

DESIGN AND MONITORING FRAMEWORK

Design Summary	UPerformance Targets and Indicators with Baselines	Achievements of FSP II to date	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact A sound, market-based finance sector that enhances financial resource mobilization</p>	<p>Increased ratio of M2 to GDP of 29.0% or above by 2011, from 20.5% in 2006</p> <p>Total private sector credit of banks to GDP of 24.0% or above by 2011, from 12.2% in 2006</p> <p>Total bank deposits to GDP of 25.0% or above by 2011, from 17.9% in 2006</p>	<p>M2 to GDP reached 36.7% in June 2010</p> <p>Total private sector credit reached 24.9% in June 2010. Total credit slowed down between 2008 and 2009 due to the international economic crisis but has picked up in 2010</p> <p>Total bank deposit reached 32.2% of GDP in June 2010</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>Assumptions Continuing political stability</p> <p>Overall macroeconomic recovery from global economic shock</p> <p>Risk Slow recovery from global 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</p> <p>Ratio of nonperforming loans to total loans of banks maintained below 10.0% (9.8% in 2006)</p> <p>Access to credit by the total population to reach 6% by 2011 (3% in 2006)</p> <p>New financial products and wider range of financial services (growing number of ATMs, EFTPOS, and electronic payment cards by 2010)</p> <p>Increased number of qualified Kampuchea Institute of Certified Public Accountants and Auditors members by 2011 (10 in 2006)</p>	<p>Average CAR of banks above 30% throughout 2009 and for MFIs above 20% during 2009. Minimum CAR of 15%</p> <p>Nonperforming loans reached 4.2% of total loans in June 2010</p> <p>Access to credit by the total population reached 8.6% in June 2010</p> <p>New credit facilities introduced for trade financing and personal purposes. New payment instruments and electronic transfers commenced since 2006 (data in 1.1 below)</p> <p>35 qualified Cambodians at the end of 2009</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>Progress reports from NBC</p> <p>Reports from the Association of Bankers in Cambodia</p> <p>Reports from the National Accounting Council and Kampuchea Institute of Certified Public Accountants and Auditors</p>	<p>Assumptions Government remains committed to reforms and implementing the FSDS 2006–2015</p> <p>Economic growth remains positive in 2009–2011</p> <p>Good coordination continues among government agencies</p> <p>Complementary support from other development partners continues</p>

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Outputs 1. Improved confidence and financial intermediation				
1.1 Modernized payments, clearance, and settlement system (PCSS)	<p>PCSS upgraded, including standardized checks and a more efficient check clearing system by 2011</p> <p>Number of checks cleared daily to reach 2,000 by 2011 (1,100 in 2006)</p> <p>Number of ATMs to reach 400 by 2011 (64 in 2006)</p> <p>Number of EFTPOS facilities to reach 3,500 by 2011 (0 in 2006)</p> <p>Number of debit cards issued to reach 400,000 by 2011 (introduced in 2006)</p>	<p>All check standardized since 2009 with an interim software for on-line clearance introduced in May 2009 – working effectively</p> <p>Number of checks cleared daily reached 2,166 in June 2010</p> <p>Number of ATMs reached 447 in June 2010</p> <p>Number of EFTPOS reached 3,390 in June 2010</p> <p>Number of debit cards reached 509,715 in June 2010</p>	<p>Reports of NBC: coordinated payment system working group including banks</p> <p>Official copy of the memorandum of understanding signed by all parties endorsing a payments system road map</p> <p>Official copy of check standards with encoding</p> <p>Official copy of the enhanced check-clearing procedures and approved architectural design of the electronic payment system and budget</p>	<p>Assumptions Relevant parties agree on road map and support changes and related charges</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 upgrade of the PCSS</p> <p>Risks Poor telecommunications and energy supply infrastructure restricts reach to provincial branches</p> <p>MEF decides not to issue government securities in riel</p>
1.2 Consumer access to credit and market confidence enhanced	<p>A credit bureau for banks and MFIs by 2010 and NPLs of MFIs maintained below 3%</p> <p>All audited financial statements of banks and the remaining prudential regulations published on the NBC website by 2008</p>	<p>A credit bureau to be established in later 2010 jointly owned by the Association of Bankers in Cambodia, MFI Association and an international service provider. Reported MFI NPLs/total loans at 2.1% in June 2010</p> <p>All audited financial statements of banks and prudential regulations uploaded to the NBC website since 2008</p>	<p>Report on establishment of credit bureau and 6-month reports on the information received</p> <p>NBC letter of confirmation that audited financial statements and remaining prudential regulations have been uploaded</p>	
1.3 Interbank market and tradable government securities developed	<p>Established interbank market by 2010</p> <p>Survey results identifying number, scale, and scope of</p>	<p>Infrastructure for interbank market established with NBC certificates of deposits as collateral—still excess liquidity</p> <p>Survey completed in October 2008 and concluded that the size</p>	<p>NBC regulation establishing interbank market and standard repurchase agreement of government securities</p> <p>NBC and MEF progress and final reports of the survey undertaken and its results</p>	

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1.4 Outreach in the formal sector promoted in a sustainable manner	<p>MFI outside formal sector by 2008</p> <p>Number of domestic commercial banks extending credit to MFIs to reach five by 2011 (one in 2006)</p> <p>Number of deposit-taking MFIs to reach four by 2011 (0 in 2006)</p>	<p>of the informal finance sector is smaller than the formal finance sector</p> <p>Seven commercial banks are extending credit to MFIs in June 2010—two in local currency</p> <p>Number of deposit-taking MFIs reached four in June 2010</p>	<p>NBC and MEF progress reports on policy development to aid MFIs' access to local finance</p> <p>Progress report from NBC</p>	
2. Maintain stability in the finance sector				
<p>2.1 Updated legal and regulatory framework for banks</p> <p>2.2 Strengthened bank supervision capacity and measures adopted to sustain financial stability</p>	<p>Revised law on banking and financial institutions adopted and updated regulations to comply with international standards, and staff trained by 2010</p> <p>Average interest spread below 9.5% by 2011 (11.8% in 2006)</p> <p>Average return on assets for banks maintained above 2.0% (2.8% in 2006)</p> <p>Trained staff to monitor implementation of Basel I requirements and undertake on-site inspection of banks once a year</p> <p>Surveillance of banks strengthened and prompt corrective actions undertaken to maintain the solvency ratio above 15% and liquidity ratio above 50% for all banks</p>	<p>Revised Law on Banking and Financial Institutions withdrawn from the Council of Ministers in 2010. Further inputs from the 2010 FSAP before resubmission in 2011 (refer to para. 14 of RRP)</p> <p>Average interest spread declined to 9.5% in 2008 then rose to 11.4% in June 2010 due to the effect of the international economic crisis</p> <p>Average return on assets declined to 1.3% at end of 2009</p> <p>Capacity building TA support to on-site staff throughout the FSP II. Completed 17 on-site inspection of banks in 2009</p> <p>Bank surveillance strengthened and prompt follow-up actions instituted. Average CAR remained above 30% and liquidity ratio of banks above 100%</p>	<p>Diagnostic report identifying parts of the law, regulations, and international practices or standards to be revised</p> <p>Copy of redrafted law and new regulations</p> <p>Progress reports from NBC</p> <p>NBC report on assessment of capacity building needs</p> <p>Progress report on capacity training programs and evaluation report at the conclusion of training program</p>	

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2.3 Prudential supervision and regulations for MFIs strengthened	<p>MFI regulations for new product approval process and foreign exchange risk management revised, and staff trained on their application by 2010</p> <p>Maintain the solvency ratio of all MFIs above 15%</p> <p>Code of conduct for registered money changers introduced by 2010</p>	<p>MFI regulations updated and supervision staff trained on their application through ADB TA support throughout FSP II</p> <p>Solvency ratio (CAR) maintained above 20% throughout 2009</p> <p>Code of conduct for money changers introduced in October 2009—being enforced in 2010</p>	<p>NBC official copy of revised regulations for MFIs</p> <p>Progress reports from NBC</p> <p>Copy of the approved code of conduct</p>	
2.4 Legal foundation to support financial and commercial transactions enhanced	<p>Implementing subdecree for secured transactions law approved by 2009</p> <p>Draft Commercial Contracts Law, including chapters on franchise and agency law, submitted to the Council of Ministers by 2009 and National Assembly by 2010</p> <p>Implementing subdecree for the new insolvency law approved by 2010</p>	<p>Ministry of Commerce circular issued in 2007</p> <p>Submitted to the COM in October 2009. Being discussed at the COM for submission to the National Assembly in October 2010</p> <p>Ministry of Justice declared that the insolvency law is very detailed and does not require a separate sub-decree</p>	<p>Official copy of approved ministerial circular for secured transaction reports</p> <p>Copy of the Commercial Contracts Law and official document submitting it to the Council of Ministers and National Assembly</p>	
3. Promote good governance				
3.1 International initiatives on anti-money laundering and combating the financing of terrorism promoted	<p><i>Prakas</i> on anti-money-laundering and combating the financing of terrorism adopted and awareness campaign completed by 2009</p> <p>Functioning CAFIU with at least 20 suspicious transactions reports processed by 2010</p>	<p><i>Prakas</i> on anti-money laundering and combating the financing of terrorism adopted in 2008</p> <p>CAFIU was established with six staff in January 2009. Of the 69 STRs received in 2010, two have been referred to the police for prosecution.</p>	<p>NBC report on implementation of awareness program</p> <p>Official copy of adopted anti-money-laundering <i>prakas</i> and reports from the CAFIU</p>	
3.2 Corporate governance and	MEF instruction issued and insurance firms adopt basic	MEF instructions was issued in July 2008 and reporting standard	MEF official copy of instruction for financial reporting standards	

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<p>transparency in the insurance industry enhanced</p> <p>3.3 Commercial dispute resolution mechanism established</p> <p>3.4 Accounting and auditing profession developed</p>	<p>financial reporting standards by 2009</p> <p>Gross insurance premium to reach \$22 million by 2011 (\$13 million in 2006)</p> <p>Subdecree for the commercial arbitration law approved by 2009</p> <p>National arbitration center with at least 50 trained arbitrators fully operational by 2010</p> <p>70 CPA scholarships awarded annually by MEF</p> <p>Number of qualified local accountants to reach 40 by 2011 (10 in 2006)</p>	<p>enforced in the 2009 financial year</p> <p>Gross insurance premium reached \$20 million at the end of 2009</p> <p>Subdecree for commercial arbitration law approved by the COM in July 2009</p> <p>54 founding arbitrators have been trained before formally establishing the NAC in October 2010</p> <p>70 CPA scholarships awarded annually—six have successfully completed at the end of 2009</p> <p>35 CPA qualified Cambodians at the end of 2009. The scholarship program expects up to 10 scholarship holders to complete in 2010</p>	<p>Reports from MEF</p> <p>Official copy of adopted subdecree</p> <p>MOC letter confirming the establishment of national arbitration center with a copy of rules and procedures</p> <p>MEF letter confirming competitive selection used, list of scholarship holders, and progress report at the end of each semester</p>	
4. Enhance efficiency in the finance sector				
<p>4.1 Key operating functions of NBC fully computerized and integrated</p> <p>4.2 Capacity of MFI staff upgraded</p>	<p>NBC operating an integrated management information system by 2010</p> <p>Center for Banking Studies courses on foreign exchange risk management, good business practice, bank credit requirements, MFI loan appraisal procedures, record keeping, and good lending practice by 2010</p>	<p>NBC's core banking system was successfully launched at the headquarters on 2 February 2010. The same system has been rolled out to eight NBC branches in October 2010.</p> <p>Two new MFI courses designed through ADB TA support. Both have been introduced during first semester 2010—150 students enrolled</p>	<p>Final report confirming successful installation, testing of software systems, training of staff on use of application</p> <p>Center for Banking Studies progress reports on programs and courses held for MFIs and copy of the course materials, timetable, and participants</p>	

Activities with Milestones for Subprogram 4	Inputs for subprogram 4
<p>1. Improve confidence and financial intermediation</p> <p>1.1 Modernize the payment and settlement system NBC to implement and test phase 2 of the upgraded check clearing system, finalize the electronic payment order for intercity clearance, and review the need for a national switch to support card and mobile phone electronic based payments (completed)</p> <p>1.2 Enhance consumer access to credit and market confidence NBC to arrange for the establishment of a private credit bureau with the involvement of the Association of Bankers in Cambodia and CMA (substantially completed)</p> <p>1.3 Develop interbank market and tradable government securities NBC to ensure banks implement the standardized repurchase agreement (completed)</p> <p>1.4 Improve intermediation functions of MFIs in a sustainable manner NBC to enhance growth in the number of deposit-taking MFIs and encourage more banks to lend in riels to MFIs (completed)</p> <p>2. Maintain stability in the finance sector</p> <p>2.1 Update legal and regulatory framework for banking and financial institutions</p> <p>(i) NBC to prepare revisions to the Law on Banking and Financial Institutions and the Law on the Conduct and Organization of the NBC to address issues raised by the 2010 FSAP (substantially completed)</p> <p>(ii) NBC to update prudential regulations for banks to enhance international banking standards and good practices (completed)</p> <p>2.2 Strengthen banking supervision capacity NBC to evaluate compliance with the Basel core principles for bank supervision and formulate an action plan to help progress toward full compliance (completed)</p> <p>2.3 Strengthen prudential supervision and regulations for MFIs NBC to enhance implementation of the regulations for money changers by (i) requiring licensing, (ii) imposing reporting requirements, and (iii) applying the code of conduct (completed)</p> <p>2.4 Enhance the legal foundation to support financial and commercial transactions MOC to submit draft commercial contracts law to the National Assembly (substantially completed)</p> <p>3. Promote good governance</p> <p>3.1 Combat money laundering and the financing of terrorism NBC to enhance the role of the CAFIU and coordination among supervisory authorities (completed)</p> <p>3.2 Enhance corporate governance and transparency in the insurance industry MEF to require publication of audited financial statements of insurance companies (completed)</p> <p>3.3 MOC establishes commercial dispute resolution mechanism MOC to maintain the necessary support to ensure the NAC functions effectively and undertake public awareness program on the roles and responsibilities of the NAC (substantially completed)</p> <p>3.4 Develop the accounting and auditing profession MEF to review the performance of the CPA scholarship program and introduce 35 certified accounting technician scholarships (completed)</p> <p>4. Enhance efficiency in the finance sector</p> <p>4.1 Information technology project for computerizing NBC core operations NBC to complete the upgrading of its integrated accounting system and training of staff (at headquarters and the main branches) (completed)</p> <p>4.2 Upgrade capacity of MFI staff NBC to support the Center for Banking Studies in upgrading course materials and add new courses as required by banks and MFIs (completed)</p>	<p>ADB subprogram 4 loan of \$10 million equivalent and a grant of \$5 million equivalent</p>

ADB = Asian Development Bank; ATM = automated teller machine; CAFIU = Cambodian Financial Intelligence Unit; CMA = Cambodian MFI association; CPA = certified public accountant; EFTPOS = electronic fund transfer at point of sale; FSAP = Financial Sector Assessment Program; FSADS = Financial Sector Development Strategy; GDP = gross domestic product; M2 = broad money; MEF = Ministry of Economy and Finance; MFI = microfinance institution; MOC = Ministry of Commerce; NBC = National Bank of Cambodia; NPL = nonperforming loans ; PCSS = payments, clearance, and settlement system.

Source: Asian Development Bank