> • Draft a uniform chart of bank accounts and disclosure rules, and related training materials • Draft articles of association for the association of accountants and auditors • Draft plan for the certification system for CPAs • Draft function and structure of education and ethics committees • Draft subdecree to apply IAS and ISA to all companies • Draft code of ethics for auditors 	

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	<ul style="list-style-type: none"> • Conduct accounting education and training <ul style="list-style-type: none"> ▪ Train key staff of the National Accounting Council regarding IAS and ISA implementation ▪ Conduct workshops on developing accounting curriculum for professions and instructors of accounting or business departments of universities ▪ Assist in establishing an accounting resource center as a knowledge center • Draft MEF regulation for insurance companies to adopt IAS and ISA 	<ul style="list-style-type: none"> • List of trainees and training material • List of workshop participants and workshop material • Draft institutional design for accounting resource center • Draft MEF regulation to adopt IAS and ISA for insurance companies 	
5. Insurance expert	<ul style="list-style-type: none"> • Draft for the inter-ministerial working group a time-bound action plan, that details division of labor and responsibilities toward the development of compulsory insurance • Draft a time-bound action plan for establishing compulsory insurance enforcement and monitoring system • Design enforcement and monitoring mechanisms including adoption of supporting laws and regulations • Assist in drafting interministerial regulations for compulsory motor vehicle insurance, construction insurance, and passenger transport liabilities insurance • Assist in drafting regulations to apply IAS and ISA for insurance companies • Train the staff of the Insurance Office on supervision, implementation of subdecree of the Insurance Law, and implementation of compulsory insurance 	<ul style="list-style-type: none"> • Draft plan for establishing the ministerial working group • Draft plan for establishing compulsory insurance enforcement and monitoring system • Draft design of the enforcement and monitoring mechanisms of the compulsory insurance • Draft regulations to apply IAS and ISA for insurance companies • Training material, list of participants, and feedback from the Insurance Office staff 	
6. Economist and training coordinator (Domestic)	<ul style="list-style-type: none"> • Assist the international experts in all aspects of their tasks within the terms of reference • Conduct research on specific topics as required • Gather and analyze required information and data • Provide translation services 	<ul style="list-style-type: none"> • Feedback from international consultants 	

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Government of France Financing			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	655.0	0.0	655.0
ii. Domestic Consultants	0.0	48.0	48.0
b. International and Local Travel	35.0	12.0	47.0
c. Reports and Communications	10.0	10.0	20.0
2. Equipment	10.0	10.0	20.0
3. Training and Seminars	0.0	20.0	20.0
4. Miscellaneous Administration and Support Costs	3.0	12.0	15.0
5. Contract Negotiations	4.0	0.0	4.0
6. Contingencies	151.0	20.0	171.0
Subtotal (A)	868.0	132.0	1,000.0
B. Government of Cambodia Financing			
1. Office Accommodation	0.0	60.0	60.0
2. Remuneration of Counterpart Staff	0.0	60.0	60.0
3. Facility for Workshops	0.0	20.0	20.0
4. Miscellaneous Administration Expenses	0.0	20.0	20.0
5. Others	0.0	20.0	20.0
Subtotal (B)	0.0	180.0	180.0
Total	868.0	312.0	1,180.0

Source: Staff estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultants

1. Banking Expert/Team Leader (6 person-months)

1. The banking expert must have extensive working experience in various areas of bank operations, be familiar with central and commercial bank operations and international practices, and demonstrate a good understanding of the history and culture of Cambodia and the current situation of the country's banking system. The expert will assist National Bank of Cambodia (NBC) officials in implementing the Financial Sector Program Loan and provide daily technical advice on issues related to central bank operations. In addition, the expert will have the following responsibilities and tasks:

- (i) assist the interbank market working group in
 - (a) developing a plan to establish and implement arrangements for sharing credit information among the members of the Bankers Association, and draft NBC guidelines for operational procedures for the arrangements, including commercial banks' reporting requirements;
 - (b) developing interbank market arrangements, and draft an operational protocol, a code of ethics for dealers and brokers, qualifications for dealers/brokers, and NBC regulations for interbank markets;
 - (c) simulating the proposed credit information system and interbank market arrangement with the participation of all member banks, by providing a simulation plan;
 - (d) establishing an inclusive banking institute with training courses and funding plan; and
 - (e) conducting workshops on (a), (b), and (d) for policy makers and the members of the interbank market working group;
- (ii) develop a plan for deposit insurance system, by
 - (a) drafting a plan to establish a deposit insurance system for commercial banks in consultation with stakeholders in both private and public sectors: the plan will include institutional structure, draft regulations and procedure required to establish the deposit insurance system, and steps to establish the system;
 - (b) assisting NBC to adopt the plan; and
 - (c) conducting workshops for the policy makers and private sector participants;
- (iii) develop a self-sustainable Centre for Banking Studies (CBS), through

(Reference in text: page 5, para. 25)

- (a) drafting an NBC administrative circular to establish the CBS as an independent self-sustainable institution;
 - (b) developing a curriculum for the training programs of the CBS, including a central banking course for NBC professional staff, and a mandatory training program for entry-level NBC professional staff;
 - (c) developing materials for CBS courses;
 - (d) developing qualifications for instructors of a central banking course for NBC professional staff, a mandatory training program for entry-level NBC professional staff, and competitive compensation scheme for instructors;
 - (e) assisting the CBS in recruiting instructors;
 - (f) developing a medium-term funding plan with a variety of financing channels;
 - (g) developing a list of bilateral funding agencies and conducting seminars for them; and
 - (h) conducting seminars for CBS management on how to manage a self-sustainable institution including implementation of a funding plan on a sustainable basis; and
- (iv) develop a Foreign Trade Bank (FTB) training program, by
- (a) drafting the FTB curriculum with detailed specification for course materials;
 - (b) assisting FTB management in adopting the training program;
 - (c) developing course materials for the training program; and
 - (d) assisting FTB management in hiring instructors.

2. Bank Supervision Specialist (4 person-months)

2. The specialist will conduct the following tasks:

- (i) design surveillance and inspection procedures, including (a) a manual of examination policies (basic examination concepts, inspection procedures, and instructions for preparation of the report); (b) standardized formatting for the reports submitted by commercial banks; (c) a regulation to adopt the surveillance and inspection procedures; and (d) an implementation manual for the surveillance and inspection procedures, including terms of reference for annual external auditors;
- (ii) design a prompt corrective action system, including (a) NBC regulations to adopt the prompt corrective action system, and (b) an implementation manual for the prompt corrective action system;

- (iii) design antimoney laundering regulations, including (a) a draft of antimoney laundering regulations, and (b) procedures for implementing them; and
- (iv) provide on-the-job training to Banking Supervision Department staff on implementing surveillance and inspection procedures, a prompt corrective action system, and antimoney laundering regulations; and supplemented with training on financial analysis by the accounting expert.

3. Information Technology Expert (3 person-months)

3. The expert will (i) conduct a study of the need for NBC to invest in information technology (IT), (ii) draft a medium term investment plan including a time-bound action plan, and (iii) conduct workshop on IT development for NBC.

4. Accounting Expert (6 person-months)

4. The expert will conduct the following tasks:

- (i) to develop a uniform chart of bank accounts and disclosure rules,
 - (a) draft a uniform chart of bank accounts and disclosure rules for the commercial banks and microfinance institutions consistent with international accounting standards (IAS);
 - (b) conduct workshops for staff of NBC's Bank Supervision Department on how to implement the uniform chart of bank accounts and disclosure rules; and
 - (c) assist the bank supervision expert in designing surveillance and inspection procedures and standardized reporting forms submitted by commercial banks; and
- (ii) to develop an accounting enforcement system,
 - (a) assist the Ministry of Economy and Finance (MEF) in establishing an association of accountants and auditors, including articles of the association and its organizational structure;
 - (b) design a plan for the management and operations of a certification system for certified public accountants;
 - (c) design the function and structure of the education and ethics committee under the association of accountants and auditors;
 - (d) assist MEF in drafting subdecrees to apply IAS and international standards of auditing (ISA) to all companies incorporated in Cambodia; and
 - (e) assist MEF in drafting a code of ethics that complies with the requirements of the International Federation of Accountants;

- (iii) to provide accounting training and education,
 - (a) conduct a training course for key staff of the National Accounting Council regarding implementation of IAS and ISA and operation of the National Accounting Council;
 - (b) conduct workshops on developing accounting curriculum for professors and instructors of accounting or business departments of universities; and
 - (c) assist MEF and the National Accounting Council in establishing an “accounting resource center” as a knowledge center for accounting knowledge and research; and
- (iv) to assist MEF in drafting regulation to adopt IAS and ISA for insurance companies, in consultation with the insurance expert.

5. Insurance Expert (3 person-months)

5. The expert must have extensive knowledge and hands-on experience in insurance supervision and development of compulsory insurance, especially in designing enforcement and monitoring mechanisms. The expert’s main responsibility is to draft a plan for the development of compulsory insurance, and will be responsible for the following tasks:

- (i) assisting to establish an interministerial working group comprising representatives from the Ministry of Interior; Ministry of Public Works and Transport; Ministry of Land Management, Urbanization and Construction; Ministry of Labor and Social Affairs; Ministry of Tourism; and other municipal and provincial authorities;
- (ii) drafting for the interministerial working group a time-bound action plan that details division of labor and responsibilities toward the development of compulsory insurance;
- (iii) designing enforcement and monitoring mechanisms including adoption of supporting laws and regulations;
- (iv) helping to draft interministerial regulations for compulsory motor vehicle insurance, construction insurance, and passenger transport liabilities insurance; and
- (v) training the staff of the Insurance Office on (a) supervision (inspection and surveillance procedures, and prudential regulations); (b) implementation of the subdecree of the Insurance Law; and (c) implementation of compulsory insurance.

B. Domestic Consultants**1. Economist (8 person-months)**

6. The economist will have a background in economic analysis, understand the financial sector, and be proficiency in English. Preferably, the economist will have experience with international organizations. The economist will

- (i) assist the international team of experts in all aspects of their tasks within the terms of reference;
- (ii) under the guidance of the team leader, gather and analyze required information and data, and make these available in English and in organized, readable form for the use of the international team of experts; and
- (iii) conduct research on specific topics as required by the team leader.

2. Training Coordinator (8 person-months)

7. The training coordinator will have background in economics, understand the financial sector, and be proficiency in English. The training coordinator will

- (i) assist the international team of experts in organizing meetings and seminars within the terms of reference;
- (ii) together with the domestic economist, gather and analyze required information and data, and make these available in English and in organized, readable form for the use of the international team of experts; and
- (iii) provide translation services, particularly during meetings and discussions.