



Concept Paper

Project Number: 44263
November 2013

Proposed Programmatic Approach and Policy- Based Loan for Subprogram 1 Cambodia: Fourth Financial Sector Program

CURRENCY EQUIVALENTS

(as of 17 October 2013)

| | | |
|---------------|---|-------------|
| Currency unit | – | riel/s (KR) |
| KR1.00 | = | \$0.000246 |
| \$1.00 | = | KR4,060 |

ABBREVIATIONS

| | | |
|------|---|--|
| ADB | – | Asian Development Bank |
| ADF | – | Asian Development Fund |
| AML | – | anti-money-laundering |
| CFT | – | combatting the financing of terrorism |
| COBP | – | country operations business plan |
| FSDS | – | Financial Sector Development Strategy |
| FSP | – | Financial Sector Program |
| MEF | – | Ministry of Economy and Finance |
| MFI | – | microfinance institution |
| MOC | – | Ministry of Commerce |
| NBC | – | National Bank of Cambodia |
| NSDP | – | National Strategic Development Plan |
| PPTA | – | program preparatory technical assistance |
| SECC | – | Securities and Exchange Commission of Cambodia |
| TASF | – | Technical Assistance Special Fund |

NOTES

- (i) The fiscal year (FY) of the Government of Cambodia and its agencies ends on 31 December.
- (ii) In this report, “\$” refers to US dollars.

| | |
|-------------------------|---|
| Vice-President | S. Groff, Operations 2 |
| Director General | J. Nugent, Southeast Asia Department (SERD) |
| Director | S. Hattori, Public Management, Financial Sector and Trade Division, SERD |
| Team leader | H. Aoki, Senior Financial Sector Specialist, SERD |
| Team members | P. Doung, Senior Economics Officer, Cambodia Resident Mission, SERD K. Hattel, Financial Sector Specialist (Rural and Microfinance), SERD P. Rhee, Counsel, Office of the General Counsel K.M. Sanchez, Operations Assistant, SERD |
| Peer reviewer | A. Chatterjee, Senior Financial Sector (Contractual Savings), Office of Regional Economic Integration |

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

| | Page |
|---|-------------|
| I. THE PROJECT | 1 |
| A. Rationale | 1 |
| B. Impact, Outcome, and Outputs | 2 |
| C. Investment and Financing Plans | 3 |
| D. Indicative Implementation Arrangements | 3 |
| II. TECHNICAL ASSISTANCE | 3 |
| III. DUE DILIGENCE REQUIRED | 3 |
| IV. PROCESSING PLAN | 4 |
| A. Risk Categorization | 4 |
| B. Resource Requirements | 4 |
| C. Processing Schedule | 4 |
| V. KEY ISSUES | 4 |
| APPENDIXES | |
| 1. Basic Project Information | 5 |
| 2. Problem Tree | 6 |
| 3. Design and Monitoring Framework | 7 |
| 4. Program Preparatory Technical Assistance | 10 |
| 5. Initial Poverty and Social Analysis | 14 |

I. THE PROJECT

A. Rationale

1. The Government of Cambodia requested a policy-based loan from the Asian Development Bank (ADB) during program consultations in 2012. This is in line with the priority outlined in the government's National Strategic Development Plan (NSDP), 2011–2013 and the draft NSDP, 2014–2018 as well as the country partnership strategy for Cambodia 2013–2015.¹

2. Based on successful implementation of the past and ongoing ADB Financial Sector Programs (FSP I, II, and III), with effective and flexible ways of converting complex policy objectives into implementable policy actions, the government requested continuing ADB support to the finance sector through a policy-based loan.² The proposed programmatic approach for a total of \$30 million equivalent from the Asian Development Fund (ADF), which will comprise two subprograms, is included in the country operations business plan (COBP), 2013–2015.³ It will be designed within the framework of the Financial Sector Development Strategy (FSDS), 2011–2020 updated under the FSP III.⁴ The basic project information is in Appendix 1. The problem tree is in Appendix 2.

3. As the financial sector expands its scope and moves toward a sound market-oriented system, the proposed program will build on the established relationship with government counterparts and ensure the momentum will not be lost on reforms completed under the FSP I, II, and III. A total of \$30 million equivalent from ADB's Special Funds resources is programmed for the Fourth Financial Sector Program (FSP IV). The size of the budget support program is based on (i) development financing needs for the sector as identified during country programming and strategy formulation, (ii) the importance the government attaches to the reform program, and (iii) the estimated costs of designing and implementing the medium-term reform program minus estimated financial support provided by other development partners.⁵

4. ADB has supported government reform efforts in the finance sector since 1999 in the following areas: (i) modernizing the national payment, clearance, and settlement system; (ii) improving access to domestic deposits and credit for microfinance institutions (MFIs); (iii) strengthening bank and MFI regulations and supervision; (iv) introducing higher standards of accounting, auditing, and financial reporting for financial institutions; (v) setting up a registry that records assets that banks take as security for loans; (vi) drafting and passing the securities law; (vii) setting up a financial intelligence unit in the National Bank of Cambodia (NBC) to counter money laundering and prevent the financing of terrorism; (viii) setting up the Securities and Exchange Commission of Cambodia (SECC) and the stock exchange; and (ix) launching a credit information bureau covering the banking industry and MFIs.

5. While positive progress has been achieved for establishing the key building blocks of a

¹ ADB. 2011. *Country Partnership Strategy: Cambodia, 2011–2013*. Manila.

² ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to the Kingdom of Cambodia for the Financial Sector Program Cluster*. Manila (Loan 1859-CAM); 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 (Loan 2378-CAM and TA 4999-CAM); and ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan, and Technical Assistance Grant to the Kingdom of Cambodia for the Third Financial Sector Program Cluster (Subprogram 1)*. Manila (Loan 2815-CAM and TA 7934-CAM).

³ ADB. 2012. *Country Operations Business Plan: Cambodia, 2013–2015*. Manila.

⁴ ADB. 2012. *Financial Sector Development Strategy: Cambodia, 2011–2020*. Manila.

⁵ ADB. 2011. Policy-Based Lending. *Operations Manual*. OM D4/BP. Manila (para. 32).

sound financial system, a large part of the country still does not have adequate access to formal financial services. In June 2012, only 10.1% of the population had access to credit through the formal sector. In terms of asset base, banks account for 95% of the financial sector. Development of the non-banking sector has been picking up, but remains fragmented. Insurance, especially microinsurance, has potential for improved access to low-income rural households. Most of the development has taken place in urban areas, especially in Phnom Penh, and geographical and sector concentrations are prominent. Since 80% of the population is engaged in the agriculture and natural resources sector in rural areas, improved access to finance for the agriculture sector is crucial. The government recognizes that attaining inclusive economic growth requires a diversified, competitive, and prudentially sound financial system to ensure that financial resources are appropriately intermediated and effectively mobilized. To continue to implement the FSDS, 2011–2020, including the expansion of geographical coverage, the government requested further support from ADB for its finance sector reforms under the proposed fourth program.

6. ADB has been leading development of the financial sector in Cambodia since 1999. A comprehensive approach was required to rebuild the financial system in a devastated economy where no financial system—not even local currency—existed. As the sector’s expanding scope expanded from banking sector to non-banking sector and capital markets, the collaboration and support of development partners evolved. For instance, the recommendations of the 2010 International Monetary Fund–World Bank FSAP were incorporated under the FSP III, leveraging policy reforms. While a broad-based approach is proposed for the FSP IV, to maintain continuity and momentum, it will also begin to identify areas of ADB focus for the next generation of reforms based on its comparative advantage, and the inputs from consultation with other development partners and the government will be considered. Initial dialogue with the government to this end will start during the process of country partnership strategy and Sector Assessment, Strategy and Roadmap formulation, and the expected update of the FSDS, 2016–2025 planned for June 2016.

7. On the basis of ongoing dialogue with the government, as well as guidance received from ADB’s Board of Directors and management during the previous programs, the FSP IV will increasingly focus on (i) improved access to finance, especially outreach in rural areas, with diversified financial services through microfinance and microinsurance; and (ii) improved transparency and governance in the financial sector, including anti-money-laundering and/combating the financing of terrorism (AML and CFT) measures and legal and information infrastructures. The FSP IV will also track progress on the development of nascent financial services, including capital markets, financial leasing with improved legal foundation and infrastructures, and emerging pension schemes such as contractual savings.

B. Impact, Outcome, and Outputs

8. The expected overall impact of the programmatic approach is improved access to finance for economic sustainability. The expected outcome of the FSP IV is a growing, resilient, and efficient financial system with expanded coverage. The outputs will be finalized during the program preparatory technical assistance (PPTA). At this initial phase, the three outputs envisioned are (i) an enhanced financial sector stability through upgrading the supervisory capacities and emerging financial services, (ii) an improved legal foundation and infrastructure through the measures to reduce transaction and information costs, and (iii) improved governance and transparency through the promotion of AML and CFT measures, alternative dispute resolution, and International Financial Reporting Standards. The preliminary design and monitoring framework is in Appendix 3. The initial poverty and social analysis is in Appendix 5.

C. Investment and Financing Plans

9. The loan amount will be determined by the strength and estimated costs of the policy package, its development impact, the importance of the financial sector to the overall economy, and the government's development financing needs. The cluster program will comprise two subprograms to be implemented from January 2014 to December 2015. Subprogram 1 for \$15 million is expected to be approved in 2015; subprogram 2 is also expected to be allocated \$15 million and will be approved in 2016. The focus of subprogram 1 will be the creation of an enabling regulatory environment to improve the supply side of access to finance, while subprogram 2 will move on to support for beneficiaries (demand side). The tentative financing plan is indicated below.

Table 1: Tentative Financing Plan

| Source | Amount (\$ million) | Share of Total (%) |
|------------------------------|----------------------------|---------------------------|
| Asian Development Bank (ADF) | 30.00 | 100.00 |
| Government | 0.00 | 0.00 |
| Total | 30.00 | 100.00 |

ADF = Asian Development Fund.

Source: Asian Development Bank estimates.

D. Indicative Implementation Arrangements

10. The NBC will be the executing agency. The Ministry of Economy and Finance (MEF), the SECC, and the Ministry of Commerce (MOC) will be the implementing agencies. The steering committee—established under the FSP III and chaired by the governor of the NBC to implement the FSDS, 2011–2020—will meet as required to review progress reports from the technical working group chaired by the deputy secretary general of the MEF, consider pending issues, and propose actions to resolve issues. A senior NBC officer will be appointed as program director to assist the NBC, MEF, SECC, and MOC in coordinating day-to-day program implementation. The program director will submit quarterly progress reports to ADB on program implementation.

II. TECHNICAL ASSISTANCE

11. In response to the government's request, ADB will prepare TA to support the executing and implementing agencies' compliance with key policy triggers of subprogram 2, as well as provide the government with timely policy advice on demand. TA is estimated to cost about \$1.30 million equivalent. Details of the TA, including financing arrangements, will be finalized during the implementation of subprogram 1 of the FSP IV.

III. DUE DILIGENCE REQUIRED

12. PPTA for \$880,000 (\$800,000 from ADB's Technical Assistance Special Fund [TASF]-V) is being processed for approval in October 2013 to help the government implement the FSDS, 2011–2020 and formulate the next cluster program (Appendix 4). Advance actions will be considered to expedite the process. Consultants will be engaged through a firm using the quality- and cost-based selection process, with a technical–financial ratio of 90:10. The key outputs of the PPTA will be (i) a detailed implementation assessment of the FSDS, 2011–2020 to date; and (ii) a report on the recommended policy actions under the FSP IV, with an updated detailed diagnostic assessment of the financial sector, which provides a series of proposed reforms. The PPTA will focus on facilitating market development by users, participants, and

diversified financial services through improved access while improving governance and transparency in the financial sector.

13. The PPTA consultants will undertake a due diligence assessment to evaluate developments in the financial sector in terms of soundness, depth, outreach, compliance with statutory requirements, competition, human resource capacity, and customer perception; and identify gaps and challenges that need to be addressed. In formulating the cluster program, the consultant team will pay close attention to the technical viability; economic and financial viability and sustainability; fiduciary requirements, including a financial management assessment; poverty and social impact; and safeguard policy aspects. The outline terms of reference for the PPTA consultants are in Appendix 4.

IV. PROCESSING PLAN

A. Risk Categorization

14. The proposed programmatic approach is categorized as low risk. It has all of the following features: (i) a loan amount for the program not exceeding \$50 million, (ii) a sound record of ADB's previous experience in the financial sector in Cambodia, (iii) reasonable executing agency capacity in administering externally financed project administration, and (iv) safeguard categorization other than A.

B. Resource Requirements

15. The PPTA consultants will provide expertise in the following areas: (i) team leader, banking and central banking (6 person-months); (ii) microfinance (2 person-months); (iii) insurance and pension fund (2 person-months); (iv) leasing (2 person-months); (v) commercial law (3 person-months); (vi) capital market (2 person-months); (vii) money and interbank market (2 person-months); and (viii) accounting (2 person-months) and AML/CFT (2 person-months). Five national consultants—a bank and finance expert, an insurance expert, a capital market expert, a commercial law expert, and an AML and CFT expert—for a total of 25 person-months will be engaged to assist the team of international experts. The PPTA is scheduled to commence by January 2014 and be completed by December 2014.

C. Processing Schedule

16. The proposed processing schedule is detailed in Table 2.

Table 2: Proposed Processing Schedule

| Milestones | Expected Completion Date |
|---------------------------|---------------------------------|
| PPTA Approval | November 2013 |
| Loan Fact-Finding Mission | November 2014 |
| Management Review Meeting | January 2015 |
| Loan Negotiations | February 2015 |
| Board Circulation | April 2015 |
| Board Consideration | May 2015 |
| Loan Signing | August 2015 |
| Loan Effectiveness | October 2015 |

Source: Asian Development Bank staff estimates.

V. KEY ISSUES

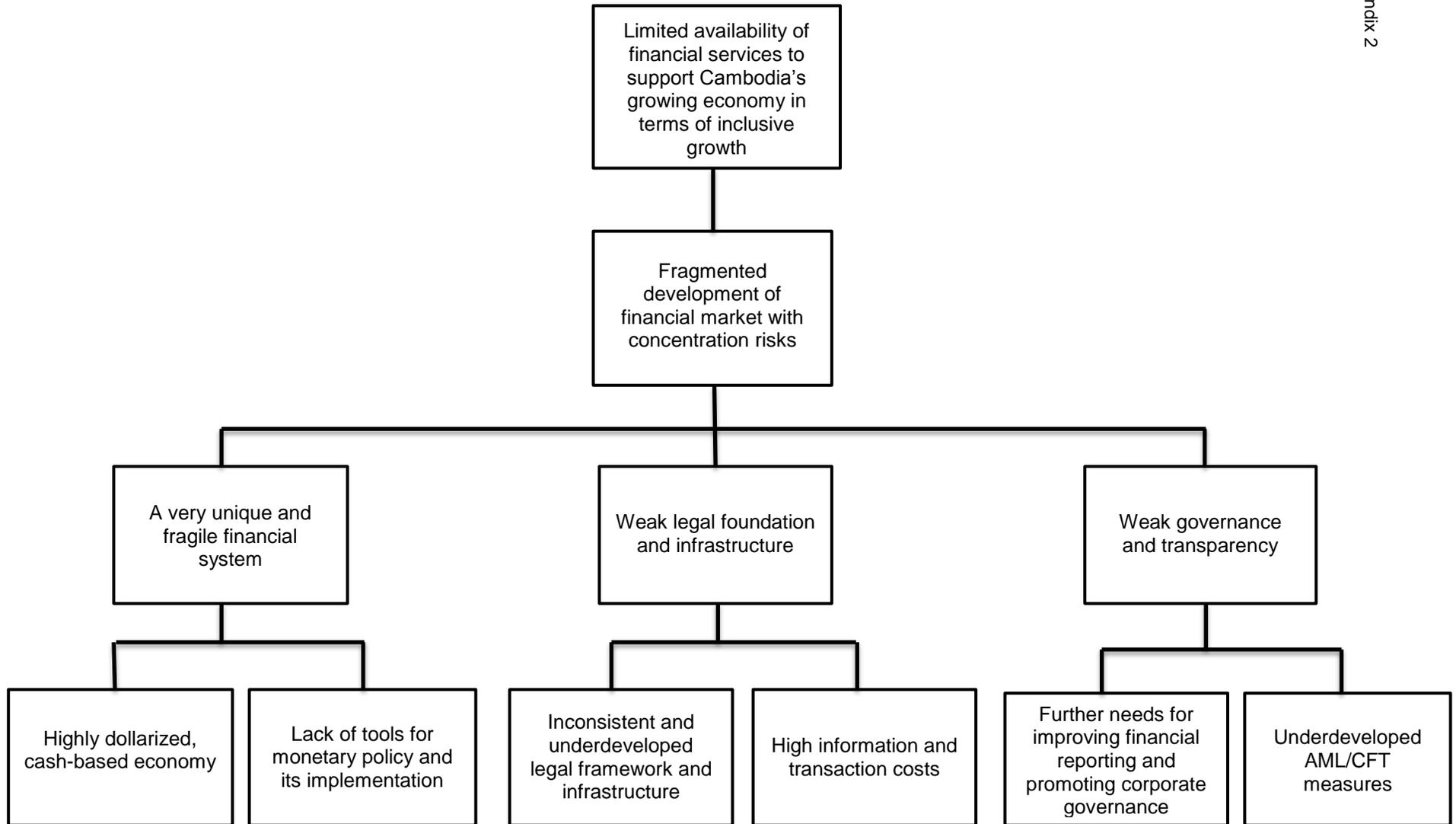
17. No key issues have been identified at this stage.

BASIC PROJECT INFORMATION

| Aspects | Arrangements |
|----------------------------|---|
| Modality | Program Cluster – Two single tranching back-to-back subprograms |
| Financing | ADF loan for \$30 million Subprogram 1 for \$15 million in 2015 and subprogram 2 for \$15 million in 2016 |
| COBP/ RCOBP | ADB. 2012. <i>Country Operations Business Plan: Cambodia. 2013–2015</i> . Manila. |
| Classification | Sector (subsectors): Finance (finance sector development) Themes (subthemes): Economic growth (promoting economic efficiency and enabling business environment), governance (economic and financial governance) Targeting classification: General intervention Gender mainstreaming category: No gender elements Location impact: National (high) Safeguards: For the overall cluster program – involuntary resettlement category C, environment category C, and indigenous peoples category C |
| Risk categorization | Low risk |
| Partnership(s) | Not applicable |
| Use of a PBA | Programmatic Based Approach (PBA) will be utilized based on a greater focus on country ownership, reliance on country systems, a comprehensive program and budget framework in the DMC, and development coordination. ADB uses the Organisation for Economic Co-operation and Development definition of PBAs, which lists the following features: (i) leadership by the host country or organization; (ii) a single comprehensive program and budget framework; (iii) a formal process for development coordination and harmonization of development partner procedures for reporting, budgeting, financial management, and procurement; and (iv) efforts to increase the use of local systems for program design and implementation, financial management, monitoring, and evaluation. |
| Parallel PIU | No need for a parallel PIU |
| Department and division | Southeast Asia Department (SERD) Public Management, Financial Sector and Trade Division (SEPF) |
| Mission leader and members | H. Aoki (Team Leader/ Senior Financial Sector Specialist, SEPF), K. Hattel (Financial Sector Specialist, SEPF), P. Doung (Senior Economics Officer, Cambodia Resident Mission), P. Rhee (Program Counsel) |

ADB = Asian Development Bank, ADF = Asian Development Fund, COBP = country operations business plan, DMC = developing member country, PBA = programmatic based approach, PIU = project implementation unit, RCOBP = regional cooperation operations business plan.

PROBLEM TREE



DESIGN AND MONITORING FRAMEWORK

| Design Summary | Performance Targets and Indicators with Baselines | Data Sources and Reporting Mechanisms | Assumptions and Risks |
|---|--|--|--|
| <p>Impact Improved access to finance for sustainability</p> | <p>Access to credit for 15% or more of the total population by 2018, of which at least 60.0% are women (10.1% in June 2012, of which 76.0% are women in 2012)</p> <p>Increased number of MFI branch offices to reach 2,100 by 2018 (1,919 in 2012)</p> <p>Increased bank credit to agriculture sector to reach 12.0% or more of total lending by 2018 (9.6% in 2012)</p> <p>Increased number of insurance policies exceeds 75,000 (67,900 in 2012)</p> | <p>Annual and progress reports from NBC</p> <p>Annual reports, including audited financial statements of MFIs</p> <p>Annual reports, including audited financial statements of banks</p> <p>Annual reports, including audited financial statements of insurance companies</p> | <p>Assumption Continuing political and macroeconomic stability</p> <p>Risk External financial and economic shocks caused by policy changes on global liquidity</p> |
| <p>Outcome A growing, resilient, and efficient financial system with expanded coverage</p> | <p>Increased ratio of M2 to GDP 55.0% or above by 2016 (45.3% in 2012)</p> <p>Total private sector credit of banks to GDP 50.0% or above by 2016 (41.0% in 2012)</p> <p>Total bank deposits to GDP 55.0% or above by 2016 (47.3% in 2012)</p> <p>Solvency ratio of banks and MFIs maintained above 15.0% throughout program period (25.0% for banks and 20.9% for MFIs in 2012)</p> | <p>National accounts, economic reports, and official statistics of the government, and other international development partners</p> <p>National accounts, economic reports, and official statistics of the government, and other international development partners</p> <p>National accounts, economic reports, and official statistics of the government, and other international development partners</p> <p>Key financial data from NBC</p> | <p>Assumptions Government commitments for the reforms and the implementation of the updated FSDS, 2011–2020</p> <p>Stable economic growth in 2015–2017</p> <p>Good coordination among government agencies</p> <p>Complementary support from other development partners</p> <p>Risk Inconsistency in policy reforms by the Government</p> |

| Design Summary | Performance Targets and Indicators with Baselines | Data Sources and Reporting Mechanisms | Assumptions and Risks |
|--|---|--|--|
| | <p>Ratio of nonperforming loans to total loans of banks below 5.0% throughout program period (2.5% in 2012)</p> <p>Average interest spread below 10.0% throughout program period (7.2% in 2012)</p> <p>Total insurance premiums exceed \$45 million by 2016 (\$36.1 million in 2012)</p> <p>Number of bank and MFI employees exceeds 15,000 (13,440 for banks and 12,618 for MFIs in 2012)</p> | <p>Published audited financial statements of banks and MFIs</p> <p>Published audited financial statements of banks and MFIs</p> <p>Annual reports, including audited financial statements of insurance companies</p> <p>Annual report from NBC</p> | |
| <p>Outputs</p> <p>1. Enhanced financial sector stability through upgrading the supervisory capacities and emerging financial services</p> | <p>By December 2016:</p> <p>Supervisory regime for banking sector will be upgraded to risk-based from compliance-based</p> <p>Access to insurance in rural areas enhanced, and at least two more microinsurance operators licensed (one pilot license in 2012)</p> <p>Capacity of capital market supervisory authority enhanced by associate membership of the International Organization of Securities Commissions</p> | <p>Progress reports from NBC</p> <p>Progress reports from MEF</p> <p>Progress reports from SECC</p> | <p>Assumption Government agencies have enough capacity to implement the reforms</p> <p>Risk Poor consultation and coordination among relevant stakeholders</p> |
| <p>2. Improved legal foundation and infrastructure through the measures to reduce transaction and information costs</p> | <p>Alignment among commercial laws improved</p> <p>Mobile and card payment infrastructure established</p> <p>Credit information bureau will cover the data for small</p> | <p>Progress reports from MOC and private sector working group</p> <p>Progress reports from MOC and private sector working group</p> <p>Progress reports from NBC</p> | |

| Design Summary | Performance Targets and Indicators with Baselines | Data Sources and Reporting Mechanisms | Assumptions and Risks |
|--|---|--|--|
| | and medium-sized enterprises | | |
| 3. Improved governance and transparency through the promotion of AML and /CFT measures, alternative dispute resolution, and International Financial Reporting Standards | <p>Comments in the Financial Action Task Force report on Cambodia are positively updated</p> <p>First alternative dispute resolution case is settled at the National Arbitration Center</p> <p>At least 10 universities and colleges adopt IFRS-based program</p> | <p>Progress reports from the Cambodia Financial Intelligence Unit</p> <p>Annual report of the National Arbitration Center</p> <p>Progress reports from the National Accounting Council</p> | |
| <p>Activities with Milestones (indicative, to be finalized during PPTA)</p> <p>1. Enhanced financial sector stability</p> <p>1.1 Road map for Basel II and III risk-based supervision prepared</p> <p>1.2 Based on a new insurance law, a national strategy for microinsurance drafted</p> <p>1.3 Application for International Organization of Securities Commissions associate membership by SECC</p> <p>2. Improved legal foundation and infrastructure</p> <p>2.1 Road map for improving legal framework to facilitate business transactions in financial sector prepared</p> <p>2.2 Shared switch for electronic payments operationalized</p> <p>2.3 Coverage of credit information bureau for banks and MFIs expanded</p> <p>3. Improved governance and transparency</p> <p>3.1 National Risk Assessment Framework adopted by Cambodia Financial Intelligence Unit board in 2013 implemented</p> <p>3.2 Commercial dispute resolution mechanism fully operationalized (established in 2013)</p> <p>3.3 Accounting and auditing education at academic institutions enhanced</p> | | | <p>Inputs</p> <p>Loan</p> <p>ADB: \$30 million</p> |

ADF = Asian Development Fund, FSDS = 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, PPTA = program preparatory technical assistance, SECC = Securities and Exchange Commission of Cambodia.

Source: Asian Development Bank.

PROGRAM PREPARATORY TECHNICAL ASSISTANCE

A. Justification

1. The program preparatory technical assistance (PPTA) will help the government implement the Financial Sector Development Strategy (FSDS), 2011–2020 to reflect progress to 2013 and identify gaps and/or challenges within the financial sector that need to be addressed during 2011–2020.

B. Major Outputs and Activities

2. The key outputs of the TA will be (i) the detailed implementation assessment of the FSDS, 2011–2020 to date; and (ii) a report of the sector diagnostic review with a medium-term program of reforms for the Fourth Financial Sector Program (FSP IV).

3. The major outputs and activities are summarized in Table A4.1.

Table A4.1: Summary of Major Outputs and Activities

| Major Activities | Expected Completion Date | Major Outputs | Expected Completion Date |
|------------------------------|-----------------------------|--|-----------------------------|
| Sector Diagnostic Assessment | January 2014 | Report of findings | February 2014 |
| Consultative Workshops | April 2014 | Draft implementation assessment of FSDS, 2011–2020 | June 2014 |
| Draft FSP IV Program | July 2014 | Draft final report and program | September 2014 |
| Final Report of Assessment | October 2014 | Final report | November 2014 |

FSDS = Financial Sector Development Strategy, FSP IV = Fourth Financial Sector Program.

Source: Asian Development Bank estimates.

C. Cost Estimate and Proposed Financing Arrangement

4. The TA is estimated to cost \$880,000 equivalent, of which \$800,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund-V (TASF-V). The government will provide counterpart support in the form of counterpart staff, secretarial assistance, domestic transportation, provision of office space, and other in-kind contributions. The detailed cost estimate is presented in Table A4.2.

Table A4.2: Cost Estimates and Financing Plan
(\$'000)

| Item | Total Cost |
|--|------------|
| Asian Development Bank^a | |
| 1. Consultants | |
| a. Remuneration and per diem | |
| i. International consultants (23 person-months) | 500.0 |
| ii. National consultants (25 person-months) | 50.0 |
| b. International and local travel | 100.0 |
| c. Reports and communications | 10.0 |
| 2. Equipment (computer, printer, etc.) | 0.0 |
| 3. Workshops, training, seminars, and conferences ^b | |
| a. Facilitators | 20.0 |
| b. Training program | 0.0 |
| c. Venue | 20.0 |
| 4. Vehicle | 0.0 |
| 5. Surveys | 0.0 |

| Item | Total Cost |
|--|--------------|
| 6. Miscellaneous administration and support costs ^c | 20.0 |
| 7. Representative for contract negotiations | 5.0 |
| 8. Contingencies | 75.0 |
| Total | 800.0 |

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-IV).

^b Workshops, training, seminars, and conferences.

^c Translation and publication

| Purpose | Venue |
|--|---------------------|
| Stakeholders' Consultation Workshop for initial findings | Hotel in Phnom Penh |
| Stakeholders' Consultation Workshop for draft final report | Hotel in Phnom Penh |

Source: Asian Development Bank staff estimates.

D. Consulting Services

5. The TA will be implemented over 1 year from the fielding of the consultants. Consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). One firm will be engaged by using the quality- and cost-based selection process with a technical-financial ratio of 90:10. The National Bank of Cambodia (NBC) will be responsible for the implementation. The TA is expected to provide 23 person-months of international and 25 person-months of national consulting services. The summary of consultancy services requirement is provided in Table A4.3, and is indicative (to be finalized after the PPTA inception mission).

Table A4.3: Summary of Consulting Services Requirement

| Positions | Person-Months Required |
|-----------------------------------|------------------------|
| 1. International | |
| Banking expert (team leader) | 6 |
| Microfinance expert | 2 |
| Insurance and pension fund expert | 2 |
| Leasing expert | 2 |
| Commercial law expert | 3 |
| Capital market expert | 2 |
| Money and interbank market expert | 2 |
| Accounting expert | 2 |
| AML/CFT expert | 2 |
| Subtotal | 23 |
| 2. National | |
| Financial sector expert | 10 |
| Insurance expert | 4 |
| Capital market expert | 3 |
| Legal expert | 5 |
| AML/CFT Expert | 3 |
| Subtotal | 25 |
| Total | 48 |

AML/CFT = anti-money laundering/combating financing of terrorism

Source: Asian Development Bank.

6. The outline terms of reference for the PPTA consultants are described in paras. 7–16.

1. International Consulting Firm

7. **Banking expert and team leader** (6 person-months, international) should have a

postgraduate degree or equivalent in finance and at least 8 years professional experience. The expert will prepare a draft inception report together with an implementation plan outlining the activities to be undertaken by the team of consultants, the objectives of those activities, expected outputs, and time lines for delivering those outputs; organize and lead consultations with key players in the financial sector; and analyze progress to date and identify gaps of the FSDS, 2011–2020 to be organized into a series of reform activities.

8. **Microfinance expert** (2 person-months, international) should have a postgraduate degree or equivalent in rural finance and at least 5 years professional experience. The expert will prepare a report that will include the background to the rural and microfinance industry and regulatory regime; an evaluation of the impact of the FSDS, 2011–2020 on microfinance development; proposed changes or improvements to be organized into a series of reform activities, including ways to improve outreach of microfinance services; the rationale for the proposed changes; and ways to expedite those changes.

9. **Insurance and pension fund expert** (2 person-months, international) should have a postgraduate degree or equivalent in insurance or pension and at least 5 years professional experience. The expert will prepare a report that will include the background to the insurance industry (including microinsurance) and pension and retirement fund, and the associated regulatory regime; an evaluation of the impact of the FSDS, 2011–2020 on insurance market development; proposed changes or improvements, organized into a series of reform activities; the rationale for the proposed changes; and ways to expedite those changes.

10. **Leasing expert** (2 person-months, international) should have a postgraduate degree or equivalent in leasing and at least 5 years professional experience. The expert will prepare a report that will include the background on the leasing industry and regulatory regime; an evaluation of the impact of the FSDS, 2011–2020 on leasing development, regulations, and supervision; proposed changes or improvements, organized into a series of reform activities; the rationale for the proposed changes; and ways to expedite those changes.

11. **Commercial law expert** (3 person-months, international) must have a law degree (master's or equivalent) and a legal background in finance and commerce, with extensive work experience in developing or evaluating legal and regulatory reforms in the financial sector and at least 5 years professional experience. The expert will prepare a report (including an evaluation of the impact of the FSDS, 2011–2020) on the current legal and regulatory framework; judicial and dispute resolution processes for commercial transactions; required changes or improvements, organized into a series of reform activities; the rationale for the proposed changes, and ways to expedite the proposed changes.

12. **Capital market expert** (2 person-months, international) should have a postgraduate degree or equivalent in capital markets and at least 5 years professional experience. The expert will prepare a report that will include the background to the capital market development and associated regulatory regime; an evaluation of the impact of the FSDS, 2011–2020 on capital market development, regulations, and supervisory arrangements; proposed changes or improvements, organized into a series of reform activities; the rationale for the proposed changes; and ways to expedite those changes.

13. **Money and interbank market expert** (2 person-months, international) should have a postgraduate degree or equivalent in banking and at least 5 years professional experience. The expert will prepare a report that will include the background to the money and interbank market, and associated regulatory regime; an evaluation of the impact of the FSDS, 2011–2020 on the

money and interbank markets development, regulations, and supervision; proposed changes or improvements, organized into a series of reform activities; the rationale for the proposed changes; and ways to expedite those changes.

14. **Accounting expert** (2 person-months, international) should have a postgraduate degree or equivalent in accounting and at least 5 years professional experience. The expert will prepare a detailed report on the findings, which will include an evaluation of the impact of the FSDS, 2011–2020 on accounting and auditing development, background, and required changes or improvements, organized into a series of reform activities; the rationale for the proposed changes; and ways to expedite those changes.

15. **Anti money laundering and combating financing terrorism (AML and CFT) expert** (2 person-months, international) should have a postgraduate degree or equivalent in a relevant area and at least 5 years professional experience. The expert will prepare a detailed report on the findings, which will include an evaluation of the impact of the FSDS, 2011–2020 on AML and CFT development, background, required changes or improvements, organized into a series of reform activities; the rationale for the proposed changes; and ways to expedite those changes.

2. National Consulting Firm

16. **Financial sector expert** (10 person-months, national), **insurance expert** (4 person-months, national), **capital market expert** (3 person-months, national), **legal expert** (5 person-months, national), and **AML and CFT expert** (3 person-months, national) will serve as assistants to the team leader and the international experts. The national experts will be required to have a background in finance and some working knowledge of relevant areas and (i) assist the respective international experts in all aspects of their tasks within the terms of reference, including project coordination and logistics; (ii) under the guidance of the international experts, gather and analyze the required information and data, and ensure that reports are available in English; and (iii) conduct research on specific topics as required by the international experts.

E. Implementation Arrangements

17. The NBC will be the executing agency for the TA. The Ministry of Economy and Finance (MEF), Securities and Exchange Commission of Cambodia (SECC), and Ministry of Commerce (MOC) will be the implementing agencies. The four agencies will coordinate closely with other stakeholders involved in the TA implementation. Disbursements under the TA will be in accordance with ADB's *Technical Assistance Disbursements Handbook* (2010, amended from time to time). The government was advised that approval of the TA does not commit ADB to finance any ensuing loan or grant.

18. The proposed TA processing and implementation schedule is in Table A4.4.

Table A4.4: Technical Assistance Processing and Implementation Schedule

| Major Milestones | Expected Completion Date |
|---------------------------------------|--------------------------|
| Staff review meeting | September 2013 |
| Concept paper clearance/PPTA approval | October 2013 |
| TA effectiveness | November 2013 |
| TA commencement | January 2014 |
| TA physical completion | December 2014 |
| TA financial closure | March 2015 |

PPTA = program preparatory technical assistance, TA = technical assistance.

Source: Asian Development Bank.

INITIAL POVERTY AND SOCIAL ANALYSIS

| | | | |
|-----------------------------|------------------------------|----------------------|--|
| Country: | Kingdom of Cambodia | Project Title: | Fourth Financial Sector Program |
| Lending/Financing Modality: | Policy-Based Cluster Program | Department/Division: | Southeast Asia Department/Public Management, Financial Sector and Trade Division |

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The Government of Cambodia requested a program loan from the Asian Development Bank (ADB) during program consultations in 2012. As the financial sector moves toward a sound market-oriented system, the proposed program will ensure that the momentum will not be lost on reforms initiated under the three ADB Financial Sector Programs (FSP I, II, and III).^a This is in line with the priority outlined in the government's National Strategic Development Plan (NSDP), 2011–2013 and the draft NSDP, 2014–2018. The development of Cambodia's financial sector is one of five core areas that best support ADB's Strategy 2020 and its goal to reduce poverty in Cambodia.^b The proposed program cluster for a total of \$30 million (Asian Development Fund) was included in the country operations business plan (COBP), 2013–2015.^c It has been designed within the framework of the Financial Sector Development Strategy (FSDS), 2011–2020 updated under the FSP III.^d

The Fourth Financial Sector Program (FSP IV) will support the government's continued efforts to strengthen the financial sector via a combination of legal and regulatory reforms, targeted capacity building, improved disclosure standards and financial transparency, and the establishment of key financial infrastructure. By promoting the development of a sound, market-based financial system to enhance economic growth and the creation of employment opportunities, the FSP IV will be pivotal in improving financial intermediation in Cambodia. A sound, efficient, and integrated financial system is crucial for achieving broad-based sustainable economic growth; it will help reduce poverty by increasing job opportunities, lowering the transaction costs of economic activities, and extending the outreach of the formal financial sector to poor and rural areas. A robust financial sector will protect the economy from unfavorable exogenous shocks that are becoming more common in increasingly global financial markets and which have serious implications for the poor.

In addition to longer-term effects, financial sector reforms under the program should have positive poverty and social impacts in the short run by promoting the stability of the macro economy, and economic development and accompanying job creation.

B. Targeting Classification

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The FSP IV will help improve the overall financial system nationwide and will indirectly benefit the population.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The expected beneficiaries of the program are the public, and the private sector, especially people in rural areas who are disadvantaged in terms of access to finance. The program is based on the market-based and sustainable approach, thus, the government roles remain to create enable environment to get buy-in of the players in the financial sector through the policy reforms, not to engage itself in the financial sector operations.

2. Impact channels and expected systemic changes. The reforms under the program will improve access to finance in rural areas and create economic and business opportunities, resulting in job creation, and have positive poverty and social impacts in the short run through macroeconomic stability.

3. Focus of (and resources allocated in) the PPTA or due diligence. The PPTA will allocate some resources for emerging microfinance and microinsurance services for the diagnostic analysis, whose business domain is in rural areas to serve poor households.

4. Specific analysis for policy-based lending. The transmission channel of the program is the policy reform by the government to promote an enabling environment and resulting buy-in from financial sector actors, including the private sector. The market-based and sustainable improvement of the access to finance will create more business opportunities and result in increased jobs in the short term under macroeconomic stability. The program expects the increase in business and job opportunities to lead eventually to poverty reduction, especially in rural areas.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? A sound, efficient, and integrated financial system is crucial for achieving broad-based sustainable economic growth; it will help reduce poverty by increasing job opportunities, lowering the transaction costs of economic activities, and extending the outreach of the formal financial sector to poor and rural areas.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No Improved access to finance at an affordable cost would be a benefit of the program. The program promotes equal opportunities for all men and women through a market-oriented system.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No Results to date have shown more women gaining access to finance than men.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity theme) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The main stakeholders of the program include the government and the private sector related to financial sector operations. The role of the government is to create an enabling environment to facilitate economic development and improve access to finance by the public, especially people in rural areas. In designing of policy reforms, consultative workshops will be held for information sharing and feedback. Under the program, no stakeholder has been identified to be negatively affected.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?

The program emphasizes promotion of access to finance for rural (poor) people under a more equitable economic environment for the purpose of inclusive growth.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

M- Information generation and sharing M- Consultation L- Collaboration L- Partnership

The program will be implemented through consultation with the Cambodia Microfinance Association whose members include microfinance institutions and nongovernment organizations, but direct collaboration and partnership with NGOs will not take place.

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No

Improved access to finance at an affordable cost would be a benefit of the program. The program promotes equal opportunities for all men and women through a market-oriented system.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix
 Environmental and social management system arrangement None

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No

3. Will the project require broad community support of affected indigenous communities? Yes No

| |
|---|
| <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p> |
| V. OTHER SOCIAL ISSUES AND RISKS |
| <p>1. What other social issues and risks should be considered in the project design?</p> <p><input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment</p> <p><input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability</p> <p><input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability</p> <p><input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____</p> <p>None</p> <p>2. How are these additional social issues and risks going to be addressed in the project design? Not applicable</p> |
| VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT |
| <p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Not applicable</p> |
| <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence? Not applicable</p> |

^a ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to the Kingdom of Cambodia for the Financial Sector Program Cluster*. Manila (Loan 1859-CAM); 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 (Loan 2378-CAM and TA 4999-CAM); and ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan, and Technical Assistance Grant to the Kingdom of Cambodia for the Third Financial Sector Program Cluster (Subprogram 1)*. Manila (Loan 2815-CAM and TA 7934-CAM).

^b ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

^c ADB. 2012. *Country Operations Business Plan: Cambodia, 2013–2015*. Manila.

^d ADB. 2012. *Financial Sector Development Strategy: Cambodia, 2011–2020*. Manila.