



Completion Report

Project Number: 32431
Loan Numbers: 1859, 1951, 2185
May 2008

Cambodia: First Financial Sector Program Cluster

CURRENCY EQUIVALENTS

Currency Unit – riels (KR)

| | | At Appraisal | At Project Completion |
|--------|---|---------------------|------------------------------|
| | | 11 May 2005 | as of 19 February 2008 |
| KR1.00 | = | \$0.0002453987 | \$0.0002503128 |
| \$1.00 | = | KR4,075 | KR3,995 |

ABBREVIATIONS

| | | |
|--------|---|--|
| ADB | – | Asian Development Bank |
| CBS | – | center for banking studies |
| FSB | – | financial sector blueprint |
| FSDS | – | Financial Sector Development Strategy |
| FSPL | – | Financial Sector Program Cluster Loan |
| FSSC | – | financial sector steering committee |
| IMF | – | International Monetary Fund |
| KICPAA | – | Kampuchea Institute of Certified Public Accountants and Auditors |
| MEF | – | Ministry of Economy and Finance |
| MFI | – | microfinance institutions |
| MOC | – | Ministry of Commerce |
| NAC | – | national accounting council |
| NBC | – | National Bank of Cambodia |
| PCR | – | program completion report |
| SEDP | – | Socioeconomic Development Plan |
| SME | – | small and medium-sized enterprise |
| TA | – | technical assistance |
| TCR | – | technical completion report |

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

| | |
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BASIC DATA

A. Loan Identification

| | | |
|----|----------------------------------|---|
| 1. | Country | Kingdom of Cambodia |
| 2. | Loan Number | Loan 1859 |
| 3. | Program Title | Financial Sector Program (Subprogram 1) |
| 4. | Borrower | Kingdom of Cambodia |
| 5. | Executing Agency | National Bank of Cambodia (NBC) |
| 6. | Amount of Loan | SDR7,758,000 |
| 7. | Program Completion Report Number | CAM 1031 |

B. Loan Data

| | | |
|----|----------------------------------|---|
| 1. | Appraisal | |
| | – Date Started | 10 July 2001 |
| | – Date Completed | 24 July 2001 |
| 2. | Loan Negotiations | |
| | – Date Started | 8 October 2001 |
| | – Date Completed | 10 October 2001 |
| 3. | Date of Board Approval | 15 November 2001 |
| 4. | Date of Loan Agreement | 13 December 2001 |
| 5. | Date of Loan Effectiveness | |
| | – In Loan Agreement | 13 March 2002 (90 days after loan effectiveness) |
| | – Actual | 9 January 2002 |
| | – Number of Extensions | - |
| 6. | Closing Date | |
| | – In Loan Agreement | 31 December 2003 |
| | – Actual | 13 December 2003 |
| | – Number of Extensions | - |
| 7. | Terms of Loan | |
| | – Interest Rate | Grace Period: 1.000; Amortization Period: 1.500 |
| | – Maturity (number of years) | 24.0 years |
| | – Grace Period (number of years) | 8.0 years |
| 8. | Terms of Relending (if any) | |
| | – Interest Rate | Not Applicable |
| | – Maturity (number of years) | Not Applicable |
| | – Grace Period (number of years) | Not Applicable |
| | – Second-Step Borrower | Not Applicable |
| 9. | Disbursements | |
| a. | Dates | |

| Initial Disbursement | Final Disbursement | Time Interval |
|----------------------|-----------------------|---------------|
| 17 April 2002 | 13 December 2002 | 7 months |
| Effective Date | Original Closing Date | Time Interval |
| 9 January 2002 | 31 December 2003 | 17 months |

b. Amount (\$ million)

| Category or Subloan | Original Allocation | Last Revised Allocation | Amount Canceled | Net Amount Available | Amount Disbursed | Undisbursed Balance |
|---------------------|---------------------|-------------------------|-----------------|----------------------|------------------|---------------------|
| 1 | \$10,000,000 | None | \$12 | \$9,999,988 | \$9,996,713 | |
| Total | \$10,000,000 | | \$12 | \$9,999,988 | \$9,996,713 | |

10. Local Costs (Financed)
- Amount (\$)
 - Percent of Local Costs
 - Percent of Total Cost

None
None
None

C. Program Data

1. Program Cost (\$10,000,000)

| Cost | Appraisal Estimate | Actual |
|-----------------------|--------------------|----------------------------|
| Foreign Exchange Cost | \$10,000,000 | \$9,996,713 / SDR7,757,991 |
| Total | | |

2. Financing Plan

| Cost | Appraisal Estimate | Actual |
|----------------------|--------------------|----------------------------|
| Implementation Costs | | |
| ADB-Financed | | |
| Two Tranches | \$10,000,000 | \$9,996,713 / SDR7,757,991 |
| Total | | |

ADB = Asian Development Bank.

3. Cost Breakdown by Program Component

| Component | Appraisal Estimate | Actual |
|--------------|--------------------|----------------------------|
| Two Tranches | \$10,000,000 | \$9,996,713 / SDR7,757,991 |
| Total | \$10,000,000 | \$9,996,713 / SDR7,757,991 |

4. Program Schedule

| Item | Appraisal Estimate | Actual |
|-------------------------------|--------------------|----------------------------|
| Other Milestones ^b | | |
| Two Tranches | \$10,000,000 | \$9,996,713 / SDR7,757,991 |

5. Program Performance Report Ratings

| Implementation Period | Ratings | |
|------------------------------|------------------------|-------------------------|
| | Development Objectives | Implementation Progress |
| From 30 Nov 2001–31 Dec 2001 | S | S |
| 31 Jan 2002 | S | HS |
| From 28 Feb 2002–30 Nov 2002 | S | S |
| 31 Dec 2002 | HS | S |
| From 31 Jan 2003–31 May 2003 | HS | HS |

HS = highly satisfactory, S = satisfactory.

D. Data on Asian Development Bank Missions

| Name of Mission | Date | No. of Persons | No. of Person-Days | Specialization of Members ^a |
|---------------------------|-------------------|----------------|--------------------|--|
| Consultation | 20 Nov–8 Dec 2000 | 2 | 18 | b, b |
| Reconnaissance | 8–19 Mar 2001 | 2 | 12 | b, d |
| Fact-Finding | 18–25 Apr 2001 | 4 | 9 | b, d, c, g |
| Appraisal | 10–24 Jul 2001 | 5 | 15 | b, g, c, d, g |
| Review 1 | 19–27 Aug 2002 | 3 | 9 | d, d, g |
| Review 2 | 15–25 Oct 2002 | 2 | 11 | b, b |
| Review 3 | 20–29 Oct 2004 | 4 | 10 | b, d, d, d |
| Review 4 | 25 May–7 Jun 2007 | 2 | 14 | b, d |
| Program Completion Review | 31 Mar–3 Apr 2008 | 2 | 4 | b, d |

^a a - engineer, b - financial analyst, c - counsel, d - economist, e - procurement consultant or specialist, f - control officer, g - programs officer, h - staff consultant.

BASIC DATA

A. Loan Identification

| | | |
|----|----------------------------------|---|
| 1. | Country | Kingdom of Cambodia |
| 2. | Loan Number | Loan 1951 |
| 3. | Program Title | Financial Sector Program (Subprogram 2) |
| 4. | Borrower | Kingdom of Cambodia |
| 5. | Executing Agency | National Bank of Cambodia (NBC) |
| 6. | Amount of Loan | SDR7,577,000 |
| 7. | Program Completion Report Number | CAM 1031 |

B. Loan Data

| | | |
|----|----------------------------------|---|
| 1. | Appraisal | |
| | – Date Started | Not Required |
| | – Date Completed | Not Required |
| 2. | Loan Negotiations | |
| | – Date Started | 24 October 2002 |
| | – Date Completed | 24 October 2002 |
| 3. | Date of Board Approval | 28 November 2002 |
| 4. | Date of Loan Agreement | 11 December 2002 |
| 5. | Date of Loan Effectiveness | |
| | – In Loan Agreement | 11 March 2003 (90 days after loan effectiveness) |
| | – Actual | 21 February 2003 |
| | – Number of Extensions | - |
| 6. | Closing Date | |
| | – In Loan Agreement | 31 December 2004 |
| | – Actual | 31 August 2005 |
| | – Number of Extensions | Two |
| 7. | Terms of Loan | |
| | – Interest Rate | Grace Period: 1.000; Amortization Period: 1.500 |
| | – Maturity (number of years) | 24.0 years |
| | – Grace Period (number of years) | 8.0 years |
| 8. | Terms of Relending (if any) | |
| | – Interest Rate | Not Applicable |
| | – Maturity (number of years) | Not Applicable |
| | – Grace Period (number of years) | Not Applicable |
| | – Second-Step Borrower | Not Applicable |
| 9. | Disbursements | |
| a. | Dates | |

| Initial Disbursement | Final Disbursement | Time Interval |
|----------------------|-----------------------|---------------|
| 31 August 2005 | 31 August 2005 | 0 |
| Effective Date | Original Closing Date | Time Interval |
| 21 February 2003 | 31 December 2004 | 22 months |

b. Amount (\$ million)

| Category or Subloan | Original Allocation | Last Revised Allocation | Amount Canceled | Net Amount Available | Amount Disbursed | Undisbursed Balance |
|---------------------|---------------------|-------------------------|-----------------|----------------------|------------------|---------------------|
| 1 | \$10,000,000 | None | 0.00 | \$10,000,000 | \$11,203,125 | |
| Total | \$10,000,000 | | | \$10,000,000 | \$11,203,125 | |

10. Local Costs (Financed)
- Amount (\$)
 - Percent of Local Costs
 - Percent of Total Cost

None
None
None

C. Program Data

1. Program Cost (\$10,000,000)

| Cost | Appraisal Estimate | Actual |
|-----------------------|--------------------------------|-----------------------------|
| Foreign Exchange Cost | No Appraisal Mission conducted | \$11,203,125 / SDR7,577,000 |
| Total | | |

2. Financing Plan

| Cost | Appraisal Estimate | Actual |
|----------------------|--------------------------------|-----------------------------|
| Implementation Costs | | |
| ADB-Financed | | |
| Two Tranches | No Appraisal Mission conducted | \$11,203,125 / SDR7,577,000 |
| Total | | |

ADB = Asian Development Bank.

3. Cost Breakdown by Program Component

| Component | Appraisal Estimate | Actual |
|--------------|--------------------------------|-----------------------------|
| Two Tranches | No Appraisal Mission conducted | \$11,203,125 / SDR7,577,000 |
| Total | - | \$11,203,125 / SDR7,577,000 |

4. Program Schedule

| Item | Appraisal Estimate | Actual |
|-------------------------------|--------------------------------|-----------------------------|
| Other Milestones ^b | | |
| Two Tranches | No Appraisal Mission conducted | \$11,203,125 / SDR7,577,000 |

5. Program Performance Report Ratings

| Implementation Period | Ratings | |
|-------------------------------|------------------------|-------------------------|
| | Development Objectives | Implementation Progress |
| From 31 Dec 2002–28 Feb 2003 | S | S |
| From 31 Mar 2003–31 Dec 2003 | S | HS |
| From 31 Jan 2004–31 Oct 2004 | S | S |
| From 30 Nov 2004–31 Aug 2005 | S | PS |
| From 30 Sept 2005–31 Dec 2005 | S | S |

HS = highly satisfactory, PS = partly satisfactory, S = satisfactory.

D. Data on Asian Development Bank Missions

| Name of Mission | Date | No. of Persons | No. of Person-Days | Specialization of Members ^a |
|---------------------------|-------------------|----------------|--------------------|--|
| Review 1 | 7–11 Mar 2005 | 3 | 5 | b, d, d |
| Review 2 | 5–11 May 2005 | 5 | 7 | b, c, d, d, h |
| Review 3 | 6–10 Jun 2005 | 2 | 5 | b, d |
| Program Completion Review | 31 Mar–3 Apr 2008 | 2 | 4 | b,d |

^a a - engineer, b - financial analyst, c - counsel, d - economist, e - procurement consultant or specialist, f - control officer, g - programs officer, h – staff consultant.

BASIC DATA

A. Loan Identification

| | | |
|----|----------------------------------|---|
| 1. | Country | Kingdom of Cambodia |
| 2. | Loan Number | Loan 2185 |
| 3. | Program Title | Financial Sector Program (Subprogram 3) |
| 4. | Borrower | Kingdom of Cambodia |
| 5. | Executing Agency | National Bank of Cambodia (NBC) |
| 6. | Amount of Loan | SDR6,763,000 |
| 7. | Program Completion Report Number | CAM 1031 |

B. Loan Data

| | | |
|----|----------------------------------|---|
| 1. | Appraisal | |
| | – Date Started | 28 July 2005 |
| | – Date Completed | 29 July 2005 |
| 2. | Loan Negotiations | |
| | – Date Started | 15 August 2005 |
| | – Date Completed | 15 August 2005 |
| 3. | Date of Board Approval | 29 September 2005 |
| 4. | Date of Loan Agreement | 8 November 2005 |
| 5. | Date of Loan Effectiveness | |
| | – In Loan Agreement | 6 February 2006 (90 days after loan effectiveness) |
| | – Actual | 11 January 2006 |
| | – Number of Extensions | - |
| 6. | Closing Date | |
| | – In Loan Agreement | 30 June 2007 |
| | – Actual | 31 October 2007 |
| | – Number of Extensions | 2 |
| 7. | Terms of Loan | |
| | – Interest Rate | Grace Period: 1.000; Amortization Period: 1.500 |
| | – Maturity (number of years) | 24.0 years |
| | – Grace Period (number of years) | 8.0 years |
| 8. | Terms of Relending (if any) | |
| | – Interest Rate | Not Applicable |
| | – Maturity (number of years) | Not Applicable |
| | – Grace Period (number of years) | Not Applicable |
| | – Second-Step Borrower | Not Applicable |
| 9. | Disbursements | |
| a. | Dates | |

| Initial Disbursement | Final Disbursement | Time Interval |
|----------------------|-----------------------|---------------|
| 30 October 2007 | 30 October 2007 | 0 |
| Effective Date | Original Closing Date | Time Interval |
| 11 January 2006 | 30 June 2007 | 18 months |

b. Amount (\$ million)

| Category or Subloan | Original Allocation | Last Revised Allocation | Amount Canceled | Net Amount Available | Amount Disbursed | Undisbursed Balance |
|---------------------|---------------------|-------------------------|-----------------|----------------------|------------------|---------------------|
| 1 | \$10,000,000 | None | 0.00 | \$10,000,000 | \$10,582,540 | |
| Total | \$10,000,000 | | | \$10,000,000 | \$10,582,540 | |

10. Local Costs (Financed)
- Amount (\$)
 - Percent of Local Costs
 - Percent of Total Cost

None
None
None

C. Program Data

1. Program Cost (\$10,000,000)

| Cost | Appraisal Estimate | Actual |
|-----------------------|--------------------|-----------------------------|
| Foreign Exchange Cost | \$10,000,000 | \$10,582,540 / SDR6,763,000 |
| Total | | |

2. Financing Plan

| Cost | Appraisal Estimate | Actual |
|----------------------|--------------------|----------------------------|
| Implementation Costs | | |
| ADB-Financed | | |
| Single Tranche | \$10,000,000 | \$10,582,540/SDR 6,763,000 |
| Total | | |

ADB = Asian Development Bank.

3. Cost Breakdown by Program Component

| Component | Appraisal Estimate | Actual |
|----------------|--------------------|-----------------------------|
| Single Tranche | \$10,000,000 | \$10,582,540 / SDR6,763,000 |
| Total | \$10,000,000 | \$10,582,540 / SDR6,763,000 |

4. Program Schedule

| Item | Appraisal Estimate | Actual |
|-------------------------------|--------------------|-----------------------------|
| Other Milestones ^b | | |
| Single Tranche | \$10,000,000 | \$10,582,540 / SDR6,763,000 |

5. Program Performance Report Ratings

| Implementation Period | Ratings | |
|-------------------------------|------------------------|-------------------------|
| | Development Objectives | Implementation Progress |
| From 30 Sept 2005–28 Feb 2006 | S | S |
| From 31 Mar 2006–30 Nov 2006 | S | HS |
| From 31 Dec 2006–31 Oct 2007 | S | S |

HS = highly satisfactory, S = satisfactory.

D. Data on Asian Development Bank Missions

| Name of Mission | Date | No. of Persons | No. of Person-Days | Specialization of Members ^a |
|---------------------------|----------------------|----------------|--------------------|--|
| Fact-Finding | 5–11 May 2005 | 5 | 7 | b,c,d,d,h |
| Appraisal | 28–29 Jul 2005 | 3 | 2 | b,c,d |
| Inception | 30 Jan 06–2 Feb 2006 | 2 | 4 | b,d |
| Review 1 | 23–26 May 2006 | 2 | 4 | b,d |
| Review 2 | 21 Nov–28 Nov 2006 | 2 | 8 | b,d |
| Review 3 | 15 Mar–22 Mar 2007 | 2 | 8 | b,d |
| Review 4 | 25 May–7 Jun 2007 | 2 | 14 | b,d |
| Program Completion Review | 31 Mar–3 Apr 2008 | 2 | 4 | b,d |

^a a - engineer, b - financial analyst, c - counsel, d - economist, e - procurement consultant or specialist, f - control officer, g - programs officer, h – staff consultant.

I. PROGRAM DESCRIPTION

1. On 15 November 2001, the Asian Development Bank (ADB) approved the first Financial Sector Program Cluster Loan (FSPL I)¹ for Cambodia for a total of \$30 million equivalent from the Asian Development Fund. The primary goal of FSPL I was the development of a sound, market-based financial system to support resource mobilization and sustainable economic growth. The expected outcomes were: i) enhanced bank intermediation and soundness, ii) an established legal and regulatory framework for insurance development, iii) an established foundation for development of interbank and money markets, and iv) a developing financial infrastructure that included accounting and auditing practices. Key reforms under FSPL I focused on increasing bank intermediation and strengthening bank supervision, establishing the legal and regulatory foundation to support insurance development, promulgation of laws necessary to underpin commercial and financial activities, advancing accounting and auditing practices towards international standards and best practices within the financial sector, and establishing and developing the capacity of supporting institutions.

2. FSPL I adopted a program cluster approach with three subprograms, each of which was to be processed sequentially upon completion of the previous subprogram. The first subprogram for \$10 million equivalent was approved on 15 November 2001, to be released in two \$5 million tranches. The loan agreement (Loan 1859-CAM) was signed on 13 December 2001 and both tranches were fully disbursed by December 2002. To continue the reform activities under subprogram 1, subprogram 2 was approved on 28 November 2002² for \$10 million equivalent, again to be released in two \$5 million tranches. The Loan Agreement was signed on 11 December 2002 and Loan 1951-CAM became effective on 21 February 2003. Both tranches were released in August 2005. Building on the achievements of subprograms 1 and 2, subprogram 3,³ for \$10 million equivalent, was approved on 29 September 2005, to be released in a single tranche. The Loan Agreement was signed on 8 November 2005 and Loan 2185-CAM became effective on 11 January 2006. The single tranche was released on 30 October 2007.

3. This program completion report (PCR) provides an overview and an evaluation of initial impacts and benefits of the overall FSPL I. The updated program framework⁴ for FSPL I with achievements of subprograms 1, 2, and 3 is in Appendix 1.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

4. FSPL I was consistent with the development objectives of the Government's Socioeconomic Development Plan II (SEDP II) for 2001–2005, the Financial Sector Blueprint (FSB) for 2001–2010, and the Government's recognition that an active contribution by the country's financial sector is essential for the economy to reach its growth potential and develop

¹ ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan Cluster to the Kingdom of Cambodia for the Financial Sector Program*. Manila. [Loan 1859-CAM].

² ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Cambodia for Subprogram II of the Financial Sector Program and on the Progress of Subprogram I*. Manila. [Loan 1951-CAM].

³ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Kingdom of Cambodia for Subprogram III of the Financial Sector Program*. Manila. [Loan 2185-CAM].

⁴ FSPL I was developed prior to adoption of the Results-Based Framework (design and monitoring framework) by ADB.

at a sustainable pace. The main goal under SEDP II—sustainable poverty reduction—was in line with ADB's country operational strategy for Cambodia. The following brief history of Cambodia provides a backdrop to the design and formulation of FSPL I.

5. A period of peace began in 1993, following a long period of domestic turmoil and subsequent international isolation in the 1980s. No formal financial intermediation was available during this period and the Cambodian financial system was confined to one institution—the People's Bank of Kampuchea, which issued the national currency (the riel) and served as the national treasurer for financing government operations. The treasury role was transferred to the Ministry of Economy and Finance (MEF) in 1990. This period was marked by hyperinflation and steep devaluation of the riel. Following establishment of the United Nations Transitional Authority in 1991, the United States (US) dollar became to be seen as a safe alternative to the riel for cash holdings and protection against loss of purchasing power; the dollar has since gained the status of legal tender in Cambodia.

6. In 1996, with the promulgation of the Law on the Organization and Conduct of the National Bank of Cambodia (NBC), NBC was established as the country's central bank. In 1999, the Government enacted the Law on Banking and Financial Institutions and requested assistance from ADB in developing the country's nascent financial sector. In response, ADB embarked on an initial sector study that identified key constraints to the sector. These included (i) high information costs stemming from a lack of common accounting and auditing standards and other information support infrastructure, (ii) high risk related to uncertainties regarding law and contract enforcement, (iii) high operating costs, and (iv) weak supervisory systems and human resource capacity.

7. With technical assistance (TA) for Preparing the First Financial Sector Development Program,⁵ and building on the initial sector study, a comprehensive financial sector diagnostic review was undertaken, leading to the formulation of the financial sector blueprint (FSB) for 2001–2010 to address the above constraints. Formulation of the FSB involved a series of workshops and consultations with various stakeholders including the donor community and non-government organizations. The FSB 2001–2010 was adopted by the Government in August 2001 as its long-term vision and development strategy for the financial sector. To implement the first phase of the FSB (see FSB summary in Appendix 2), the FSPL I was formulated in close coordination with the International Monetary Fund (IMF) poverty reduction and growth facility (PRGF), which was approved in 1999.

B. Program Outputs

8. Program outputs under FSPL I can be grouped into five categories: (i) development of the banking system, (ii) a foundation for insurance development, (iii) promulgation of laws necessary to underpin commercial and financial activities, (iv) advancement of accounting and auditing practices towards international standards and best practices, and (v) the establishment of supporting institutions and accompanying development of human resource capacity.

1. Development of the Banking System

9. Six of the policy actions under subprogram 1 focused on strengthening NBC's prudential supervision of banks: (i) reconciliation of old prudential regulations and issuance of new ones

⁵ ADB. 2000. *Technical Assistance to the Kingdom of Cambodia for Preparing the first Financial Sector Development Program*. Manila. [TA 3467-CAM].

with clarifying guidelines, (ii) acting on public feedback regarding legal and regulatory developments in the banking system, (iii) establishment of an onsite supervision division for banks, (iv) adoption of surveillance and inspections procedures with standardized reporting templates, (v) adoption of a prompt corrective action system for banks, and (vi) adoption of two anti-money laundering regulations covering “Know your customer” and “Reporting suspicious transactions.” These reform actions helped strengthen NBC’s surveillance and supervision capability and promoted the soundness of Cambodia’s financial system.

10. Subprogram 2 continued to support the development of NBC’s supervision capability with the introduction of a uniform chart of accounts for banks, and the application of international accounting and auditing standards by banks. As of 31 March 2005, all 14 commercial and three specialized banks, including the Rural Development Bank, had complied with implementation of the chart of accounts and disclosure rules, which are consistent with international accounting standards. NBC also issued a *prakas* (regulation issued by the governor) in December 2004 requiring all commercial and specialized banks to publish their annual audited financial statements beginning 30 June 2005. NBC has been closely monitoring compliance with the application of chart of accounts by all commercial and specialized banks through onsite and offsite supervision.

11. The capacity of NBC for offsite supervision of banks has been upgraded and strengthened. Regulatory standards have been gradually improved and relevant prudential regulations added to maintain NBC’s primary objective of enhancing the soundness of the banking system. At the end of 2006, NBC’s Bank Supervision Department published its second annual report, which provided a detailed and comprehensive assessment of the banking system. These developments demonstrate that NBC is serious about market transparency and has made significant progress toward the establishment of a sound regulatory and efficient supervisory regime to enhance banking system integrity. These reforms have increased confidence in the banking system and will continue under the second financial sector program, approved in December 2007.

2. A Foundation for Insurance Development

12. Cambodia had only one insurance firm, Caminco (100% government-owned) at the beginning of FSPL I. Caminco was the sole supervisor and also the insurer of a few non-life products. Subprogram 1 helped formulate a regulatory framework and establish an insurance supervisory function within MEF. A subdecree was adopted by the Council of Ministers in 2001 to help implement the new insurance law, after which MEF established a supervision unit to regulate and supervise the insurance industry. ADB provided TA to help MEF in developing the capacity of the supervision unit (para. 37).

13. Subprogram 2 sought to assist MEF expand the insurance industry and privatize Caminco. Three new insurance firms were issued with licenses in 2003, and three interministerial *prakas* and regulations for compulsory insurance of liabilities arising from construction work, public transport accidents, and motor vehicle third-party policies were issued on 16 October 2002. These have been the main insurance products available locally, with the sector’s total gross premium market reaching more than \$17 million in 2007. MEF is presently reviewing model legislation, regulations, and practices in the region with a view to expanding the insurance products range and level of business in Cambodia.

14. One of the aims of subprogram 2 was to restructure Caminco through a joint-venture arrangement with a private insurance company. A joint venture between Caminco and the local

private insurance firm Indochine was envisaged by the Government during subprogram 2, but that was not realized as a result of the insolvency and subsequent liquidation of Indochine. Privatization of Caminco was nonetheless pursued by the Government, and the privatization plan was approved by the Prime Minister in early 2005. A public notice was issued inviting expressions of interest regarding investment in Caminco from local and international insurance companies (potential investment was capped at 49% of Caminco's capital shares, in accordance with legislative limitations). Two non-responsive proposals were received by the closing date of 30 April 2005.⁶ In spite of its sincere efforts, MEF was not able to find a joint-venture partner for Caminco. The policy action requiring a joint-venture between Caminco and a private insurance firm was therefore waived by ADB's Board of Directors in August 2005.

15. Restructuring of Caminco continued under subprogram 3, with the intention that the Government would divest its shares at the earliest opportunity. A restructuring plan was approved in August 2005 and implementation followed with TA from ADB for Financial Sector Program Implementation.⁷ A three-member board audit committee began functioning in 2006 and Caminco's board approved a 3-year business plan (including a training plan for 2006 and a marketing strategy) in December 2005. The implementation of the plan has been monitored closely by Caminco's management team since 2006. Accounting policies and internal procedures to enhance financial disclosure by Caminco are being implemented. In preparing for the privatization of Caminco, a list of 20 international firms was drawn up, from which a shortlist was prepared by an interministerial privatization committee. Three firms responded to the invitations for expressions of interest. They received an information memorandum (following the signing of a confidentiality agreement) and a request that formal proposals be made by 7 February 2007. Two of the three firms (from New Zealand and Singapore) later informed Caminco's management that they were no longer interested in pursuing a due diligence study. The third firm, Prudential Insurance, requested a 1-month extension, but no further contact has been made since 7 March 2007. Caminco's board assumed that Prudential Insurance was no longer interested in pursuing its bid and has decided to build market share and continue its internal restructuring of Caminco prior to re-visiting the need for an international strategic partner.

3. Promulgation of Laws Necessary to Underpin Commercial and Financial Activities

16. Under subprogram 1 the draft laws on accounting and commercial enterprises were submitted to the National Assembly. The accounting law was adopted in 2002 and the commercial enterprise law in 2005 (under subprogram 2), with passage of the latter affected by the July 2003 general election and subsequent 1-year delay in forming the national government. The commercial enterprise law is the equivalent of a corporation law and provides a legal basis for the operation of registered and non-registered corporations, their shareholders and management. It includes provisions for preparing corporate financial reports, auditing, and procedures for the transfer of shares.

17. Other laws formulated during subprogram 2 and adopted under subprogram 3 include the secured transactions law (adopted May 2007), the law on negotiable instruments and payment transactions (adopted September 2005), and the commercial arbitration law (adopted

⁶ The first proposal was predicated only on majority ownership (of more than 51% of shares) and was made by a local firm with no prior insurance experience. The second proposal was a general letter from a competing insurance company with no specific proposal to purchase shares.

⁷ ADB. 2005. *Technical Assistance to the Kingdom of Cambodia for Financial Sector Program Implementation*. Manila. [TA 4656-CAM].

March 2006). The underlying purpose of the Secured Transactions Law is to facilitate growth in the economic sector by making credit available, through secured transactions, to all types of businesses. The creation of a legal framework allowing creditors to take a security interest over a debtor's movable property is important for small and medium-sized enterprises (SMEs) that do not own land and buildings but require access to readily available, inexpensive long-term credit. The development of an online registry for secured transactions commenced in May 2005, and the Ministry of Commerce (MOC) adopted a time-bound action plan to guide its establishment. The main objective of the online filing registry, which is a major advancement in Cambodia, is to reduce the involvement of civil servants in the registration and collection of fees. It will assist in prioritizing securities claims and provide public access to information on secured chattels and their owners. The filing registry was officially launched in December 2007.

18. The law on negotiable instruments and payment transactions was adopted in September 2005. It provides the legal basis for further developing the payments and settlement system, payment instruments, and promoting the development of a money market. Three implementing regulations covering (i) the control of systemic risks, (ii) the operation of settlement accounts, and (iii) payment clearing systems were issued by NBC in December 2006. NBC also held a series of public dissemination workshops in November 2006 to explain the content and intent of the approved law and regulations.

19. The draft law on commercial arbitration was submitted to the National Assembly in 2004. Extended discussions to harmonize the procedures and key provisions of the draft law with the draft Civil Procedures Law were held at the committee level of the National Assembly, with the law adopted in March 2006. The law provides the legal basis for dispute resolution alternatives for small commercial transactions. ADB provided TA (footnote 7) to help develop the implementing subdecree. Further assistance to help the MOC establish the national arbitration center will be provided under the recently approved FSP II.

20. The insolvency law was drafted in 2002 with IMF support and submitted to the Council of Ministers in 2003. Considerable time was required for the MOC and the Ministry of Justice to ensure coherence and consistency of the draft law with the draft civil code prior to its passage through the plenary session of the Council of Ministers. The draft law was subsequently adopted by the National Assembly in September 2007. It provides the legal basis and procedures for administering insolvent corporations.

21. In 2004, following adoption of the commercial laws, MOC initiated a public awareness program throughout Phnom Penh and outer provinces to explain the laws. MOC also launched a website in December 2005 featuring all approved commercial laws. A training program was developed targeting mid-level legal drafters, arbitrators, judges, key government officials, legal trainers and lecturers; in addition, a CD containing training modules was developed for the benefit of selected law institutes so that a commercial law curriculum based on the new commercial laws could be formulated to train judges, lawyers, and legal and clerical staff. The commercial law curriculum for the 4-year Business Degree Program has been adopted by the three law institutes concerned and teaching of the program commenced in 2007.

4. Advancement of Accounting and Auditing Practices towards International Standards and Best Practices

22. In addition to the formulation of and submission to the National Assembly of the accounting law (see para. 16), subprogram 1 helped MEF formulate and adopt 15 accounting and 10 auditing standards based on international standards; the standards were selected based

on their relevance to the current level of business and commercial activities in Cambodia. They were translated to Khmer with TA from the World Bank and were enforced after the promulgation of the accounting law and the establishment of a national enforcement body during subprogram 2.

23. The National Assembly adopted the law on corporate accounts, their audit, and the accounting profession in July 2002. The subdecree to establish the national accounting council (NAC) was adopted by the Council of Ministers in March 2003. Through a prakas dated 27 March 2003, MEF appointed members of the NAC as the official body for standard setting. The NAC subsequently adopted five additional accounting standards, also based on international standards (making a total of 20 Cambodian accounting standards) for all eligible corporations in Cambodia to follow. The subdecree to create the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA) was adopted in March 2003 and the draft code of ethics submitted to the Council of Ministers in March 2005. In February 2005, NAC proposed the establishment of committees on education and ethics within KICPAA to the MEF. Prakas no. 199 on the formation of a commission for work, study and research and prakas no. 222 on the formation of the professional ethics commission were both issued in April 2005. The subdecree covering the code of ethics of KICPAA was approved by the Council of Ministers and endorsed by the Prime Minister in June 2005.

24. With the legal and institutional framework in place, only 10 locally qualified accountants were practicing in 2004. Subsequent updates under subprogram 2 introduced an initiative to improve accounting and auditing capacity through a government-funded scholarship scheme to assist at least 70 candidates per year to train toward the certified public accountant qualification, a prerequisite to becoming members of KICPAA. Between 2004 and 2005, these scholarships were restricted to government civil servants. A significant number of students dropped out of the 3.5-year program for various reasons, and in 2006 the scholarships were opened to the general public, with selection based on merit. Passing rates have subsequently greatly improved. The Government has agreed to continue the accounting scholarship scheme under FSP II until there are an adequate number of locally qualified accountants and auditors.

5. Establishment of Supporting Institutions and the Development of Human Resource Capacity

25. Subprogram 1 helped NBC to establish a center for banking studies (CBS); the management and operating budget are semi-autonomous. The separation of CBS from NBC was challenging for NBC management, as personnel movements and asset separation were sensitive issues. NBC established a task force to manage the transition and on 2 July 2003, CBS introduced an associate degree program, an entry-level training program for new NBC staff, and a managerial training program. By the end of 2006, CBS had trained 13 separate intakes totaling 798 students, 538 of whom were not NBC staff. CBS recently revised and upgraded these courses to meet the challenges facing the banking system. CBS now has a new associate degree program. Following a request from NBC and CBS, ADB fielded a consultant for 1 month, beginning 3 June 2005, to further strengthen the capabilities of the trainers and advise CBS on how to achieve financial sustainability in the medium to long term.

26. Privatization of the only state-owned commercial bank, Foreign Trade Bank, was part of the IMF PRGF program and subprogram 1 provided complementary training to management and staff to prepare them for the transition. The privatization of Foreign Trade Bank was completed in 2005.

27. Subprogram 1 also supported the establishment of a bankers association to help with the development of the credit information sharing system, an interbank market, and the establishment of a bank training institute. The articles of association for the bankers association were adopted in 2002, and included a mandate to promote education, research, and training among members. Under subprogram 2, NBC signed a memorandum of understanding with 16 banks⁸ containing guidelines for establishing the credit information sharing system on a pilot basis. An online credit information sharing system was launched in August 2006 and NBC is closely monitoring its operation. Some technical problems were experienced in the first year of operation; these have been resolved, but NBC has proposed ongoing assistance under FSP II to ensure that banks are able to fully utilize the system. Credit information sharing is aimed at reducing uncertainties surrounding lending operations of commercial and specialized banks and enhancing financial intermediation. A banking training center was established in 2004 with ADB technical support and has been providing short-term technical training courses for middle-to-lower bank staff members.

C. Program Costs

28. ADB supported the Program Cluster with three subprogram loans totaling SDR22,098,000 (\$30 million equivalent). The subprogram 1 loan (Loan 1859-CAM) was disbursed in two tranches of SDR3,879,000 each (one each in April and December 2002). The subprogram 2 loan (Loan 1951-CAM) was disbursed in two tranches totaling SDR7,577,000 (both released on 31 August 2005). The subprogram 3 loan (Loan 2185-CAM) was disbursed in a single tranche of SDR6,763,000 in October 2007.

D. Program Schedule and Disbursements

29. Approval and effective dates of the three subprograms are discussed above (para. 2). The first tranche of subprogram 1 was released on 17 April 2002 following loan effectiveness and the second tranche was released on 13 December 2002, within the scheduled disbursement date. The release of the first tranche for subprogram 2 was initially scheduled to occur within 6 months of loan effectiveness (August 2003), but the July 2003 national election and 1-year delay in forming a new government caused it to be rescheduled to May 2005. The second tranche was initially scheduled for release within 12 months of loan effectiveness (February 2004) but the release date was rescheduled to May 2005 for similar reasons. The closing date of subprogram 2 was extended twice (from 31 December 2004 to 30 June 2005, and again to 31 December 2005); the latter extension allowed for internal ADB processing of the Board documents. Given the circumstances, passage of draft laws that required Council of Ministers approval and formal adoption by the National Assembly was affected. With the support of the MEF and NBC, MOC endeavored to accelerate the passage of laws, but the political delays in forming the government were beyond the control of MOC. The single tranche of subprogram 3 was disbursed in October 2007, four months after the scheduled date, due to the late approval of the secured transactions law and the three months required for ADB's internal processing of the progress report. Subprogram 3 was closed in December 2007, marking the end of the FSPL I implementation.

⁸ The only nonparticipating bank is not undertaking general credit extension to individuals and domestic business in Cambodia.

E. Implementation Arrangements

30. NBC was the executing agency (EA), and MEF and MOC the implementing agencies for FSPL I. A financial sector steering committee (FSSC) was established to oversee implementation of FSPL I and provide policy guidance to the various government agencies involved. The FSSC was chaired by the governor of NBC and included senior representatives from MEF, MOC, NBC, and the Council for Development of Cambodia. To ensure timely program implementation, a working group was also established under the FSSC, to assist FSSC and oversee day-to-day program implementation. Senior officials including the governor were not always available due to other pressing commitments. A senior NBC officer was appointed as program director to assist NBC, MEF, and MOC in coordinating day-to-day program implementation during subprograms 2 and 3. The FSSC met as required to review progress reports from the technical working group, and consider and propose concrete actions to resolve pending issues. The program director provided quarterly progress reports on subprogram implementation, and in particular progress in implementing the policy actions adopted for FSPL I.

F. Conditions and Covenants

31. The Government satisfactorily fulfilled all 15 policy actions under subprogram 1, 12 of the 13 policy actions under subprogram 2 (see para. 14), and all 12 policy actions under subprogram 3 (see Appendix 1). The policy actions selected were based on the sequence of reforms identified in the government-approved FSB for 2001–2010 and the Development Policy Letter of October 2001.

32. During approval of subprograms 2 and 3 some minor revisions were made to the policy conditions approved under the FSPL I cluster concept in 2001. In subprogram 2, the proposed action that required “MEF to submit to the National Assembly a draft securities and exchange law” was replaced by “MEF to establish an association of accountants and auditors including (i) adopting a code of ethics that complies with the requirements of the International Federation of Accountants, and (ii) establishing committees on education and ethics within the association.” At the time of processing subprogram 2, MEF considered that the accounting reform should be accelerated so as to be in place prior to—and thus be able to support—initial operation of the financial market, including the securities exchange when it is established. Despite this minor change in sequencing, MEF continued to prepare the draft securities and exchange law that was subsequently adopted by the National Assembly in January 2007.

33. In formulating subprogram 3, all policy actions proposed under the FSPL I cluster concept were re-visited in consultation with the Government. Three of the seven policy conditions were either dropped or deferred. Since the banking training institute had been established in 2004 under the administration of the bankers association, this condition was dropped. Development of a deposit insurance system was omitted in view of developments in Cambodia’s banking sector. This change reflected the outcome of dialogue with NBC and a preference for an approach that included a strengthened supervisory regime together with counterparty surveillance provided by market participants. This required that offsite and onsite supervision be strengthened and quality information (credit information, audited financial reports of banks publicly available, etc.) for market participants be available. Eight policy actions were added; of these, five were to continue the legal and regulatory reforms from the previous subprograms (adoption of the commercial arbitration law; submission of a draft insolvency law to the National Assembly; dissemination of commercial laws via internet; commercial law curricula for training lawyers, judges, and legal clerks; and adoption of implementing regulations

for the law on negotiable instruments and payment transactions). One required that preparations for a financial intelligence unit be made, and another required the adoption of prudential regulations to enhance solvency, liquidity and corporate governance in the insurance sector. The final policy action required the provision of 70 scholarships for the training of national qualified accountants and auditors based on the Association of Certified Chartered Accountants (ACCA) accreditation.

34. As stated in para. 14, only one policy action was waived during subprogram 2. This related to the need to establish a joint-venture between the government-owned insurance firm (Caminco) and a private insurance company. The MEF made extensive efforts to effect the joint venture, including eliciting the Prime Minister's full support and inviting expressions of interest from international and local private insurance companies. Unfortunately, no private sector insurance company showed interest after the nominated private sector company went into liquidation. The restructuring and commercialization of Caminco continued during subprogram 3, however, with the full backing of the Government (see audited financial results in Appendix 3).

G. Related Technical Assistance

35. In addition to the project preparatory TA (footnote 5), four advisory TA projects were approved to assist with the implementation of FSPL I, one small-scale TA project helped update the FSB 2001–2010, and one advisory TA project assisted in the development of microfinance. TA for Capacity Building for Banking and Financial Management ⁹ was approved in November 2001 to help MEF, MOC, and NBC implement the policy actions for subprograms 1 and 2, focusing on banking supervision initiatives, insurance regulation and supervision, bank training institutes, and accounting development. A separate technical completion report (TCR) was prepared in June 2006 and provided an overall TA rating of partially successful in view of the weak enforcement of regulations when the TA was physically closed in August 2005.

36. TA for Improving Legal Infrastructure in the Financial Sector¹⁰ was approved in May 2002 to help MEF, MOC, and NBC formulate key commercial laws to support commercial and financial activities in Cambodia. The TA was physically closed in September 2006 and a separate TCR was prepared in July 2007 that provided an overall TA rating of successful; all the required outputs were delivered, although some were delayed as explained in para. 16.

37. TA for Improving Insurance Supervision¹¹ was approved in December 2002 to help MEF upgrade the insurance legal and regulatory framework to international standards and practices, establish the insurance supervision unit, build the capacity of the insurance supervision staff, and help restructure Caminco and identify a suitable joint-venture company. The TA was physically closed in December 2005 and a separate TCR was prepared in June 2006. It provided an overall TA rating of partially successful in view of the delay in restructuring and identifying a suitable partner for Caminco (see para. 14).

38. TA for Financial Sector Program Implementation (footnote 7) was approved in September 2005 to help MEF, MOC, and NBC implement the policy actions under subprogram 3. The consultants helped strengthen the onsite supervision capability of the NBC, develop the

⁹ ADB. 2001. *Technical Assistance to the Kingdom of Cambodia for Capacity Building for Banking and Financial Management*. Manila. [TA 3769-CAM].

¹⁰ ADB. 2002. *Technical Assistance to the Kingdom of Cambodia for Improving Legal Infrastructure in the Financial Sector*. Manila. [TA 3861-CAM].

¹¹ ADB. 2002. *Technical Assistance to the Kingdom of Cambodia for Improving Insurance Supervision*. Manila. [TA 4020-CAM].

legal and regulatory framework for a payment and settlement system, strengthen insurance supervision capability, implement the restructuring plan for Caminco, develop the commercial law curricula for training lawyers, judges, and legal clerks, and prepare the subdecree for establishing the national arbitration center. The TA was physically closed in December 2007 and a separate TCR is being prepared for circulation to the Board in 2008.

39. Small-scale TA for the Financial Sector Blueprint Update¹² was approved in October 2005 to help MEF, MOC, and NBC update the FSB 2001–2010. After close consultation with concerned stakeholders and several workshops the consultants helped the above agencies update the FSB 2001–2010, which resulted in the adoption by the Council of Ministers of the Financial Sector Development Strategy 2006–2015 (FSDS) in February 2007. The FSDS 2006–2015 was officially launched by the Prime Minister of Cambodia during a financial sector symposium in May 2007 and is officially recognized as the Government's long-term vision and development strategy for the financial sector for 2006–2015.

40. TA for Developing Deposit Services in Rural Cambodia¹³ was approved in December 2005 to strengthen NBC's capacity to regulate and supervise microfinance institutions (MFI), strengthen the capacity of MFIs to deliver microfinance savings services, and build awareness among the general community of the value of savings and the capacity of MFIs to provide safe deposit services. Work under this TA project has helped incorporate reforms in the MFIs into the FSPL I and this will continue in FSP II. The first two phases have been successfully implemented. Work on the third phase has recently commenced and the TA is expected to be physically closed in June 2008, after which a separate TCR will be prepared.

H. Performance of Consultants

41. All the consultants under the related TAs were engaged in accordance with ADB's *Guidelines on the Use of Consultants*. The performance of consultants was assessed under each TCR to be mostly satisfactory. There were areas regarding training that the executing and implementing agencies felt that was inadequate. However, most of the reform initiatives and concepts were new and the absorptive capacity of staff low, meaning additional time was required for the consultants to explain these concepts prior to implementation. As a result, most of the TA closing dates had to be extended several times. There were also differences in expectations associated with cultural differences, and these affected delivery and implementation. This is an important lesson that should be considered in the selection of consultants for subsequent subprograms.

I. Performance of the Borrower and the Executing Agency

42. Overall, government performance is rated as highly satisfactory. The Government's close involvement in the formulation of the long-term vision and framework for reforming the financial sector as embedded in the FSB 2001–2010 and the formal adoption of the FSB by the Council of Ministers signaled the Government's ownership, and provided clear direction and sequencing to Cambodia's financial sector development. The commitment of the EA (NBC) and implementing agencies (MEF and MOC) to the reform agenda supported by the high-level FSSC (chaired by the governor of NBC) made successful implementation of the FSPL I policy reforms possible.

¹² ADB. 2005. *Technical Assistance to the Kingdom of Cambodia for Financial Sector Blueprint Update*. Manila. [SSTA 4677-CAM].

¹³ ADB. 2005. *Technical Assistance to the Kingdom of Cambodia for Developing Deposit Services in Rural Cambodia*. Manila. [TA 4755-CAM].

43. NBC was very successful in strengthening its capability to license and supervise banks and MFIs. It introduced a higher capital adequacy ratio (CAR) of 20% of risk-weighted assets (reduced to 15% in 2004, compared to the Basel 8% minimum CAR), implemented the re-licensing program that saw 16 banks closed in 2002, privatized the remaining state-owned commercial bank, and established a self-financing banking training center and bankers association, among other successful reforms. MEF was highly successful in leading reforms in the insurance industry and in the development of accounting and auditing standards. Successful reforms led by MEF included its commitment to strengthening its insurance supervision capability, closing down an insolvent insurance company, and securing finance for accounting scholarships that were merit based. MOC sponsored the development of key commercial laws to underpin commercial and financial activities and successfully used FSPL I to secure adoption of a number of commercial laws by the National Assembly. MOC also used its own staff to carry out a public awareness program throughout Cambodia and initiated the commercial law training program.

44. Coordination among these agencies was very effective and review missions regularly received quarterly progress reports from the program director, either before or during the missions. Review missions maintained a very good policy dialogue with representatives of the three agencies, who participated during wrap-up meetings. The TA provided by ADB was very useful and was utilized effectively by these agencies. The commitment of these agencies was evident in their leadership of the various technical working groups involved in updating FSB 2001–2010, leading to the adoption by the Government of the FSDS 2006–2015 in February 2007.

J. Performance of the Asian Development Bank

45. ADB's performance has been highly satisfactory. ADB has supported reforms in the financial sector since 1999, beginning with the diagnostic assessment of the financial sector, which resulted in the formulation of the FSB 2001–2010. The blueprint, adopted in August 2001, sets out the long-term vision and development strategy for the sector and is in line with the Government's overall reform agenda of establishing a market-oriented and private-sector-led economy.

46. ADB staff, both at Headquarters and at the Cambodia Resident Mission, coordinated closely to monitor the progress of reform activities and ensure successful compliance with program conditions. ADB staff also responded appropriately and in a timely manner to requests from MEF, MOC, and NBC for technical support or guidance. Over the FSPL I period, ADB has become the leading donor in the financial sector, led effective policy dialogue with the Government and greatly assisted with reform implementation.

III. EVALUATION OF PERFORMANCE

A. Relevance

47. The program design was "highly relevant" to the Government's development strategy and goals of establishing a market-oriented and private-sector-led economy as embedded in the approved FSB 2001–2010. FSB 2001–2010 was based on stakeholder consultations, and incorporated the development objectives of SEDP II, ADB's country operational strategy for Cambodia, and a sequence of reform actions in various subsectors of the financial sector. This greatly enhanced Government ownership prior to and during program implementation.

48. Designed within the framework of the blueprint, FSPL I used the program cluster approach, which provided flexibility to refine the proposed policy actions of succeeding subprograms to reflect the Government's achievements, changes in the policy environment, and lessons from the previous subprogram. The ADB country assistance program evaluation¹⁴ found that subprogram 1 of FSP I was completed on time and achieved both the outputs and expected outcomes. The evaluation also endorsed the use of the program cluster approach for FSPL I as the appropriate approach for providing long-term assistance for sequenced reforms in a situation where the sector had been hampered by numerous constraints.

B. Effectiveness and Efficiency in Achieving Program Outputs and Outcome

49. The program was “highly effective and efficient” in achieving the expected outcomes (para. 1). Following the re-licensing program, banks have grown in number and outreach. At the end of the program, there were 17 commercial and six specialized banks operating in Cambodia. Several commercial banks have extended services to provinces and have also introduced new products and services. By the end of the program debit and credit cards had been introduced and 86 ATMs installed throughout the urban areas. NBC's supervision has greatly improved, enhancing the soundness of and public confidence in the banking system.

50. The insurance industry has grown from a very low base and has continued to rely on compulsory insurance products for growth. There are now five insurance companies, compared to one in 2001. Revision of the insurance law and regulations began in 2007, and is needed to introduce new insurance products, including life insurance. The newly established association of insurance companies is beginning to play a proactive role in initiating necessary reforms and advocating appropriate changes.

51. The microfinance industry has grown since the licensing and registration program commenced in 2002. At the end of the program, there were 17 licensed and 26 registered MFIs. These MFIs provide financial services to rural households and individual farmers. Deposits have been very low, based mainly on a compulsory 5% from borrowing customers. A new regulation was issued in the last quarter of 2007 providing clear criteria for eligible MFIs to attract voluntary deposits from customers.

52. A legal system for commerce and finance had to be developed and implemented before finance could develop beyond basic, short-term, and mainly cash-based transactions. Significant progress was made under FSPL I in preparing and enacting a number of components of the legal framework for financial and commercial transactions, including enactment of the Insurance Law, Accounting and Auditing Law, Commercial Enterprises Law, Negotiable Instruments and Payment Transactions Law, Commercial Arbitration Law, Secured Transactions Law, Government Securities Law, Civil Procedures Code, Law on Anti-Money Laundering and Counter Financing of Terrorism, and Insolvency Law. Most of the enacted laws have been implemented and training curriculum introduced at selected legal faculties to train legal practitioners and judges on these new principles. MOC has sought to increase public awareness nationwide through a series of public engagements. Recently enacted laws require the adoption of implementing subdecrees and the Government will continue these reforms under FSP II. The United Nations is providing support to develop a law for the establishment of a specialized commercial court.

¹⁴ ADB. 2004. *Country Assistance Program Evaluation for Cambodia*. Manila.

53. Key institutions for medium-term training and short-term capacity building within the financial sector have been established. An institution for promulgating accounting and auditing standards has been established and new internationally based standards have been issued. These standards have been effectively implemented and enforced in the banking and microfinance subsectors. Training scholarships for certified public accountants to help KICPAA implement and enforce accounting and auditing standards will provide long-term benefits to the financial sector and the overall development of Cambodia. Table 1 of Appendix 4 provides key financial indicators.

C. Preliminary Assessment of Sustainability

54. The sustainability of the program is rated “most likely” in view of the commitment and ownership at all levels, as demonstrated by the Government during the design phase and throughout implementation. Adoption by the Council of Ministers of a ten-year rolling plan (2001–2010 and most recently the FSDS 2006–2015) provides clear objectives and the framework to guide implementation of a sequenced set of reforms for Cambodia’s financial sector. Other donors have been involved in the consultative process, and their involvement can be accommodated in a well coordinated manner. The FSSC (chaired by the governor) provides policy guidance and makes decisions during implementation, and allows the three key agencies (MEF, MOC, and NBC) to undertake coordinated efforts to attract higher-level support for activities that may be difficult to implement.

55. NBC has taken a strong leadership role in reforming the banking system and the microfinance industry. Capacity support provided by the program has been well utilized to strengthen its offsite supervision capability, but the onsite supervision capability of its staff could be improved. As confidence in the banking and microfinance industry grows, there is increasing demand for NBC to be vigilant in surveillance and enforcement of prudential regulations. NBC also needs to retain staff in the supervision department after they have been properly trained. The revised Banking and Financial Institutions Law will include a section on protection of bank supervisors (to be carried out during FSP II).

56. MEF has been instrumental in insurance industry reforms, and the sustainability of the reforms and growth in this sector will depend on the timely cooperation between related ministries and MEF to enforce compulsory insurance products. It will also depend on timely revisions to the insurance law and regulations and the introduction of new products and services. As the number of firms and products grow the technical knowledge and practical skills of the supervision staff within MEF will need to be upgraded.

57. MEF has been very successful in developing accounting and auditing standards. While key standards for accounting and auditing have been promulgated, their successful enforcement (outside of the banking subsector) will depend on additional qualified accountants joining and assisting KICPAA. Results from the annual scholarships were very poor until 2006, but a number of graduates are expected in 2009 and 2010. MEF is undertaking to upgrade the accounting curricula of local universities to the international requirements for CPA qualifications. Discussions are being held with the Ministry of Education and selected universities; if acceptable, this will replace the annual scholarship program.

58. MOC was very successful in using FSPL I to secure adoption of required commercial laws by the National Assembly and in its efforts to disseminate those laws through the internet and public workshops. Implementation of these laws will be enhanced through the commercial law curricula that have been adopted by three selected law faculties for the training of lawyers

and judges. Enforcement will continue to be a challenge, however, until the specialized and independent commercial arbitration center and commercial court (supported by the United Nations Development Programme) are in place. The establishment of the national arbitration center will be pursued under FSP II.

D. Impact

59. The long-term goal of FSPL I is the development of a sound, market-based financial system to support resource mobilization and sustainable economic growth. The program has successfully set the foundation for future achievement of this goal. Table 2 of Appendix 4 provides some key macroeconomic indicators achieved during the program period.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

60. The FSPL I was implemented as conceived and was highly relevant to the Government's development strategy, ADB's partnership strategy with the Kingdom of Cambodia, and ADB's strategic objectives at the time of approval. Due to strong government commitment, a well-sequenced reform framework, and effective high level coordination among the executing and implementing agencies, the program was "highly effective and efficient" in achieving the expected outcomes. No issues relating to indigenous peoples were encountered during program implementation. Based on the Government's strong ownership of program reforms and ongoing commitment to further reforms as envisaged in the FSDS 2006–2015, sustainability of the program is rated "most likely." Overall the program is rated "highly successful."

B. Lessons

61. Key lessons from FSP I and the associated TA include the following:

- (i) **Long-term perspective.** Adoption of the medium-term blueprint for the financial sector provided the Government with a set of long-term objectives to guide and shape medium-term policy design and implementation. Changes in the underlying policy environment necessitated updating of the blueprint; in February 2007, the updated blueprint (FSDS for 2006–2015) was adopted. The close consultative process involving the Government, ADB, and other development partners strengthened the Government's ownership and increased the potential for funding agency support.
- (ii) **Flexibility in design.** Financial sector reforms are complex and involve major changes to the legal and regulatory framework, institutional arrangements, financial infrastructure, and human capacity. As a result, sufficient time must be allocated for program implementation. Design flexibility is also a key consideration. The use of the program cluster approach under FSP I provided the opportunity to refine the proposed policy actions and allowed succeeding subprograms to reflect the Government's achievements, changes in the policy environment, and lessons from the previous subprogram.
- (iii) **TA resources.** Under FSP I, the Government adopted legal, policy, and institutional measures, many of which were relatively new concepts and therefore required extensive coordination and consultation to build understanding and

acceptance by stakeholders, and increase the likelihood the new measures would be adopted. Substantial TA was necessary to ensure that best practices were incorporated and then consolidated throughout implementation to achieve the intended results. Consultants were selected not only on the basis of merit, but also on their perceived ability to work well with local counterpart staff and their sensitivity to the local culture, as these criteria were considered essential for successful knowledge transfer.

- (iv) **National and commune council elections.** Implementation of subprograms 2 and 3 of FSP I was delayed by elections. The commune and national elections affected the passage of the draft laws through the Council of Ministers and National Assembly and subsequently affected the achievement of targets set out in FSPL I in relation to those laws. This is a lesson for program design as the next national general election is scheduled for July 2008.
- (v) **Emerging risks.** The transition from a centrally controlled to a market-led economy creates new forms of risks. The presence of international banks, the offer of more sophisticated services to depositors, and the increase in lending demonstrate increasing investor confidence in Cambodia's financial system. However, with these encouraging developments come new risks and challenges; it is important to strengthen awareness of potential problems within both the public and the financial sectors and develop new ways of mitigating risks.

C. Recommendations – Program Related

62. **Future Monitoring.** A growing commercial economy, rising foreign direct investment inflows and rapid credit expansion is adding to growth in real estate investment because of rising property prices. This has led to the assets of some banks becoming increasingly vulnerable to real estate risks. Sufficient resources are needed to support key reform initiatives related to strengthening of surveillance and enforcement and protection of NBC staff from frivolous and intimidating lawsuits. These areas require close monitoring and ongoing support.

63. **Additional Assistance.** Further program interventions should be designed within the FSDS 2006–2015 framework and implemented in a systematic manner to ensure that (i) market development parallels institutional and capacity developments, (ii) linkages across subsectors are exploited, and (iii) corresponding risks are mitigated. These interventions will continue in the second Financial Sector Program (approved in December 2007), and will be supported by TA to strengthen the awareness of risks, formulate mitigation measures, and implement key reform activities.

64. **Timing of the Program Performance Audit Report.** To further assess the impact of FSPL I reforms on the financial sector and the economy, it is proposed that a program performance audit report be conducted before the end of 2008.

PROGRAM DESIGN AND MONITORING FRAMEWORK

| Design Summary | Performance Indicators/Targets | Results Achieved |
|--|---|--|
| Goal Develop a sound, market-based financial system to support resource mobilization and sustainable economic growth | Increased M2/GDP Increased financial assets/GDP ratio Increased capital adequacy and bank profitability Reduced nonperforming assets Tightened interest rate spread Diversified financial services Enhanced rural financial services Diversified insurance products Increased interbank market activities Established legal basis for capital market development | M2/GDP 2006: 20.8% (2001: 13%) Total private sector credit/GDP 2006: 12.3% (2001: 6.2%) Capital adequacy ratio 2006: 26% Average ROA 2006: 2.8% NPL ratio 2006: 9.8% (2001: 8%) Average interest spread 2006: 11.9% (2001: 15%) Deposit services now include debit and credit cards Number of MFI borrowers 2006: 471,000 (2001: 410,000) The three compulsory nonlife categories now include marine cargo Little development, as most banks are highly liquid Several commercial laws have been enacted and are being implemented |
| Purpose 1. Enhance banking intermediation, public confidence, and capacity building 2. Establish legal and regulatory framework for insurance development 3. Lay foundation for the development of interbank and money markets 4. Create an enabling environment for capital market development | Strengthened banking supervision Core information infrastructure and safety net developed Strengthened human capacity in public and private sectors Strengthened insurance supervisory system and prudential regulations Private sector participation in the insurance subsector developed Compulsory insurance enforcement or monitoring mechanism developed Basic legal framework for interbank and money markets established Legal system established | Bank supervision unit now fully staffed and functioning with hands-on training provided by ADB consultants Uniform chart of accounts for banks adopted CBS established with short- and medium-term training programs offered Supervision unit established at MEF and staff trained State-owned insurance firm restructured as a first step in the privatization process Monitoring mechanism established and adopted Negotiable instrument and payment transactions law enacted with implementing regulations adopted Commercial arbitration law and secured transactions law enacted |

[illegible]

| Design Summary | Performance Indicators/Targets | Results Achieved |
|--|---|---|
| market arrangements | Approved articles of association must include provisions for the establishment of interbank market arrangements, arrangements for sharing credit information among the members of the bankers association, and a banking institute for private bank staff | Articles of association have been adopted; work on establishing a CIS has commenced; and a banking institute has been established and is fully operational. ADB provided initial technical support but MPDF has since taken it over |
| 4. Accounting, auditing, and legal infrastructure | NBC and the bankers association to establish a working group to establish interbank market arrangements, arrangements for sharing credit information among the members of the bankers association, and a banking institute | An online CIS was launched in August 2006 and the banking institute was established in 2002 |
| | MEF to submit to the National Assembly a draft law on corporate accounts, their audit, and the accounting profession | Accounting law enacted in 2002 |
| | MEF to adopt IAS and ISA, to be applied upon adoption of the law on corporate accounts, their audit, and the accounting profession | 15 accounting and 10 auditing standards (internationally based) adopted and implementation started |
| | MOC to submit to the National Assembly a draft law on commercial enterprises | Draft commercial enterprises law submitted to the National Assembly and adopted in May 2005 |
| B. Subprogram 2 | | |
| 1. Banking subsector | | |
| a. Develop banking subsector infrastructure and safety net | NBC to adopt guidelines for credit information sharing arrangements among the members of the bankers association; NBC and the bankers association are to establish such arrangements | MOU to establish a CIS was signed by all commercial banks in 2004 and an online CIS launched in August 2006 |
| | NBC to adopt a uniform chart of bank accounts and disclosure rules for commercial banks consistent with IAS | NBC <i>prakas</i> ^a issued in December 2002 requiring all banks to adopt the uniform chart of accounts |
| | NBC to apply the uniform chart of bank accounts and disclosure rules for commercial banks, consistent with IAS, to the Rural Development Bank and other specialized banks | Uniform chart of accounts adopted by all banks in December 2004 with audited financial statements made publicly available since 2005 |
| | MOC to submit to the National Assembly a draft secured transactions law | Draft secured transactions law submitted to the National Assembly in July 2005 |
| | MOC to adopt a plan to establish a public registry for secured transactions acceptable to ADB | MOC adopted the plan in May 2005; design of an online registry commenced thereafter |
| b. Build capacity | NBC to ensure that CBS establishes a central banking course for NBC professional staff, including a mandatory training program for entry-level professional staff | CBS commenced preparation of the courses in October 2002 and launched the programs in July 2003 |

| Design Summary | Performance Indicators/Targets | Results Achieved |
|---|---|---|
| 2. Insurance subsector a. Establish framework for compulsory insurance b. Promote private sector development | MEF, in consultation with related ministries, to adopt interministerial regulations for development of compulsory insurance MEF to establish a joint venture between the state-owned insurance company and a private insurance company | Three interministerial prakas (on motor vehicle third-party insurance, construction workers, and passenger transport liability) adopted in 2002 No private investor expressed interest; the Government agreed to restructure the state-owned insurance company |
| 3. Interbank and Money Markets | NBC to submit to the National Assembly a draft law on negotiable instruments and payment transactions | Draft law was submitted to the National Assembly in January 2005 |
| 4. Accounting and auditing system and legal infrastructure | A law on corporate accounts, their audit, and the accounting profession to be adopted MEF to adopt a subdecree to apply IAS and ISA to all companies (including insurance companies) incorporated in Cambodia, and to establish a national accounting council to set and interpret standards Law on commercial enterprises to be adopted MEF to establish an association of accountants and auditors including (i) adopting a code of ethics that complies with the requirements of the International Federation of Accountants, and (ii) establishing committees on education and ethics within the association | The National Assembly passed the law in July 2002 Subdecree for the establishment of the National Accounting Council was adopted in March 2003 and council members were appointed Law on commercial enterprises enacted in May 2005 The subdecree to create KICPAA was adopted in March 2003. KICPAA was formally established with bylaws in February 2004 |
| C. Subprogram 3 1. Development of the banking subsector a. Develop banking subsector infrastructure b. Develop commercial law and build capacity | Adoption of a secured transactions law by the National Assembly MOC to establish a public registry for secured transactions NBC to form a unit and undertake the preparatory work needed to establish a FIU responsible for anti-money laundering and combating the financing of terrorism Adoption of a law for commercial arbitration by the National Assembly Submission of an insolvency law to the National Assembly MOC to ensure dissemination of commercial laws via the internet MOC to work with the relevant law | Secured transactions law was adopted in May 2007 MOC officially launched the online filing registry in December 2007 Pilot-FIU was established in June 2005 with six staff members under the Bank Supervision Department Adopted in March 2006 Draft insolvency law submitted to the National Assembly in July 2007 and adopted in October 2007 Website established and all commercial laws uploaded in December 2005 Curriculum for commercial law program |

| Design Summary | Performance Indicators/Targets | Results Achieved |
|--|---|---|
| <p>2. Development of the insurance subsector a. Strengthen capacity of the regulator</p> <p>b. Promote private sector involvement in the insurance subsector</p> <p>3. Development of interbank and money markets Develop legal framework for money market development</p> <p>4. Development of Accounting and Auditing Practices Provide capacity support to develop professional members for KICPAA</p> | <p>institutes to develop commercial law curricula based on the new commercial laws for training judges, lawyers, and legal clerical staff</p> <p>MEF to review, update, and implement appropriate prudential regulations to enhance solvency, liquidity, and corporate governance requirements; and support technical assistance to the insurance regulator</p> <p>MEF to implement the key actions of the plan to restructure Caminco, as agreed with ADB, with a view to divest government shares at the earliest opportunity</p> <p>Adoption of a law on negotiable instruments and payment transactions by the National Assembly</p> <p>NBC to draft and adopt implementing regulations for the law on negotiable instruments and payment transactions</p> <p>MEF to ensure financial support for at least 70 scholarships per year for the development of professional members of KICPAA</p> | <p>adopted by the three selected legal faculties in May 2007</p> <p>Prudential regulations formally approved by the senior minister of MEF in March 2007</p> <p>Restructuring plan approved in August 2005 and implementation commenced in December 2005</p> <p>Arrangements to divest shares did not eventuate; internal restructuring continues with the intention to grow market share and profitability</p> <p>Law adopted by the National Assembly in September 2005</p> <p>Three implementing regulations adopted in December 2006</p> <p>MEF continues to annually sponsor 70 scholarships with awardees selected on a competitive basis</p> |
| <p>D. Technical Assistance Purpose Improve the capacity of the executing and implementing agencies to implement the policy reform activities under subprogram 3</p> <p>Outputs a. Supervision of banks and payment system</p> | <p>Enhance confidence in banking through improved payment system, onsite supervision, and surveillance</p> <p>Deter money-laundering activities</p> <p>Enhance confidence in the insurance market and safeguard policyholders</p> <p>Enhance understanding of the new commercial legislation and ensure timely application</p> <p>Staff trained in the application of procedures for onsite supervision of banks</p> <p>Public aware of and accepting of the approved law on negotiable instruments and payment transactions; law is applied</p> <p>FIU established</p> | <p>TA support has helped on-site supervision of selected banks, initial work in setting up the pre-FIU within NBC's banking supervision unit, public awareness workshops to explain the purpose and objectives of newly approved laws, and development of the implementing subdecrees</p> <p>Completed in July 2006</p> <p>Implemented in November 2006</p> <p>Completed in July 2006</p> |

| Design Summary | Performance Indicators/Targets | Results Achieved |
|---|---|--|
| b. Supervision and commercialization of the insurance subsector | New and revised prudential regulations for insurance enacted | Completed in May 2007 |
| | Procedures for insurance supervision and training provided to the staff on their application | Completed in April 2007 |
| | Caminco restructured and part of the Government's shares divested | Completed in April 2007 |
| c. Application of commercial laws | Training materials on commercial law courses developed that are acceptable to local legal faculties | Completed in May 2007 |
| | Commercial disputes being resolved amicably | Work is ongoing. Draft subdecree with the Council of Ministers |

ADB = Asian Development Bank, CBS = center for bank studies, CIS = credit information sharing system, FIU = financial intelligence unit, FTB = Foreign Trade Bank, GDP = gross domestic product, IAS = international accounting standards, ISA = international standards for auditing, KICPAA = Kampuchea Institute of Certified Public Accountants and Auditors, M2 = a broad money supply measure, MPDF= Mekong Project Development Facility, MEF = Ministry of Economy and Finance, MFI = microfinance institution, MOC = Ministry of Commerce, MOU = memorandum of understanding, NBC = National Bank of Cambodia, NPL = nonperforming loan, ROA = return on assets, TA = technical assistance.

^a Khmer name for regulations or instructions issued by the NBC governor or a government minister.

Source: Asian Development Bank.

FINANCIAL SECTOR BLUEPRINT FOR 2001–2010

A. The Banking Sector

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|---|--|--|--|
| | Lay the Foundation for the Banking Sector Development | Enhance Intermediation through Competition | Promote Efficiency through Integration and Reorganization |
| Monetary Policy | Establish a basic framework for monetary policy <ul style="list-style-type: none"> Streamline reserve requirements Phase out the guarantee deposit or capital reserve required for bank licensing Reduce the reserve requirement ratio on riel-denominated deposits Implement rediscount and refinance facilities | Improve monetary policy instruments <ul style="list-style-type: none"> Phase out reserve requirements Commence the operation of rediscount facilities | Develop a market-based monetary policy framework <ul style="list-style-type: none"> Introduce an open market system and develop money markets |
| Supervision and Prudential Regulations | Establish a framework for supervision <ul style="list-style-type: none"> Establish a complete body of prudential regulations Adopt surveillance and inspection procedures Establish a fully staffed banking supervision department Establish a uniform chart of bank accounts and disclosure rules consistent with International Accounting Standards (IAS) Establish a prompt corrective action (PCA) system Establish an anti-money-laundering regulation | Improve the enforcement of prudential regulations <ul style="list-style-type: none"> Strengthen PCA implementation Commence full onsite inspection with National Bank of Cambodia (NBC) staff Establish a transparent exit mechanism and streamline exit procedures <ul style="list-style-type: none"> Revise laws covering insolvency and liquidation of banks to eliminate inconsistencies Establish legal and regulatory frameworks and procedures for bank merger and acquisition (M&A) and purchase and acquisition (P&A) Establish legal protection for supervisors against lawsuits for actions taken in fulfillment of their official duties | Upgrade prudential regulations <ul style="list-style-type: none"> Upgrade prudential norms in accordance with guidelines of the Bank for International Settlement Strengthen risk management regulations with the expansion of nonbanking business by banks |
| Bank Restructuring and Competition | Restructure the banking industry <ul style="list-style-type: none"> Complete bank re-licensing and liquidation of problem banks Establish a contingency plan for banks that do not comply with conditions in their restructuring memoranda of understanding | Enhance banking services by diversifying the scope of banking business <ul style="list-style-type: none"> Diversify the scope of business by allowing banks to expand their business into nonbanking areas Allow banks to set up nonbank financial institution (NBFI) subsidiaries | Facilitate bank reorganization through incentives and a reinforced supervision system <ul style="list-style-type: none"> Strengthen the enforcement of PCA to facilitate early and orderly exit of nonviable banks Strengthen the incentive system for |

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|------------------------------------|--|--|--|
| | <ul style="list-style-type: none"> Restructure/privatize the Foreign Trade Bank | <ul style="list-style-type: none"> Establish legal and regulatory frameworks for credit card services, mortgage finance, installment finance, etc. | <p>promoting voluntary bank M&A and P&A</p> <ul style="list-style-type: none"> Refine the minimum capital requirement for banks involved in diverse nonbanking businesses |
| Payments System | <p>Establish a framework for the payment system</p> <ul style="list-style-type: none"> Improve operational procedures for both the riel and dollar clearing systems, considering the compliance capability of commercial banks Adopt a payment law to underpin the payment system Improve the backup system for smooth operation of the payment system NBC and the Bankers Association to adopt a protocol for an online banking system to facilitate future integration of an online banking network | <p>Improve the efficiency of the payment system through investments in information technology (IT)</p> <ul style="list-style-type: none"> Establish a central bank wire system Automate the clearinghouse Establish an online banking system in individual banks | <p>Establish an integrated online interbank system</p> <ul style="list-style-type: none"> Integrate individual bank online networks, including the central bank wire system |
| Outreach to the Rural Areas | | <p>Promote outreach to rural areas by encouraging the establishment of branches</p> <ul style="list-style-type: none"> Adopt an incentive system to encourage banks to expand branches into rural areas | <p>Strengthen outreach to rural areas through competition</p> <ul style="list-style-type: none"> Establish legal and regulatory frameworks for community-based savings institutions (e.g., credit unions, cooperatives) with appropriate incentive systems |
| Capacity Building | <p>Establish a capacity building mechanism</p> <ul style="list-style-type: none"> Appoint full-time Center for Banking Studies (CBS) instructors under a competitive salary scheme Establish a central banking course for NBC professional staff in CBS Adopt a comprehensive retraining program for NBC staff lacking a college-level education Adopt a mandatory training program for entry-level professional staff in CBS Adopt a competitive, merit-based compensation scheme in NBC Establish an inclusive bankers association Establish a banking institute for | <p>Strengthen NBC organizational structure</p> <ul style="list-style-type: none"> Reassign responsibilities among departments and develop new job descriptions Establish an effective recruitment system to attract competent staff to NBC Introduce a performance-based compensation and promotion system to retain and develop qualified staff | <p>Enhance central bank independence</p> <ul style="list-style-type: none"> Revise the Central Banking Law and the Banking Law to increase the independence of NBC |

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|--|---|-------------------------|--------------------------|
| | professional training of commercial bankers | | |

B. Rural Finance

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|--|--|---|--|
| | Implement a Policy and Institutional Framework for Rural Finance Sector | Increase Poverty Reduction Impact | Enhance Outreach |
| Implement and Enhance Rural Credit Policy | Implement policy actions in Rural Credit Policy (RCP) <ul style="list-style-type: none"> Make the provisions of the Banking Law applicable to development of the rural finance sector Create a forum for policy coordination | Policy Coordination <ul style="list-style-type: none"> Review and, if required, amend RCP in the context of the ongoing financial sector development measures Coordinate rural finance sector development with investments in poverty reduction, agriculture, rural infrastructure, irrigation, and agricultural research and extension | Review and coordinate policies <ul style="list-style-type: none"> Policy review and coordination to continue as in Phase II |
| Strengthen Supervision and Regulation | Strengthen supervision and regulation <ul style="list-style-type: none"> Establish a supervision system for licensed microfinance institutions (MFIs) consistent with the overall framework for the banking industry Introduce appropriate prudential norms for licensed MFIs | Improve application of prudential regulations <ul style="list-style-type: none"> Strengthen microfinance supervision department of NBC in its supervisory and regulatory capability | Introduce self-regulating mechanisms <ul style="list-style-type: none"> Enable the multisectoral nongovernment organizations (NGOs) to develop a self-regulatory mechanism for minimum service standards Encourage the emergence of a rating agency for licensed MFIs |
| Building Rural Financial Infrastructure | Facilitate institutional transformation linkages, and services delivery <ul style="list-style-type: none"> Facilitate transformation of identified NGOs into licensed MFIs Enhance access to resources of community-based groups through licensed MFIs Promote deposit and microcredit through licensed MFIs | Establish a range of service providers <ul style="list-style-type: none"> Introduce leasing and crop insurance Establish venture capital and equity funds for licensed MFIs Expand institutional network <ul style="list-style-type: none"> Enhance the flow of term finance for agriculture through resource support and enhanced presence of banks in rural areas Adopt incentive systems for expansion of commercial banks in rural areas Provide support for establishment of licensed MFIs Deepen and broaden linkages between | Establish a comprehensive institutional network <ul style="list-style-type: none"> Establish a legal framework for small farmer- or community-owned institutions to integrate with the formal financial sector Review the equity threshold for licensed MFIs |

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|--------------------------------------|--|--|--|
| | | community groups, licensed MFIs, and banks | |
| Create Institutional Capacity | <i>Build sustainable institutions</i> <ul style="list-style-type: none"> Strengthen the Rural Development Bank Provide comprehensive capacity building support for licensed MFIs Strengthen NBC's capacity with reference to the rural financial system | <i>Enhance effective intermediation</i> <ul style="list-style-type: none"> Develop specialized training centers Introduce rural finance specialization in restructured banks Facilitate downscaling of operations for banks intending to enhance microfinance operations | <i>Update and upgrade skills</i> <ul style="list-style-type: none"> Establish linkages with regional training centers and update their capacity and the quality of their courses |
| Ensure Pro-Poor Orientation | <i>Build capacity for optimal utilization of financial services</i> <ul style="list-style-type: none"> Organize the poor into community groups for financial services Enhance capacity of community groups to establish linkages with licensed MFIs Support capacity building of the poor for management of income-generating activities | <i>Promote innovative micro finance pilot projects</i> <ul style="list-style-type: none"> Establish pilot projects in resource-poor areas Introduce innovations to address specific clients groups (e.g., the disabled) <i>Introduce safety nets to reduce vulnerability</i> <ul style="list-style-type: none"> Introduce risk mitigation tailored to the needs of the poor, including insurance services Extend protection to the savings of the poor | <i>Enhance outreach to special microfinance groups</i> <ul style="list-style-type: none"> Replicate successful pilots Enlarge coverage of safety nets |

C. Insurance and Pension System

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|--|--|---|---|
| | Establish a Foundation for Insurance Sector and Determine Feasibility for Pension System | Promote Insurance Market through Private Sector Development and Establish Foundation for Pension System | Strengthen Insurance Sector and initiate Establishment of Pension System |
| <u>Insurance Sector</u> Supervision and Regulations | Establish a regulatory and supervisory framework for insurance <ul style="list-style-type: none"> Establish an insurance supervisory unit within the Ministry of Economy and Finance (MEF) Adopt a subdecree to implement the insurance law Establish prudential regulations including | Strengthen the insurance regulation and supervisory framework <ul style="list-style-type: none"> Strengthen the regulatory framework for insurance by refining prudential regulations to cover diverse insurance products Reinforce the insurance supervisory unit by enlarging the staff with qualified | Upgrade prudential regulations for insurance sector <ul style="list-style-type: none"> Establish an independent insurance supervisor Upgrade prudential regulations in accordance with the Insurance Core Principles of the International Association of Insurance Supervisors |

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|--|---|---|----------------------------------|
| | uniform chart of accounts and disclosure rules consistent international accounting standards (IAS) and international standards for auditing (ISA) and a PCA system | personnel | |
| Compulsory Insurance | Establish a framework for compulsory insurance <ul style="list-style-type: none"> • Adopt a plan and establish legal frameworks and enforcement mechanisms to implement compulsory insurance • Establish an interministerial working group to develop enforcement and monitoring system for compulsory insurance | Implement compulsory insurance <ul style="list-style-type: none"> • Establish an insurance monitoring and enforcement system | |
| Insurance Industry Organization | Establish a basis for private sector development <ul style="list-style-type: none"> • Establish a joint venture between the state-owned insurance company and a private company • Develop a transparent entry mechanism • Adopt regulations to encourage the use of domestic insurance companies | Implement compulsory insurance <ul style="list-style-type: none"> • Facilitate entry by private insurance companies into the underwriting business • Encourage participation by foreign companies • Establish reinsurance institutions • Divest MEF shares through a joint venture | |
| Outreach to the Rural Areas | | Increase outreach to rural areas <ul style="list-style-type: none"> • Introduce crop insurance, weather insurance, etc. | |
| Capacity Building | Build capacity of insurance regulators and supervisors <ul style="list-style-type: none"> • Conduct intensive capacity-building activities for insurance regulators and supervisors • Establish a training program to build enforcement and monitoring capacity in related government agencies | Establish a training institution for the insurance sector <ul style="list-style-type: none"> • Establish a comprehensive insurance training institution through international cooperation | |
| Insurance Infrastructure | | Develop an actuarial professional body <ul style="list-style-type: none"> • Adopt a legal and regulatory framework for a public actuarial system • Create an actuarial profession | |

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|---------------------------------------|---|---|---|
| Pension System Legal Framework | Conduct feasibility study to establish a multipillar pension system <ul style="list-style-type: none"> Conduct feasibility study to determine appropriate design and timing for a mandatory public pension program, mandatory privately managed funded pension program, and voluntary retirement savings programs | Establish a legal framework for pension system <ul style="list-style-type: none"> Adopt a legal framework for a mandatory public pension program Adopt a legal framework for a mandatory privately managed funded pension program Adopt a legal framework for a voluntary retirement savings programs | Implement legal framework for pension system <ul style="list-style-type: none"> Adopt a subdecree to implement a legal framework for a mandatory public pension program Adopt a subdecree to implement a legal framework for a mandatory privately managed funded pension program Adopt a subdecree to implement a legal framework for a voluntary retirement savings programs Implement mandatory public pension program <ul style="list-style-type: none"> Introduce a mandatory public pension program |
| Supervision and Regulation | | Establish regulatory and supervisory framework for pension system <ul style="list-style-type: none"> Establish a supervisory and regulatory body for pensions Establish basic prudential regulations | Strengthen regulatory and supervisory capacity for pension system <ul style="list-style-type: none"> Refine and complete a corpus of prudential regulations to cover an expanded pension system Reinforce the pension supervisory body by expanding the staff with qualified personnel |
| Capacity Building | | Build capacity of pension regulators and supervisors <ul style="list-style-type: none"> Conduct intensive capacity building activities for pension regulators and supervisors | Establish capacity building institution for pension system <ul style="list-style-type: none"> Establish comprehensive pension industry training institutions through international cooperation |

D. Nonbank Financial Institutions

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|-------------------------|--------------------------------|--|---|
| | | Establish the Foundation of NBFIs | Promote Diversification of NBFIs |
| Leasing Business | | Develop the leasing business <ul style="list-style-type: none"> Adopt a leasing law Adopt a leasing regulation for commercial banks to conduct leasing businesses and/or to establish leasing company | |

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|--|--------------------------------|--|--|
| | | subsidiaries <ul style="list-style-type: none"> • Adopt a policy framework for promoting joint venture leasing companies | |
| Money Market Intermediary | | Develop money market intermediaries <ul style="list-style-type: none"> • Establish a legal and regulatory framework for finance companies, investment companies, nonfinancial corporations, individuals and money market brokers | |
| Capital Market Intermediary and Institutional Investors | | Develop capital market intermediaries <ul style="list-style-type: none"> • Establish a legal and regulatory framework for securities companies or subsidiaries, investment advisory companies, and securities finance companies • Establish a regulatory framework for banks to establish securities subsidiaries | Develop institutional investors for capital markets <ul style="list-style-type: none"> • Establish a legal and regulatory framework for trust business in banks, investment trust companies, mutual funds, venture capital companies, etc. |
| Development Finance Institutions | | | Establish development finance institutions to promote medium- and long-term lending <ul style="list-style-type: none"> • Establish a legal and regulatory framework for medium- and long-term export-import credit institutions (e.g., EXIM Bank) and other development finance institutions (e.g., leveraged leasing companies or subsidiaries) |

E. Interbank/Money Markets

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|--|---|--|--|
| | Establish a Foundation for Interbank Markets | Strengthen the Interbank Markets | Increase the Depth of Money Markets |
| Interbank Market Arrangements and Scope | Establish interbank market arrangements <ul style="list-style-type: none"> • Establish interbank market procedures for commercial banks | Expand the scope of the interbank markets <ul style="list-style-type: none"> • Establish a framework for interbank markets to allow the participation of NBFIs | Establish integrated interbank markets <ul style="list-style-type: none"> • Allow all financial institutions to participate in interbank and money markets |

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|---------------------------------|--|---|--|
| | | <ul style="list-style-type: none"> Develop a standardized interbank repurchase (RP) contract and supporting regulations | |
| Money Market Instruments | Create an enabling environment for money market development <ul style="list-style-type: none"> Adopt a negotiable instruments law Set up a regulatory framework for interbank and money market activities | Establish regulations governing instruments of financial institutions <ul style="list-style-type: none"> Adopt procedures and regulations for negotiable certificates of deposit (CDs), RP agreement, banker's acceptance, etc. Issue central bank securities (e.g., central bank CDs) | Establish regulations governing instruments of non-financial institutions <ul style="list-style-type: none"> Adopt regulations for trade bills and commercial papers |
| Treasury Bills | Create an enabling environment for Treasury Bills <ul style="list-style-type: none"> Adopt a regulatory framework for the issuance of treasury bills Adopt a medium-term plan to develop treasury bill markets Capacity building for staff in National Treasury and NBC who are involved in treasury bill issuance | Develop treasury bill markets <ul style="list-style-type: none"> Introduce a primary dealer system for government securities Regularize the issuance of treasury bills | |

F. Capital Markets

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|---------------------------------------|---|--|--|
| | Create an Enabling Environment for Capital Markets | Establish the Foundation for Capital Markets | Develop Capital Markets |
| Legal and Regulatory Framework | Establish a key legal/regulatory framework <ul style="list-style-type: none"> Strengthen the capital market development unit Develop a master plan for creating a functional capital market framework Conduct a feasibility study to assess a critical mass of potential securities issuers Draft a securities and exchange law Determine the basic structure of exchange regulations (e.g., listing requirements, auction rules for trading, | Establish a capital market surveillance framework <ul style="list-style-type: none"> Establish an independent securities and exchange commission | Strengthen capital market supervision and surveillance <ul style="list-style-type: none"> Upgrade prudential regulations in accordance with international organization of Securities Commission principles |

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|--------------------------------|--|---|--|
| | corporate disclosure, membership) | | |
| Securities Exchange | | Establish a securities exchange <ul style="list-style-type: none"> Create a securities exchange board Set up a computerized trading system Establish a trading infrastructure (e.g., a securities depository system and a clearing system) | Promote capital market participation <ul style="list-style-type: none"> Adopt an incentive system to encourage firms to go public Adopt corporate governance principles |
| Fixed-income Securities | Create an enabling environment for public bond markets <ul style="list-style-type: none"> Establish a regulatory framework for medium- and long-term government bonds, and issue treasury bonds and government savings bonds Establish a legal and regulatory framework for local government, public instrumentality, and small and medium enterprises to issue bonds and notes | Promote the issuance of public bonds <ul style="list-style-type: none"> Establish or refine related legal and regulatory frameworks Establish an incentive system to create demand for government bonds | Develop private bond markets <ul style="list-style-type: none"> Adopt a plan to develop corporate debt markets Establish a legal and regulatory framework for the issuance of bonds of large banks and development finance institutions Develop a trading system for fixed income securities |
| Capacity Building | Build capacity for future capital market participants <ul style="list-style-type: none"> Conduct intensive capacity building for capital market regulators through international cooperation Adopt a training program for capital market participants | Strengthen capacity building for the public <ul style="list-style-type: none"> Develop a comprehensive program of public awareness activities Publish a master plan for creation of a securities exchange providing general listing requirement guidelines | Strengthen capacity building for capital market participants <ul style="list-style-type: none"> Create an association of securities brokers and dealers Establish a capital market training institution |

G. Financial Market Infrastructure

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|--|---|--|--|
| | Develop Key Legal, Accounting, and Information Infrastructure | Strengthen Enforcement and Establish Safety Net | Enhance Financial Market Infrastructure and Safety Net |
| Legal Framework for Commercial and Financial Transactions | Create key legal infrastructure to underpin financial sector development <ul style="list-style-type: none"> Adopt a company law, a bankruptcy law, a secured transactions law, etc. Adopt a civil code and procedure Implement the Governance Action Plan Adopt a law on organization and function of the court including establishment of a | Strengthen law enforcement <ul style="list-style-type: none"> Continue judicial reform Establish a commercial chamber in the court system Develop an adequate compensation scheme for commercial jurists Establish a public registry for secured transactions | Enhance the legal infrastructure for private sector development <ul style="list-style-type: none"> Establish a legal framework for a public registration system for movables |

| | Phase I (2001–2004) | Phase II (2005–2007) | Phase III (2008–2010) |
|--|--|---|--|
| | commercial chamber | | |
| Accounting and Auditing Standards | Establish accounting/auditing standards and enforcement system <ul style="list-style-type: none"> • Adopt a law on corporate accounts, their audit, and the accounting profession • Apply IAS/ISA to all companies in Cambodia • Establish an accounting standards board • Establish an association of accountants and auditors including committees on education and ethics • Adopt a code of ethics for auditors | Strengthen enforcement of accounting/auditing standards <ul style="list-style-type: none"> • Promote competition in the local accounting industry to encourage new entries to reduce accounting and auditing compliance costs of the private sector | Enhance the enforcement of accounting standards <ul style="list-style-type: none"> • Apply IAS or ISA to private companies • Improve the enforcement of accounting and auditing standards |
| Financial Market Information Infrastructure | Create a financial market information system <ul style="list-style-type: none"> • Establish credit information sharing arrangements among members of the bankers association | Expand the scope of arrangements for credit information sharing <ul style="list-style-type: none"> • Formalize the membership of the arrangements for sharing credit information to include other credit institutions • Allow the participation of other financial institutions in the credit information sharing arrangements | Diversify and upgrade the market information system <ul style="list-style-type: none"> • Introduce a credit rating database industry • Upgrade the capacity and accessibility of the arrangements for credit information sharing through increased investment in information technology |
| Financial Market Safety | | Enhance the banking sector safety net <ul style="list-style-type: none"> • Introduce a deposit insurance system for the banking sector • Adopt corporate governance guidelines for banks | Enhance the financial sector safety net <ul style="list-style-type: none"> • Expand the deposit insurance system into other credit institutions that participated in the payment system • Adopt corporate governance guidelines for nonbanking institutions |

Source: Cambodia: Financial Sector Blueprint for 2001–2010.

**AUDITED FINANCIAL STATEMENTS
OF CAMINCO**

Table A3.1: Statement of Income and Expenditures, 2003–2007
(\\$)

| Item | 2003 | 2004 | 2005 | 2006 | 2007 |
|--------------------------------|----------------|-----------------|----------------|----------------|----------------|
| Underwriting Income | | | | | |
| Gross premiums | 992,190 | 981,142 | 1,165,460 | 1,273,393 | 1,703,343 |
| Reinsurance premiums | (704,204) | (422,346) | (418,941) | (469,487) | (667,413) |
| Net premiums | 287,986 | 558,796 | 746,519 | 803,906 | 1,035,930 |
| Increase in unearned premiums | (50,930) | (112,666) | (131,542) | (70,968) | (73,249) |
| Net premiums earned | 237,056 | 446,130 | 614,977 | 732,938 | 962,681 |
| Commission income | 158,537 | 56,108 | ^a | ^a | ^a |
| | 395,593 | 502,238 | 614,977 | 732,938 | 962,681 |
| Underwriting Expenses | | | | | |
| Claims paid | 50,535 | 155,735 | 199,528 | 213,589 | 301,851 |
| Claims outstanding | 0 | 40,000 | 20,850 | 72,761 | (42,614) |
| Commission expenses | 40,372 | 79,189 | 21,120 | 8,152 | 24,883 |
| Contribution and other fees | 3,708 | 14,885 | (13,617) | (25,351) | (30,865) |
| | 94,615 | 289,809 | 227,881 | 269,151 | 253,255 |
| Underwriting profit | 300,978 | 212,429 | 387,096 | 463,787 | 709,426 |
| General expenses | 299,035 | 442,400 | (487,712) | (538,140) | (598,226) |
| (Loss)/profit from operations | 1,943 | (229,971) | (100,616) | (74,352) | 111,200 |
| Interest income | 163,995 | 194,995 | 150,144 | 256,705 | 402,381 |
| Other income | 40,570 | 38,306 | 2,800 | 3,600 | 41,076 |
| | 204,565 | 233,301 | 152,944 | 260,305 | 443,457 |
| Net profit before profit tax | 206,508 | 3,330 | 52,328 | 185,952 | 554,657 |
| Profit tax | (49,218) | (50,086) | (58,273) | (63,733) | (169,638) |
| Net (loss)/profit for the year | 157,290 | (46,756) | (5,945) | 122,219 | 385,019 |

() = negative.

^a Since 2005, these amounts were combined with commission expenses.

Source: Cambodia National Insurance Company.

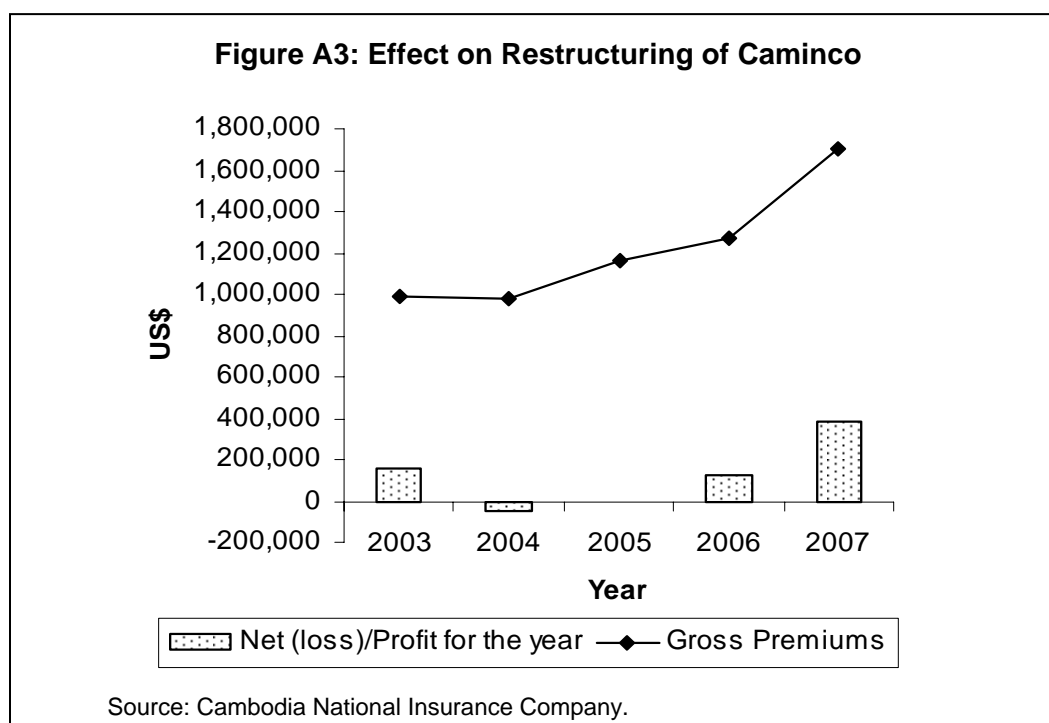


Table A3.2: Balance Sheet, 2003–2007
(\$)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|
| A. Assets | | | | | |
| Intangible assets | 7,333 | 6,361 | 13,829 | 15,782 | 33,943 |
| Property and equipment | 1,009,891 | 1,043,996 | 1,052,203 | 1,071,729 | 1,222,863 |
| Investment property | 0 | 0 | 293,073 | 0 | 115,000 |
| Trade debtors | 87,826 | 43,091 | 82,782 | 567,126 | 681,256 |
| Other receivables and deposits | 105,926 | 154,937 | 191,961 | 109,110 | 82,755 |
| Government bonds | 5,847,953 | 5,735,114 | 5,735,114 | 5,735,114 | 5,735,114 |
| Cash and cash equivalents | 405,002 | 473,456 | 309,716 | 374,295 | 495,156 |
| Subtotal (A) | 7,463,931 | 7,456,955 | 7,678,678 | 7,873,156 | 8,366,088 |
| B. Liabilities | | | | | |
| Reinsurance premiums payable | 29,365 | 48,187 | 109,720 | 70,248 | 68,221 |
| Outstanding claims | - | 40,000 | 20,780 | 93,541 | 50,927 |
| Other payables | 17,859 | 32,291 | 87,609 | 55,610 | 151,624 |
| Unearned Premium Reserve | 74,848 | 186,734 | 316,771 | 387,739 | 460,988 |
| Provision for Dividends | - | - | - | - | 24,349 |
| Subtotal (B) | 122,072 | 307,212 | 534,880 | 607,138 | 756,109 |

C. Shareholders' Funds

| | | | | | |
|---------------------|------------------|------------------|------------------|------------------|------------------|
| Share capital | 7,128,042 | 7,128,042 | 7,128,042 | 7,128,042 | 7,128,042 |
| Reserves | 51,202 | 68,457 | 68,457 | 68,457 | 94,380 |
| Retained earnings | 162,615 | (46,756) | (52,701) | 69,519 | 387,557 |
| Subtotal (C) | 7,341,859 | 7,149,743 | 7,143,798 | 7,266,018 | 7,609,979 |
| Total | 7,463,931 | 7,456,955 | 7,678,678 | 7,873,156 | 8,366,088 |

() = negative.

Source: Cambodia National Insurance Company.

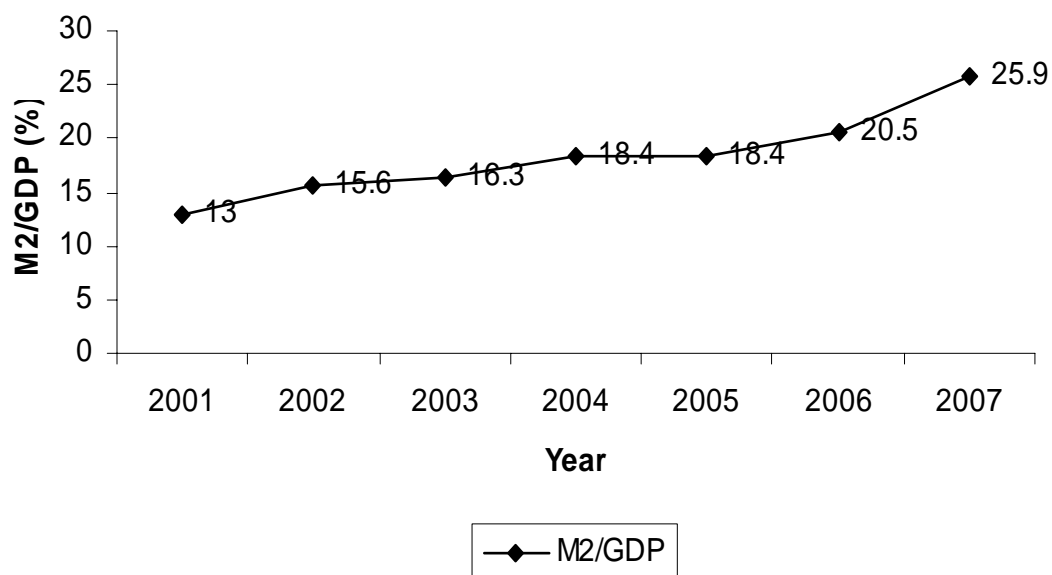
KEY FINANCIAL DATA AND MACROECONOMIC INDICATORS

Table A4.1: Key Financial Data for Cambodia's Financial Sector

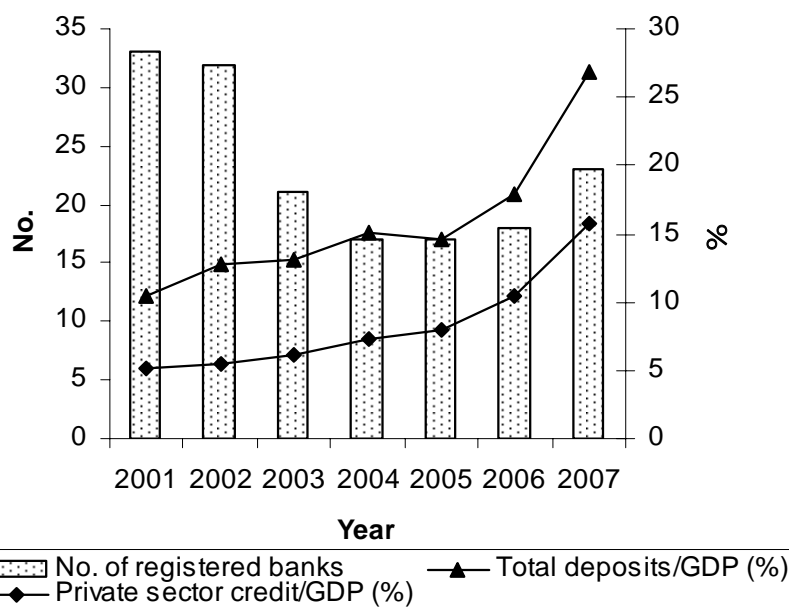
| Indicator | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---------|---------|---------|---------|---------|---------|---------|
| M2/GDP (%) | 13.0 | 15.6 | 16.3 | 18.4 | 18.4 | 20.5 | 25.9 |
| Number of registered banks | 33.0 | 32.0 | 17.0 | 17.0 | 18.0 | 20.0 | 24.0 |
| Average CAR (%) | 58.5 | 49.3 | 40.6 | 34.5 | 32.0 | 26.0 | 24.0 |
| Private sector credit/GDP (%) | 6.0 | 6.3 | 7.2 | 8.5 | 9.3 | 12.2 | 18.3 |
| Number of loan accounts | 68,167 | 86,757 | 105,347 | 123,937 | 145,161 | 164,931 | 197,337 |
| Total deposits/GDP (%) | 10.4 | 12.7 | 13.1 | 15.1 | 14.6 | 17.9 | 26.6 |
| NPLs/total loans (%) | 8.1 | 14.6 | 12.7 | 9.6 | 7.3 | 9.8 | 3.4 |
| Average return on assets (%) | 0.6 | 1.1 | 0.9 | 1.2 | 1.8 | 2.8 | 2.8 |
| Average interest spread (%) | 12.5 | 14.0 | 13.3 | 15.3 | 12.2 | 11.8 | 11.1 |
| Total assets of five largest banks/total assets (%) | 62.7 | 70.3 | 68.6 | 66.6 | 63.3 | 66.3 | 70.0 |
| Total deposits of five largest banks/total deposits (%) | 80.8 | 83.6 | 80.9 | 78.3 | 71.0 | 70.0 | 73.0 |
| Number of licensed and registered MFIs | 0.0 | 30.0 | 34.0 | 38.0 | 39.0 | 40.0 | 43.0 |
| Total number of MFI borrowers ('000) | 410.0 | 328.0 | 265.0 | 322.0 | 368.0 | 471.0 | 624.1 |
| Total amount of MFI loans (\$ million) | 35.9 | 51.3 | 32.6 | 40.9 | 49.2 | 92.2 | 160.1 |
| Total amount of MFI deposits (\$ million) | 3.8 | 7.1 | 2.5 | 2.0 | 1.9 | 2.9 | 6.1 |
| Total number of MFI depositors | 158,627 | 107,150 | 88,474 | 122,984 | 137,624 | 113,277 | 147,966 |
| Number of insurance firms | 1.0 | 1.0 | 4.0 | 3.0 | 3.0 | 3.0 | 5.0 |
| Total insurance premium (\$ million) | 3.6 | 5.5 | 8.8 | 10.1 | 10.8 | 13.0 | 17.5 |

CAR = capital adequacy ratio, GDP = gross domestic product, M2 = a broad money supply measure, MFI = microfinance institution, NPL = nonperforming loan.

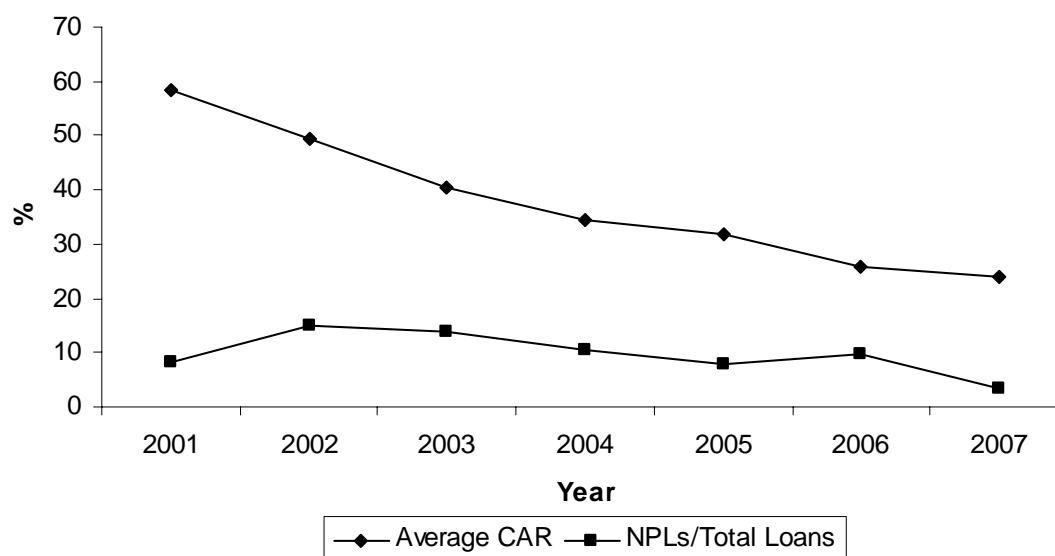
Sources: National Bank of Cambodia, and Ministry of Economy and Finance.

Figure A4.1: Financial Intermediation

Sources: National Bank of Cambodia, and Ministry of Economy and Finance.

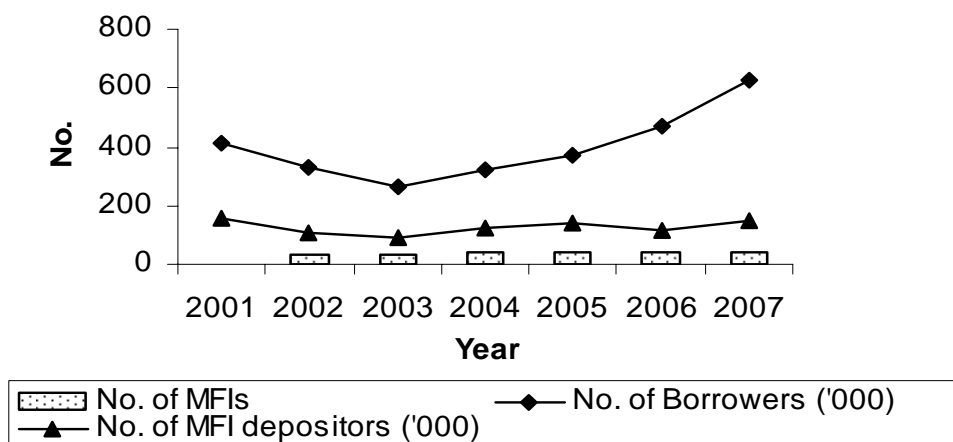
Figure A4.2: Confidence in the Banking System

Sources: National Bank of Cambodia, and Ministry of Economy and Finance.

Figure A4.3: Soundness of the Banking System

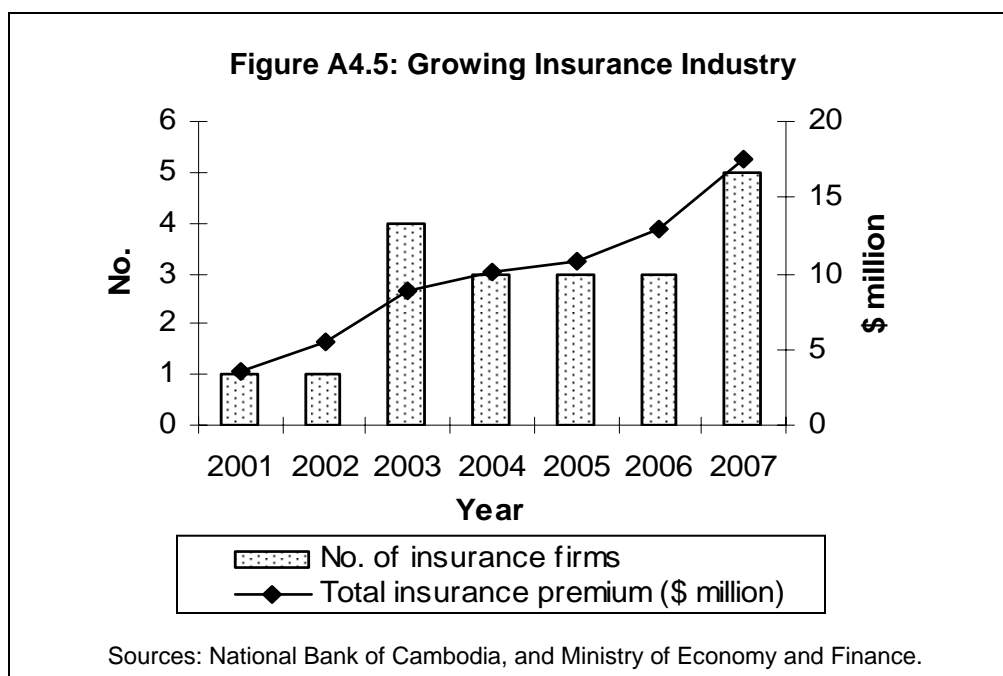
Note: Minimum CAR is 15%.

Sources: National Bank of Cambodia, and Ministry of Economy and Finance.

Figure A4.4: Confidence in the Microfinance Institutions

Note: ACLEDA became a bank in 2003 so all its depositors were reclassified.

Sources: National Bank of Cambodia, and Ministry of Economy and Finance.

**Table A4.2: Key Macroeconomic Indicators**

| Indicator | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--------------------------------------|-------|-------|--------|-------|-------|-------|-------|
| Real GDP growth rate (%) | 8.0 | 6.5 | 8.5 | 10.0 | 13.5 | 10.8 | 10.1 |
| Inflation rate (average annual %) | 0.3 | 3.3 | 1.2 | 3.9 | 5.8 | 4.7 | 5.8 |
| Broad money (% of GDP) | 13.0 | 15.6 | 16.3 | 18.4 | 18.4 | 20.5 | 25.9 |
| Fiscal position (% deficit to GDP) | (5.2) | (6.3) | (5.9) | (4.7) | (3.4) | (1.5) | — |
| Current account (% of GDP) | (8.6) | (9.4) | (10.6) | (8.2) | (9.4) | (7.2) | (6.5) |
| Foreign reserves (months of imports) | 3.1 | 3.4 | 3.3 | 3.0 | 2.8 | 2.8 | 3.6 |
| GDP in absolute value (\$ million) | 3,980 | 4,273 | 4,656 | 5,315 | 6,278 | 7,265 | 8,747 |
| Exchange rate (average) | 3,924 | 3,917 | 3,979 | 4,019 | 4,097 | 4,107 | 4,001 |

— = not available, () = negative number, GDP = gross domestic product.

Sources: National Bank of Cambodia, National Institute of Statistics, and Ministry of Economy and Finance.