
LOAN NUMBER 2479-CAM(SF)

LOAN AGREEMENT
(Special Operations)

(Financial Sector Program II Cluster - Subprogram 2)

between

KINGDOM OF CAMBODIA

and

ASIAN DEVELOPMENT BANK

DATED 8 DECEMBER 2008

LPS:CAM 34389

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 8 December 2008 between the KINGDOM OF CAMBODIA (“the Borrower”) and ASIAN DEVELOPMENT BANK (“ADB”).

WHEREAS

(A) ADB received from the Borrower a development policy letter dated 26 October 2007 (hereinafter called the “Policy Letter”), setting forth certain objectives, policies and actions described in Schedule 1 to this Loan Agreement, designed to strengthen the financial sector and comprising a cluster of four subprograms forming the Financial Sector Program II Cluster (hereinafter called the “Program Cluster”), some of which have been implemented under the second subprogram of the Program Cluster (hereinafter called the “Program”);

(B) the Borrower has applied to ADB for a loan from its Special Funds resources for the purposes of the Program;

(C) the Government of Cambodia (hereinafter called the “Government”) has applied to ADB for technical assistance to support the effective implementation of the Program Cluster and ADB has agreed to provide a technical assistance grant not exceeding the equivalent of three hundred thousand dollars (\$300,000), (hereinafter called the “TA project”). By a letter of agreement between ADB and the Government, ADB has agreed to administer the TA project; and

(D) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the “Loan Regulations”), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

- (a) Section 2.01(24) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

- (b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

- (c) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

- (d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

- (e) Section 6.05 (c) is deleted and the following is substituted therefor:

(c) Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.

Section 1.02. The terms defined in the Loan Regulations are incorporated into this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

- (a) "Cambodian Riel" or "KR" means riel in the currency of the Borrower;

(b) "Counterpart Funds" means the KR proceeds accruing to the Borrower and generated from the proceeds of the Loan under the Program and referred to in paragraph 4 of Schedule 1 and paragraph 7 of Schedule 5 to this Loan Agreement;

(c) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;

(d) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement), the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;

- (e) "MEF" means Ministry of Economy and Finance of the Borrower, and any successor thereto;
- (f) "MOC" means the Ministry of Commerce of the Borrower, and any successor thereto;
- (g) "NBC" means the National Bank of Cambodia, and any successor thereto;
- (h) "Policy Letter" means the development policy letter dated 26 October 2007 addressed by the Borrower to ADB and referred to in Recital (A) of this Loan Agreement;
- (i) "Policy Matrix" means the policy matrix attached to the Policy Letter, and the revised policy matrix as agreed between the Borrower and ADB which set forth actions accomplished or to be accomplished by the Borrower under the Program Cluster;
- (j) "Program Cluster" has the meaning specified in Recital (A) to this Loan Agreement;
- (k) "Program Cluster Period" means the period from 1 September 2006 to 31 December 2010 during which the Program Cluster will be implemented;
- (l) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, NBC, which is responsible for the carrying out of the Program;
- (m) "Program Period" means the period from 1 January 2008 until 31 December 2008;
- (n) "subsequent Subprogram" means any subprogram under the Program Cluster, following the Program, the terms of which are to be agreed between the Borrower and ADB; and
- (o) "TA project" has the meaning specified in Recital (C) to this Loan Agreement.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to six million six hundred eighteen thousand Special Drawing Rights (SDR6,618,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-

half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 1 June and 1 December in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be in Dollars.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and are supplied from, such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred eighty (180) days prior to the Effective Date.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 April 2009 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program Cluster.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program Cluster, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program Cluster and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Effectiveness

Section 5.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations:

(a) the Deposit Account shall have been nominated as provided in paragraph 4 of Schedule 3 to this Loan Agreement; and

(b) all reform actions and measures, as specified in the Policy Matrix relating to the Program, shall have been taken or achieved and be completed.

Section 5.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Minister of Economy and Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

Ministry of Economy and Finance
Phnom Penh, Cambodia

Facsimile Numbers:

+855 23 427798
+855 23 428424

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

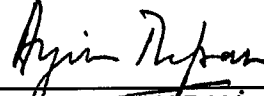
+632 636 2444
+632 636 2331

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

KINGDOM OF CAMBODIA

By  _____
H.E. KEAT CHHON
Authorized Representative

ASIAN DEVELOPMENT BANK

By  _____
ARJUN THAPAN
Director General
Southeast Asia Department

SCHEDULE 1**Description of the Program**

1. The principal objectives of the Program Cluster are to maintain stability in the financial sector, enhance market confidence, promote good governance and improve public financial disclosure and financial intermediation, including the outreach of microfinance institutions. The Program Cluster is described in more detail in the Policy Letter and the Policy Matrix. The reform agenda for subsequent Subprograms will be jointly refined by the Borrower and ADB to reflect the progress made under the Program and any subsequent Subprograms, and the evolving circumstances in the Borrower's economic management and financial sector.
2. The Program scope includes reforms to: upgrade the payments, clearance and settlement system; improve public financial disclosure and establish a credit information bureau, an interbank market and tradable government securities; enhance the legal and regulatory framework to support financial activities and strengthen prudential supervision of banks and microfinance institutions; implement international initiatives on anti-money laundering and preventing financing of terrorism; enhance corporate governance and transparency in the insurance industry; establish commercial dispute resolution mechanisms; and improve the capability and increase the number of qualified national accountants and auditors; and computerize and integrate key operating functions of the NBC and upgrade the capacity of microfinance staff.
3. The Program actions are being implemented during the Program Period.
4. In support of the Program:
 - (a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and
 - (b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 7 of Schedule 5 to this Loan Agreement.
5. The proceeds of the Loan are expected to be disbursed in a single tranche and utilized by 30 April 2009.

SCHEDULE 2**Amortization Schedule
(Financial Sector Program II Cluster - Subprogram 2)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
1 June 2017	206,813
1 December 2017	206,813
1 June 2018	206,813
1 December 2018	206,813
1 June 2019	206,813
1 December 2019	206,813
1 June 2020	206,813
1 December 2020	206,813
1 June 2021	206,813
1 December 2021	206,813
1 June 2022	206,813
1 December 2022	206,813
1 June 2023	206,813
1 December 2023	206,813
1 June 2024	206,813
1 December 2024	206,813
1 June 2025	206,813
1 December 2025	206,813
1 June 2026	206,813
1 December 2026	206,813
1 June 2027	206,813
1 December 2027	206,813
1 June 2028	206,813
1 December 2028	206,813
1 June 2029	206,813
1 December 2029	206,813
1 June 2030	206,813
1 December 2030	206,813
1 June 2031	206,813
1 December 2031	206,813
1 June 2032	206,813
1 December 2032	<u>206,797</u>
Total	<u><u>6,618,000</u></u>

*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3**Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that (i) in case the proceeds of the Loan will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal; or (ii) in case the proceeds of the Loan will finance items to be imported, the value of Eligible Imports in the immediately preceding one-year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding one-year period.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

(i) imports from countries which are not members of ADB;

(ii) imports for ineligible items specified in the Attachment to this Schedule; and

(iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account (the Deposit Account) at NBC into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program Period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account unless ADB shall be satisfied based on evidence satisfactory to ADB and after consultation with the Borrower, that there has been no action which materially reverses the objectives of the Program.

List of Ineligible Items

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Program.
2. No withdrawals will be made for the following:
 - (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

Table A12: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraph of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 5

Program Implementation and Other Matters

Program Management

1. The NBC shall be the Program Executing Agency responsible for Program implementation activities, reporting to ADB, administering and disbursing the Loan proceeds, and maintaining accounts. A senior NBC officer who has been appointed as program director shall supervise and assist in coordinating day-to-day Program implementation. The NBC shall coordinate with MEF and MOC, (the Implementing Agencies) which shall be responsible for carrying out certain reform measures under the Program.

2. The Financial Sector Steering Committee, established under an earlier program, (the Steering Committee), chaired by the NBC, and comprising senior officers from MEF, MOC, NBC and relevant line agencies of the Borrower involved in Program Cluster actions and activities, shall be responsible for coordinating the implementation and the sustaining of the Program actions. The Steering Committee shall meet as required to: review progress reports from the Program technical working group; monitor progress and oversee the implementation of the Program Cluster; and provide guidance and direction to the Program Executing and Implementing Agencies, and relevant line agencies of the Borrower involved in Program Cluster actions and activities. The Steering Committee shall ensure that the reforms are undertaken in line with the agreed timetable and may invite ADB to participate in its meetings as an observer.

Implementation of the Policy Letter

3. The Borrower shall ensure that: (a) the policies adopted and actions taken prior to the date of this Loan Agreement under the Program as described in the Policy Letter and the Policy Matrix, continue in effect; and (b) all reasonable measures are undertaken to implement the reform actions which are triggers for the processing of the subsequent program.

Policy Dialogue

4. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, sector issues, policy reforms and additional reforms arising during the implementation of the Program Cluster and the TA project, that may be considered necessary or desirable, including the progress made in carrying out policies and actions set out in the Policy Letter and the Policy Matrix.

5. The Borrower shall promptly discuss with ADB problems and constraints encountered during implementation of the Program Cluster and the TA project, and appropriate measures to overcome or mitigate such problems and constraints.

6. The Borrower shall keep ADB informed of policy discussions with other multilateral or bilateral agencies that have implications for implementation of the Program Cluster and the TA project, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.

Counterpart Funds

7. The Borrower shall ensure that the Counterpart Funds are used to finance the local currency costs relating to the implementation of the Program and other activities consistent with the objectives of the Program and shall provide the necessary budget appropriations to finance the structural adjustment costs relating to the implementation of reforms under the Program and the Program Cluster.

Program Performance Monitoring and Review

8. The Borrower shall ensure that: (a) within one month of the Effective Date, the Program Performance Management System (PPMS) as previously established by NBC shall be updated in a form and with a composition acceptable to ADB in accordance with Program performance indicators, as agreed with ADB; and (b) the NBC shall undertake periodic reviews in accordance with the PPMS to evaluate the scope, implementation arrangements, progress, achievements, and impacts of the objectives of the Program and Program Cluster. To facilitate the ADB's semi-annual reviews of Program Cluster implementation, the Borrower shall assist ADB by providing relevant macroeconomic and financial data and information in such detail as ADB may reasonably request. The reviews shall form the basis for discussions between the Borrower and ADB on further reforms and measures that may be considered necessary or desirable to promote the continued development of the financial sector including the refining of the reform agenda for subsequent subprograms to reflect the progress made under the Program and the evolving circumstances in the Borrower's economic management and financial sector.

9. The Borrower shall ensure that reporting on the impact of the Program Cluster – Subprograms 1 and 2, following the Program Period is made by the Implementing Agencies to the NBC which will in turn, report to ADB. The NBC and the Implementing Agencies will, as needed, hold consultative meetings with stakeholders and development partner community to solicit their feedback on emerging regulations and the impact of the Program Cluster.

10. The Borrower and ADB shall jointly assess the impact and evaluate the benefits of the Program to identify the lessons learned and to formulate the outline for subsequent subprograms, within four months after Program completion, in accordance with the PPMS. The NBC shall be responsible for maintaining all monitoring data and evaluating benefits of the Program. The Borrower shall cause the Program Executing and Implementing Agencies to submit a Program completion report to ADB within four months after Program completion that: (a) assesses compliance with, and impact of, the agreed actions under the Program; and (b) subject to the Borrower's readiness to continue with the Program Cluster, defines requirements for adjustments to activities to be undertaken under the proposed subsequent subprograms. The Borrower and ADB may use the findings of such assessment and evaluation in refining the subsequent subprograms under the Program Cluster.