ADB

Performance Evaluation Report

Project Number: 32431
Loan Numbers: 1859-CAM, 1951-CAM, and 2185-CAM
June 2009

Cambodia: First Financial Sector Program Loan Cluster

Independent Evaluation Department

Asian Development Bank

CURRENCY EQUIVALENTS
(as of 30 April 2009)

Currency Unit	–	riel/s (KR)
KR1.00	=	$0.000243
$1.00	=	KR4,121.00

ABBREVIATIONS

ADB	–	Asian Development Bank
CAMINCO	–	Cambodia National Insurance Company
CBS	–	Center for Banking Studies
CIB	–	Cambodia Institute of Banking
CIS	–	credit information sharing system
FIU	–	financial intelligence unit
FSPL	–	Financial Sector Program Loan Cluster
FTB	–	Foreign Trade Bank
GDP	–	gross domestic product
IMF	–	International Monetary Fund
KICPAA	–	Kampuchea Institute of Certified Public Accountants and Auditors
MEF	–	Ministry of Economy and Finance
MFI	–	microfinance institution
MOC	–	Ministry of Commerce
NAC	–	National Accounting Council
NBC	–	National Bank of Cambodia
PCR	–	program completion report
SRR	–	statutory reserve requirement
TA	–	technical assistance
TCR	–	technical assistance completion report

NOTES

(i) The fiscal year (FY) of the Government ends on 31 December.

(ii) In this report, “$” refers to US dollars.

Key Words

adb, asian development bank, development effectiveness, financial sector program, impact, ied, independent evaluation department, national bank of cambodia, pper, program performance evaluation report, technical assistance

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The guidelines formally adopted by the Independent Evaluation Department (IED) on avoiding conflict of interest in its independent evaluations were observed in preparing this report. Sarath Thalakada and Din Virak were the consultants. To the knowledge of the management of IED, the persons preparing, reviewing, or approving this report had no conflict of interest.

BASIC DATA

First Financial Sector Program Loan Cluster (Loans 1859-CAM, 1951-CAM, 2185-CAM)

Program Implementation and Institution Building

TA No.	TA Project Name	Type	Amount ($)	Approval Date
3769	Capacity Building for Banking and Financial Management	ADTA	1,000,000	13 Nov 2001
3861	Improving Legal Infrastructure in the Financial Sector	ADTA	800,000	4 May 2002
4656	Financial Sector Program Implementation	ADTA	500,000	29 Sep 2005
4755	Developing Deposit Services in Rural Cambodia	ADTA	600,000	21 Dec 2005
4020	Improving Insurance Supervision	ADTA	400,000	6 Dec 2002

Key Program Data ($ million)	In ADB Loan Documents	Actual
Total Program Cost	30.0	31.8
ADB Loan Amount/Utilization	30.0	31.8

Key Dates	Subprogram 1		Subprogram 2		Subprogram 3	
	Expected	Actual	Expected	Actual	Expected	Actual
Appraisal	10–24 July 2001	10–24 Jul 2001		Not required		28–29 Jul 2005
Loan Negotiations	8–10 Oct 2001	8–10 Oct 2001		24 Oct 2002		15 Aug 2005
Board Approval	15 Nov 2001	15 Nov 2001		28 Nov 2002		29 Sep 2005
Loan Agreement		13 Dec 2001		11 Dec 2002		8 Nov 2005
Loan Effectiveness	13 Mar 2002	9 Jan 2002	11 Mar 2003	21 Feb 2003	6 Feb 2006	11 Jan 2006
First Disbursement		17 Apr 2002		31 Aug 2005		30 Oct 2007
Loan Closing	31 Dec 2003	13 Dec 2003	31 Dec 2004	31 Aug 2005	30 Jun 2007	31 Oct 2007
Program Completion Months (effectiveness to loan closing)	24	24				

Type of Mission	Subprogram 1		Subprogram 2		Subprogram 3	
	No. of Missions	Person-Days	No. of Missions	Person-Days	No. of Missions	Person-Days
Consultation	1	36				
Reconnaissance	1	24				
Fact-Finding	1	36			1	35
Appraisal	1	75			1	6
Inception					1	8
Review 1	1	27	1	15	1	8
Review 2	1	22	1	35	1	16
Review 3	1	40	1	10	1	16
Review 4	1	28			1	28
Program Completion Review	1	8	1	8	1	8

ADB = Asian Development Bank, ADTA = advisory technical assistance, No. = Number, TA = technical assistance.

EXECUTIVE SUMMARY

Cambodia's formal financial system comprises the National Bank of Cambodia (NBC) (the central bank), 16 local commercial banks and 2 branches of foreign banks, 7 specialized financial institutions including the Rural Development Bank, 17 licensed and 26 registered microfinance finance institutions, and 6 insurance companies. With the exception of the NBC and Rural Development Bank, these are all private institutions enjoying full operational autonomy. Cambodia has yet to establish securities markets. The predominantly rural nature of the economy, high transaction costs, the inability of the real sector to put together bankable projects, and low creditor confidence have hindered formal intermediation and outreach within the sector, slowed the development of nonbank financial institutions, limited the range of products and services offered, and raised the costs of borrowing. These shortcomings provide a strong reason for financial sector reform.

This report evaluates the performance of the First Financial Sector Program Loan Cluster (FSPL I) and the related technical assistance (TA) by assessing (i) their relevance, effectiveness, and efficiency in achieving outputs and objectives; (ii) the sustainability of outcomes; (iii) institutional development and socioeconomic impact of the sector program; and (iv) the performance of the Asian Development Bank (ADB) and the Executing Agency. This report also identifies key issues and lessons for future ADB operations.

ADB has been in the forefront of financial sector reform in Cambodia since 1999. With the help of an ADB TA, Cambodia conducted a diagnostic assessment of its financial sector that eventually became the basis for the Financial Sector Blueprint for 2001–2010. The blueprint set out the long-term vision and development strategy for the sector. It was in line with the Government's overall reform agenda as well as ADB's country strategy for the establishment of a market-oriented and private sector-led economy.

Designed within the framework of the blueprint, FSPL I was geared to develop (i) the banking sector; (ii) the insurance sector; (iii) interbank and money markets; (iv) accounting and financial reporting practices in line with international standards and best practices, and the legal infrastructure necessary for commercial and financial activities; and (v) supporting institutions and human resources capacity building. The cost of structural adjustment under FSPL I was estimated at $90 million. Of this amount, $30 million was to be financed through FSPL I, and the balance of $60 million, by the Government.

FSPL I adopted a program cluster approach with three successive subprogram loans. The expected outcomes were (i) enhanced bank intermediation and soundness; (ii) a legal and regulatory framework for insurance; (iii) a firm foundation for the development of interbank and money markets; and (iv) developed financial infrastructure including accounting and auditing practices, a credit information sharing system, and a financial intelligence institution to trackdown fraudulent financial transactions. This being an action-oriented program, no quantifiable indicators were provided in the program framework.

The loan tranches under the three subprograms were released but after some delays. The Government fulfilled satisfactorily all the policy actions—about 39 of them—under the three subprograms except the one relating to the establishment of a joint venture for the government-owned insurance firm. That condition was waived by the ADB Board of Directors prior to tranche release but was subsequently met. Five advisory TAs totaling about $3.3 million were given in conjunction with FSPL I to help with the implementation of the reforms.

The reforms were adopted in 2002–2007, although they were designed for adoption in 2001–2004 in the Financial Sector Blueprint. A program completion report (PCR), prepared by ADB's Southeast Asia Department in June 2008, rated FSPL I "highly successful." On the basis of the completed program cluster, the $40 million Second Financial Sector Program Loan Cluster (FSPL II), comprising four sequenced subprogram loans, was approved in November 2007. Two of the subprogram loans, totaling $20 million, have been released so far.

There was mixed success in the achievement of the outputs and outcomes envisaged under FSPL I. Reforms were adopted successfully. For instance, banks grew in number and outreach, following the relicensing program in the banking sector. Several commercial banks began serving the provinces and introduced new products and services, particularly in the microfinance sector. New payment instruments, such as debit and credit cards, were introduced. NBC supervision improved, enhancing the soundness of the banking system and public confidence in the system. Progress was also made under FSPL I in drafting and passing a number of laws to govern financial and commercial transactions.

However, institutions as well as staff appear to need a considerable amount of capacity strengthening to facilitate enforcement and compliance and make the reforms more effective. Briefly, the shortcomings in the five areas of reform are as follows:

(i) Banking sector supervision is overextended. It has to cover a large number of financial institutions and regulations, and maintain bank stability in the face of the economic challenges of a slowing-down economy.
(ii) In view of lack of enforcement and compliance mechanisms, three compulsory insurance products have yet to be made fully operational. Thus, the general public remains unprotected from vehicular accidents and construction activity.
(iii) Laws for commercial and financial activities have been adopted but are ineffective without an appropriate court system and competent judges to enforce contracts.
(iv) Accounting, auditing, and financial reporting practices, in line with international standards and best practices, have been introduced. But the lack of qualified accountants and auditors hampers their effective enforcement and practical application.
(v) New training institutions for bank personnel and a rudimentary credit information sharing system are now in place, but these need considerable strengthening to function properly. Despite growing demand, the interbank and money markets have yet to be established.

These shortcomings must be dealt with firmly and quickly to help reduce financial transaction costs, interest rate margins, uncertainties of doing business and lack of confidence in commercial contract enforcement, and to facilitate liquidity management and financial intermediation. Measures being taken under the ongoing FSPL II should strengthen the enforcement of reforms. The situation is expected to improve in the medium to long term.

Overall, the program performance evaluation report rates FSPL I "successful," as against the "highly successful" rating in the PCR. FSPL I is also rated "relevant." It conformed to the Government's blueprint for financial sector development and ADB's country strategy for Cambodia. But more could have been done for the enforcement of some of the reforms introduced, such as the compulsory insurance products and the accounting practices, which precluded a higher rating.

FSPL I is rated "effective." The Government adopted satisfactorily most of the policy conditions and is moving to make those reforms more effective in practice. There were delays, however, in closing the loans under subprogram 2 and subprogram 3, implementing the TA projects, privatizing the Cambodia National Insurance Company (the state-owned insurance company), and establishing the needed enforcement and compliance capability. There were also delays in the use of counterpart funds and government-committed funds to meet the structural adjustment costs. Some of these delays were beyond the control of the concerned agencies. Moreover, the Cambodia National Insurance Company has been privatized, and steps are being taken to strengthen the enforcement of reforms. FSPL I is therefore rated "efficient," but with room for improvement in those delayed areas.

The sustainability of the FSPL I outcome is considered "likely," but it requires strengthened efforts under the ongoing program. The Government remains committed to reform and is taking various actions under FSPL II to support the measures adopted under FSPL I, despite potentially weakened absorptive capacity for reform due to the present global financial crisis. NBC and the insurance division of the Ministry of Economy and Finance (MEF) have established legal, regulatory, supervisory, and staff training frameworks for the banking and insurance sectors, but these need further strengthening to cope with the greater challenges ahead. Current efforts to set up courts for commercial cases, with competent judges, within the present court system should be speeded up so that the courts can start enforcing the laws promoting commercial activities and the financial market. Programs to increase the supply of trained accountants and auditors should also be accelerated to ensure compliance by business enterprises with the accounting, auditing, and financial reporting standards that have been introduced. On the other hand, there are plans to strengthen the operations of the credit information sharing system.

FSPL I contributed to institutional development and the improvement of human resources capacity. Systems for supervising and controlling the operations of financial institutions and insurance companies are in place. NBC created the Banking Studies Center to train NBC and commercial bank personnel. About 1,500 have completed the training, and about 140 more go through the program each year to meet the rising demand for trained banking personnel. In addition, the Cambodia Institute of Banking of the Association of Banks conducts training programs for the staff of financial institutions. Private banks have their own training programs for their staff, and so does the insurance division of MEF. Courts are being set up specifically to try commercial cases and there is an institute that trains judges in the proper adjudication of conflicts arising from commercial transactions. The National Accounting Council and the Kampuchea Institute of Certified Public Accountants and Auditors were formed to oversee the introduction of accounting, auditing, and financial reporting standards, ensure compliance, and increase the supply of trained accountants and auditors. A new financial intelligence unit in NBC tracks fraudulent financial transactions and its staff members are being trained. A rudimentary form of credit information sharing system now exists, and plans to strengthen its operations are under way. Interbank and money markets, however, are yet to be established although regulations for their operations have been adopted.

FSPL I added value to Cambodia's financial sector and private sector. The reform programs it introduced helped transform Cambodia's near-rudimentary banking system into a modern one, which has turned out to be fairly resilient in the current global financial crisis. Other development partners like the International Monetary Fund (IMF) (for bank restructuring support, among others) also assisted. FSPL I, along with the IMF, laid the foundation for a market-oriented financial system. Further improvements can be made in the system as recommended under FSPL II. Banking sector stability has so far been maintained. Public confidence in the banking system appears to have grown, with total deposits gradually increasing their share in gross domestic product (GDP) from 10.4% in 2001 to 26.6% in 2007. The share of private sector credit in GDP also increased from 6% in 2001 to 18.3% in 2007, indicating the positive role of the banking system in promoting private sector activity. The increase in both deposits and credit in the private sector is evidence of growth in financial intermediation in support of private sector development. M2 as a percentage of GDP also increased from 13% in 2001 to 25.9% in 2007. The central bank, however, must closely monitor developments and take early action to maintain public confidence in the banking system and preserve stability in the face of the economic challenges ahead. Many reform measures also have yet to be enforced and complied with, while some key reform components still have to be acted on (such as the development of interbank and money markets).

The performance of ADB and the Executing Agency (NBC) was satisfactory. However, ADB could perhaps have included another subprogram in FSPL I purely for the strengthening of enforcement and compliance. NBC, for its part, could have made greater efforts to expedite such strengthening, particularly through more judicious use of the TA grants for reform implementation and quicker use of the counterpart funds and the government-committed funds to meet adjustment costs, and could have taken action to create the much-needed interbank and money markets.

Two lessons can be learned from the FSPL I design and the difficulties encountered in its implementation. First, for a successful reform program, institutional strengthening for enforcement and compliance is as important as the adoption of reforms. FSPL I appears to have given more emphasis to the latter than to the former, thus reducing the effectiveness of the FSPL I reform program. Second, a country's absorptive capacity—its institutions and the competence of their staff—should be carefully assessed when designing a reform program, particularly one that is multisector and wide ranging in nature involving new initiatives and concepts, and requiring legislative measures. In the case of FSPL I, TA projects were expected to make up for the capacity shortcomings, but their overall effectiveness was also reduced by poor absorptive capacity. The reform program would have succeeded better if more time was allowed for the TA projects to facilitate implementation or if a subprogram for enforcement and compliance was included in FSPL I. ADB's future program loan clusters intended to support the introduction of reforms should give equal weight to adoption and enforcement and compliance to be effective and sustainable.

This program performance evaluation report recommends the following follow-up actions:

Recommendation	Responsibility	Timing
Assist the central bank in strengthening its capacity to accelerate financial sector development (para. 34).	Southeast Asia Department (SERD)	To be considered under subprogram 3 of FSPL II
Help the Government to implement and enforce the reform measures that were adopted under FSPL I (para. 35).	SERD	To be considered under subprogram 3 of FSPL II
Dialogue with the Ministry of Economy and Finance to ensure adequate and timely availability of budgets to expedite the reform enforcement measures (para. 36).	SERD	To be considered under subprogram 3 of FSPL II

I. INTRODUCTION

A. Evaluation Purpose and Process

1. The First Financial Sector Program Loan Cluster[1] (FSPL I) and the five associated technical assistance (TA) grants[2] were selected for program performance evaluation for four main reasons: (i) FSPL I was the major intervention of the Asian Development Bank (ADB) in the financial sector in 2001–2007; (ii) the program performance evaluation was expected to serve as input for a financial sector assistance program evaluation for Cambodia in 2009 and for the new country partnership strategy; (iii) the evaluation would take stock of the developments thus far and recommend further action to meet FSPL I objectives; and (iv) lessons from the experience in implementing FSPL I and its associated TA would help improve ADB's future operations in the financial sector in Cambodia and in ADB's other developing member countries with similar backgrounds. An Independent Evaluation Department (IED) evaluation mission (the Evaluation Mission)[3] visited Cambodia from 19 November to 3 December 2008, reviewed program-related documentation and other background materials, and interviewed key stakeholders[4] and donors in Cambodia and ADB officials associated with FSPL I. From that evaluation, the performance of FSPL I and its TA was assessed according to the following criteria as defined in ADB's evaluation guidelines:[5] (i) relevance, effectiveness, and efficiency in achieving outputs and objectives; (ii) sustainability of outcomes; (iii) institutional development and socioeconomic impact; and (iv) the performance of ADB and the Executing Agency. Key issues and lessons for future ADB operations were identified.

2. The key feature of FSPL I was its formulation in close alignment with the Government's sector development plan. First, with ADB's assistance, the Government completed a study in June 1999 that produced a road map for the development of Cambodia's financial sector over the next 20 years. On the basis of that road map and with a program preparatory TA from ADB, the Government drafted a long-term strategy for the financial sector and a three-phase sector development plan, the Financial Sector Blueprint for 2001–2010. The strategic policy reforms identified in the blueprint for implementation in 2001–2004 became the focus of the FSPL I policy reform package. FSPL I adopted a program cluster approach with three back-to-back subprograms for phased implementation of the reforms. A summary of the FSPL I framework is given in Appendix 1.

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

[2] ADB. 2001. *Technical Assistance to Cambodia for Capacity Building for Banking and Financial Management*. Manila (TA 3769-CAM; $1 million); ADB. 2002. *Technical Assistance to Cambodia for Improving Legal Infrastructure in the Financial Sector*. Manila (TA 3861-CAM; $800,000); ADB. 2002. *Technical Assistance to Cambodia for Improving Insurance Supervision.* Manila (TA 4020-CAM; $400,000); ADB. 2005. *Technical Assistance to Cambodia for Financial Sector Program Implementation*. Manila (TA 4656-CAM; $500,000); and ADB. 2005. *Technical Assistance to Cambodia for Developing Deposit Services in Rural Cambodia*. Manila (TA 4755-CAM; $600,000).

[3] The Evaluation Mission comprised Cheolghee Kim (mission leader), Sarath Thalakada (international financial sector specialist), Juanda Dimayuga (evaluation officer, IED2), and Din Virak (national financial/private sector specialist).

[4] They included some 70 representatives of executing and implementing agencies and other key private sector financial institutions in Phnom Penh and Kampot province and Kep city, as well as representatives of the Chamber of Commerce and private business enterprises.

[5] ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila.

B. Program Objectives

1. First Financial Sector Program Loan Cluster (Cluster Loans 1859-CAM, 1951-CAM, and 2185-CAM)

3. FSPL I was aimed at the development of a sound, market-oriented financial system to improve resource mobilization and sustain economic growth. To achieve this, a foundation was to be established for the development of the banking and insurance industries, as well as the financial markets. FSPL I concentrated its efforts on (i) boosting banking intermediation and public confidence by establishing and strengthening banking supervision, developing key information infrastructure and safety nets, and reinforcing the institutions that would build capacity in the public and private sectors; (ii) setting up legal and regulatory frameworks for insurance development by institutionalizing supervision and prudential regulation, involving the private sector, and developing compulsory insurance; (iii) laying the groundwork for the development of the interbank and money markets by promoting public-private partnerships and establishing a basic legal framework; and (iv) drafting common accounting standards, enforcement mechanisms, and laws for commercial activities and the financial markets. The financial sector reforms under FSPL I were considered necessary for a stable, viable, and competitive financial system based on improved asset quality in banks and more efficient intermediation. The insurance sector and interbank markets were to be developed to create an enabling environment for the mobilization of domestic resources including long-term resources of investment funds to complement bank lending. The reforms under FSPL I were expected to have a positive impact on savings and investment.

2. Technical Assistance Grants

4. ADB provided five advisory TA grants in conjunction with FSPL I to facilitate the implementation of the proposed policy package and the achievement of the intended outcomes and outputs. The TA grants had the following objectives: (i) to build capacity for banking and financial management, (ii) to improve legal infrastructure in the financial sector, (iii) to improve insurance supervision, (iv) to assist in FSPL I implementation, and (v) to develop deposit services in rural Cambodia. Further details of these TA grants are given in paras. 10, 18, and 31.

II. DESIGN AND IMPLEMENTATION

A. Rationale

5. Cambodia's financial sector at the time of appraisal was at an early stage of development with limited financial intermediation and low public confidence. Financial sector development was hampered by numerous constraints such as: (i) high risk related to uncertainties in law and contract enforcement in the absence a well-defined policy and regulatory framework, (ii) high information costs stemming from lack of common accounting and auditing standards and other information infrastructure, (iii) high operating costs due to the absence of liquidity management mechanisms and other market infrastructure, and (iv) weak supervisory system and capacity. FSPL I supported the Government's efforts to address these constraints and lay the foundation for financial sector development. A sound, efficient, and integrated financial system was considered vital to broad-based sustainable economic growth and poverty reduction, as it would lower the transaction costs of economic activities, create more jobs, and extend financial sector outreach to poor and rural areas. Such a system would promote private sector development and foreign direct investment, besides protecting the

economy from external shocks that were becoming more common in the increasingly globalized and integrated financial markets.

B. Formulation

6. ADB assisted the Government in drafting a preliminary financial sector road map for the next 20 years through a financial sector study completed in June 1999. On the basis of that road map, ADB provided project preparatory TA for an in-depth diagnostic review of financial sector constraints, which produced a long-term financial sector strategy and a three-phase sector development plan, the Financial Sector Blueprint for 2001–2010.[6] The FSPL I policy reforms were those identified in the blueprint for implementation in 2001–2004. FSPL I proposed to adopt a program cluster approach with three back-to-back subprograms. It involved (i) developing the banking sector (para. 12) by strengthening bank supervision and prudential regulations, supporting bank restructuring under the International Monetary Fund (IMF) Poverty Reduction and Growth Facility, developing banking sector infrastructure and safety nets, and strengthening capacity-building institutions; (ii) developing the insurance sector (para. 13) by establishing a supervisory and regulatory framework and strengthening it, establishing an enforcement mechanism for compulsory insurance, and promoting private sector participation in the insurance business; (iii) developing the interbank and money markets (para. 14) by creating self-regulated interbank market arrangements and establishing a legal and regulatory framework for money markets; and (iv) developing accounting and legal infrastructure (paras. 15–16) by establishing an accounting and auditing system, developing legal infrastructure, and establishing a regulatory framework for corporate financing activities. In addition, ADB provided institutional capacity-building support for the implementation of the reforms (paras. 17–18).

7. FSPL I was in accordance with ADB's country operational strategies, which, among other things, called for the development of an enabling environment for the private sector through selected interventions in transportation, finance, and energy. FSPL I was also coordinated with the work being done by the International Finance Corporation, the IMF, and the World Bank in financial sector development. In formulating FSPL I, ADB took into account the interests of stakeholders, other donors, and nongovernment organizations. Lessons learned from ADB's experiences in financial sector development and reform implementation in Asian economies and transition economies (the Lao People's Democratic Republic and Viet Nam, among others) were also considered.

C. Cost and Financing and Executing Arrangements

8. The cost of structural adjustment under FSPL I was estimated at $90 million.[7] Of this amount, $30 million was to be financed through FSPL I and the balance of $60 million was to be provided by the Government. Two tranche releases of $5 million each under subprogram 1 were disbursed on schedule and the loan was also closed on schedule in December 2003. Two

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[6] Chun, Byoung-Jo, Arun Hsu, Ashok Sharma and Xuechen Zhang. 2001. *Financial Sector Blueprint for 2001–2010*. Manila: ADB.

[7] According to the program document (para. 118), this amount comprised the following: (i) $37 million for adopting and enforcing the International Accounting Standards and International Standards on Auditing; (ii) $18 million for establishing banking sector infrastructure and safety nets including a public registry of secured transactions, credit information exchange arrangements, and a deposit insurance system; (iii) $16 million for strengthening bank prudential regulations and bank restructuring; (iv) $6 million for developing interbank and money markets and laying the foundation for capital market development; (v) $7 million for developing capacity-building institutions in the public and private sectors; and (vi) $6 million for developing a legal and regulatory framework for the financial sector.

tranche releases of $5 million each under subprogram 2 were delayed by the July 2003 national election and the 1-year delay in forming a new government. The subprogram was closed after two extensions in August 2005, 8 months later than scheduled. The single tranche release of $10 million under subprogram 3 was delayed by the corresponding delay in the approval of the Law on Secured Transactions and the time required for ADB's internal processing of the progress report. It was closed in October 2007, after a delay of 4 months that included two extensions. The final total disbursement came to about $31.8 million. The National Bank of Cambodia (NBC) was the Executing Agency for FSPL I and was responsible for its overall implementation. The Government fulfilled satisfactorily all the policy actions—about 39 of them—under the three subprograms except the one relating to the establishment of a joint venture for the government-owned insurance firm. That condition for tranche release was waived by the ADB Board of Directors before the release of the tranche but was later met.[8] Appendix 2 gives the updated status of the conditions for tranche releases under FSPL I.

D. Use of Counterpart Funds

9. The loan proceeds were withdrawn according to ADB's standard disbursement procedures. As of 30 November 2008, the Government had committed up to about $31.4 million, of which about $19.3 million had been disbursed.[9] About $8.5 million of the amount disbursed (44%) was to be used to meet the structural adjustment costs of NBC; the Ministry of Economy and Finance (MEF), for its financial industry department (FID) and department of investment and cooperation (DIC), and the National Accounting Council (NAC); the privatization of the Foreign Trade Bank (FTB); and the Ministry of Commerce (MOC). The $10.8 million balance of disbursements (56%), on the other hand, did not appear to be directly related to the adjustment costs under FSPL I.[10] Of the $12.1 million balance of the $31.4 million commitment, $5.8 million was expected to be disbursed by June 2009, about $4.2 million to be disbursed in 2010 to meet the structural adjustment costs of MEF ($2.0 million for FID, $2.0 million for NAC, and $0.2 million for DIC), and balance $2.1 million thereafter. Two issues have come up in this regard: (i) the use of counterpart funds to meet structural adjustment costs has been delayed, probably by the lack of absorptive capacity;[11] and (ii) the Government has so far not used any funds out of its total commitment of $60 million to meet the cost of the structural adjustments.

E. Consultants

10. TA consultants were hired according to ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). Their outputs are given in para. 18. The performance of the consultants is rated generally satisfactory on the basis of the "successful" status of TA implementation, as detailed in para. 31.

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[8] A joint venture with the private sector (owning 75%) was finally approved by the Government in November 2008.

[9] The program completion report did not give any information about the procurement procedures used or the actual cost of the structural adjustments.

[10] This total comprised a transfer of about $1.0 million to the National Treasury out of subprogram 1, and about $9.7 million to the Ministry of Water Resources and Meteorology out of subprogram 2. According to the Government: "It is a (program) loan against policy conditions [that were] satisfactory/complied [with]. Some amounts transferred to support [the] government budget [were used] as capital expenditure for water resources facilities and as operating/current expenditure for [the] education sector through the National Treasury."

[11] The Government had the following explanation for the delays: "(i) By nature, the program loans will last longer than the project type, which normally [finish] in 2 or 3 years' time; (ii) The delay is due to the [pace] of implementation of those agencies. The MEF [is]…committed to expend against the 2- or 3-year work plans."

F. Outputs and Outcomes

11. The achievement of the envisaged outputs and outcomes met with mixed success. While the planned reforms were adopted successfully, enforcement and compliance must be considerably strengthened. The status of the reforms, under the five main categories, is summarized in the following paragraphs and discussed in some detail in Appendix 3.

12. **Development of the Banking System.** This component was fairly successful. All the financial institutions now in operation—18 banks including two branches of foreign banks, 7 specialized financial institutions, and 17 licensed and 26 registered microfinance institutions[12] (MFIs)—are in the private sector (except for the Rural Development Bank) and enjoy operational autonomy. FTB has been privatized. Prudential regulations (including those related to capital adequacy and to loan classification and provisioning) and a chart of accounts, as required under FSPL I, have been introduced and are being enforced. All these reforms have helped to stabilize the financial system and to increase financial intermediation for private sector development. NBC is drafting five other regulations for adoption in early 2009.[13] NBC also proposes to tighten the present regulation regarding loan classification and provisioning to include, in addition to past-due status,[14] two other criteria: the financial condition of borrowers, and the quality of their loan documentation. The financial position of financial institutions is expected to become more transparent as a result. The September 2008 increase in the statutory reserve requirement (SRR) for banks from 8% to 16% as a condition of ADB's FSPL II to moderate inflation now appears to constrain bank liquidity especially during a liquidity crunch caused by a slowing down of the economy.[15] The adverse effects of the economic slowdown (such as a decrease in deposits, increase in bad debts, and resultant decrease in earnings;[16] reduced bank liquidity; and the proposed tightening of loan classification and provisioning requirements) might create some instability in the banking system. These factors, on top of the planned increase in the minimum capital requirement for banks from $13.0 million to $37.5 million to provide a cushion for overexposure to any particular sector like property development could also lead to some bank consolidation if the increase is rigorously enforced by NBC. Bank supervision capability is now spread too thinly[17] and needs considerable strengthening in staff numbers and competence[18] to allow more rigorous oversight, given the large number of financial institutions and their extensive branch network, the expanding regulatory framework, and the relatively more difficult economic environment. Also, the savings rate continues to be

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[12] According to the rule and regulations of the National Bank of Cambodia (NBC) in 1999, MFIs are encouraged to register with the Ministry of Commerce (MOC) as a private limited company and later obtain the license from NBC.

[13] The Basel Committee on Banking Supervision required 25 core regulations. NBC has introduced 18 and is drafting another five for adoption in early 2009. These five relate to the audit of consolidated accounts and overseas branches of local banks, the capital market activities of banks, and prevention of lawsuits against NBC staff in the course of supervision work.

[14] Thirty percent provision for loans more than 30 days and up to 60 days overdue, 60% for loans more than 60 days and up to 90 days overdue, 90% for loans more than 90 days and up to 360 days overdue, and 100% provision for loans more than 360 days overdue.

[15] The application of the statutory reserve requirement (SRR) needs to be reexamined. The interest rate paid to banks on the SRR is relatively on the low side (nothing up to 50% of the SRR, and up to 50% of the Singapore interbank offered rate [SIBOR] on the other 50% of the SRR), reducing the earning capacity of banks. Moreover, the SRR is fixed on the basis of deposits outstanding at the start of each month, and cannot be changed even if deposits are reduced during that month. There is therefore less bank liquidity for lending purposes.

[16] The global economic meltdown appears to have slowed Cambodia's economic growth. From average rates of about 10.6% in 2003–2007, growth is estimated by ADB at about 6.5% in 2008.

[17] The supervision department of NBC has a staff of 57, or about 1.4 for every financial institution—not enough for both on-site examination and off-site supervision. NBC plans to increase its staff by 27 in 2009.

[18] Staff competence, particularly the technical aspect, appears to need strengthening for the analysis and interpretation of financial statements, and the use of new systems and products, among other tasks.

low,[19] while interest rate margins and interest rates stay on the high side,[20] hampering investment, private sector activity, and economic growth.

13. **Development of the Insurance Sector.** The insurance sector is supervised by the insurance division under the department of financial industry of MEF.[21] The enforcement and compliance capability of the division continues to be strengthened through staff additions and training. The following laws and regulations have been introduced: the Insurance Law and legal framework, in 2000; regulations on licensing, minimum capital requirement, and compulsory insurance products (compulsory motor vehicle or third-party liability insurance, compulsory insurance of passenger transport, and compulsory insurance for construction sites), in 2001–2008, to fulfill an FSPL I requirement; and accounting, auditing, and reporting standards, in 2007. The privatization of the Cambodia National Insurance Company (CAMINCO), the state insurance company, was approved in November 2008 as a joint venture with 75% private sector ownership. Five private insurance companies are now in operation and one other company has received preliminary approval. Preliminary approval has also been given for the start of a life-insurance joint venture between government and the private sector. The compulsory insurance products, however, are mostly ineffective because of weak enforcement.[22] Many vehicles on the road, as well as much construction activity, are not insured against third-party liability.[23] Nonlife insurance had a market penetration of only 0.2% of gross domestic product (GDP) in 2007 and 2008.[24] Interministerial coordination and cooperation is needed to put in place effective mechanisms for the enforcement of the three applicable ministerial regulations (*prakas*); without enforcement, the three insurance products would not be compulsory in practice and would not meet the FSPL I requirement.[25]

14. **Development of Interbank Market and Money Markets**. Since the creation of the Association of Banks in Cambodia in 2002, specifically to establish interbank market and money markets, no visible progress has been made in this regard. Bankers, finding it difficult to manage liquidity efficiently, have called repeatedly for these markets to be established, especially in the present circumstances of tight liquidity. The markets need a framework of rules (among others, to guard against defaults and provide a comfort system for banks) and close coordination by NBC, to enable flexible use of the participating banks' accounts with the central

[19] The gross domestic savings rate increased from 6.4% of GDP in 1997 to 16.1% in 2007 but is still considerably lower than the rate in Viet Nam (29% in 2007) and Thailand (34% in 2007).

[20] In 2005–2008, interest rate margins ranged between 28%–29% per year on riel loans, and 24%–25% per year on US dollar loans. Interest rates ranged between 36%–41% per year on riel loans, and 29%–32% per year on US dollar loans.

[21] The staff of 14 including the commissioner is distributed among four divisions (regulations, supervision, market development, and international cooperation). Staff training is provided on the job, through overseas secondment, and by ADB. To strengthen supervision, particularly for the expanded range of products, seven more staff members will be recruited in 2009. A manual of supervision has been introduced and is being used by staff in day-to-day regulation and supervision including due diligence, off-site and on-site supervision, and tracking of early-warning systems.

[22] For example, since the Road Traffic Act does not require commercial vehicles to be insured, only about 5% of commercial vehicles on the road carry this form of insurance. Also, third-party liability insurance is not required for building permits; therefore, most construction work does not carry this insurance.

[23] Although the number of third-party policies has been increasing, better enforcement and compliance is necessary for quicker and wider coverage to ensure public safety.

[24] The market penetration was as follows: Asia, 1.59%; Japan and newly industrialized Asian economies, 2.59%; and the world average, 3.08%. These data show the scope for further development of the insurance sector in Cambodia. (Source: Swiss Re, Economic Research and Consulting; MEF; IMF)

[25] The program document (para. 104) suggested that effective enforcement and monitoring involving several line ministries required the adoption of a time-bound official working plan and the creation of an interministerial working group with division of responsibilities for enforcement and monitoring. However, without a clear champion to lead the interministerial coordination, compulsory insurance has remained ineffective for the last 9 years.

bank and the development of tradable market instruments. The Law on Negotiable Instruments and Payment Transactions was passed by the National Assembly in September 2005 and the three implementing regulations were adopted in December 2006. But NBC believes that it is difficult to develop these markets without government securities in the market to secure interbank and money market transactions. Lack of confidence in the central bank and between banks has kept these markets undeveloped.[26] The Evaluation Mission urged NBC to take early steps to develop these markets, perhaps by launching awareness programs to create trust among the banks.

15. **Development of Accounting and Legal Infrastructure.** Eighteen accounting, 10 auditing, and 2 financial reporting standards, in line with international standards and best practices, have been introduced, as required under FSPL I. These standards became enforceable with the passage in 2002 of the Law on Corporate Accounts, Their Audit, and the Accounting Profession (Accounting Law). However, there is an acute shortage of skilled accounting and auditing professionals in Cambodia.[27] The present education system cannot produce enough professionals of the required quality to enforce the standards. The scholarship program introduced under FSPL I to increase the supply of professional accountants has not been a success, as it was designed mainly for civil servants until recently.[28] The funds might have been more prudently spent to upgrade the teaching of accounting and auditing in reputable universities, with longer-lasting benefits (institutional instead of individual development). MEF, the Ministry of Education, NAC, and the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA) are moving to increase the supply of trained accountants and auditors to help enforce the Accounting Law and apply it to a wider range of business enterprises.[29] The measures include improving the accounting degree curriculum and teaching methods at the universities, producing more people with certified accounting technician qualifications (the course of training is shorter than that for certified public accountants), and opening the ongoing scholarship program to all Cambodian people instead of limiting it to civil servants. A detailed study of Cambodia's accounting and auditing practices, done by the World Bank in February 2007, identified many issues and made recommendations for Cambodia to implement.[30] The recommendations, now being looked into by MEF, NAC, and KICPAA, must be carried out without further delay. The Evaluation Mission impressed on the Government the urgent need to resolve these issues. As the World Bank report rightly pointed out, "High quality accounting and auditing together with transparent sound corporate reporting are critical to enhancing governance and the environment for economic growth and financial stability."

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[26] Some transactions are taking place but these are secured against certificates of deposit like normal deposit transactions. Generally, excess liquidity is placed in overseas markets like Singapore on relatively small margins of 1%–2%, denying the country the use of that liquidity.

[27] With the technical skills and expertise needed for such tasks as the proper analysis and interpretation of the financial statements submitted by a large number of financial institutions.

[28] The dropout rate has been high and the 5-year program has produced only two qualified accountants so far. The scheme is now open to non-civil servants as well.

[29] ADB prepared a template that business enterprises could use when preparing their accounts for purposes such as bank borrowing and filing of tax returns.

[30] World Bank. 2007. *Cambodia - Report on the Observance of Standards and Codes (ROSC): Accounting and Auditing.* Washington, DC. Among others, the identified issues related to the revision of the Accounting Law, the creation of a sustainable standard-setting structure in accounting and auditing, the transition to full implementation of the International Financial Reporting Standards in public-interest entities, the establishment of systematic and institutionalized monitoring and enforcement mechanisms to ensure compliance with accounting and auditing standards, and the improvement of education and training.

16. Under the FSPL I and its associated TA,[31] the following laws relating to commercial activities were adopted: the Law on Commercial Enterprises (Company Law); the Law on Corporate Accounts, Their Audit, and the Accounting Profession (Accounting Law); the Secured Transactions Law; and the Law on Negotiable Instruments and Payment Transactions. FSPL I specifically supported the adoption of the Law on Commercial Enterprises. The law is being enforced by MOC, but no cases have come up for adjudication. A registry for secured transactions has been set up, with little response from banks. The International Finance Corporation is planning a TA for an awareness program to promote its use. While these laws will facilitate the development of commercial and financial enterprises, contract enforcement appears to be a concern because of institutional and staffing constraints on effective and efficient commercial litigation. To deal with this problem, MOC is starting a school to train judges in civil and commercial cases under a legal reform project and building courtrooms and judges' chambers in the capital and the provinces. The Ministry of Justice, for its part, is putting up separate commercial courts at all three levels—municipal and provincial, appeals court, and Supreme Court. These moves, financed by the Government of Canada and the United Nations Development Programme (UNDP), will provide a pool of judges with the business training to enforce the laws effectively and to resolve business conflicts efficiently and expeditiously. Trade, business development, and financial activity are expected to benefit. The Evaluation Mission requested the Government to expedite the implementation of both these schemes, otherwise the laws and regulations introduced under FSPL I would remain unenforceable and ineffective, and foreign direct investment and private sector activity would suffer. A financial intelligence unit (FIU) was established in January 2008, under the NBC, to administer the Law on Anti-money Laundering and Combating the Financing of Terrorism, introduced under FSPL I. The FIU has begun to identify and prosecute suspicious and fraudulent financial transactions.[32]

17. **Capacity Building to Support the Reforms.** FSPL I provided for institutional and capacity-building support for the foregoing reforms. The Center for Banking Studies (CBS) was established in 1995 as a department of NBC and seems to have made satisfactory progress.[33] FTB was privatized and its staff continues to be trained. The Association of Banks in Cambodia is now in operation. A rudimentary credit information sharing system (CIS) has been set up but so far has provided only negative information on prospective borrowers. NBC and the banking community recognize the need for an efficiently functioning CIS to provide positive information and reduce information costs. The major constraint appears to be the lack of an appropriate information technology system; such a system needs budget support. The Cambodia Institute of Banking (CIB) has been set up by the Association of Banks in Cambodia and is providing structured training in banking to bank personnel. The Evaluation Mission pointed out to NBC the need for coordination among CBS, CIB, and individual banks that also provide bank training on their own (such as Acleda Bank), to avoid duplication of effort and needless use of resources.

18. Five TA projects (see footnote 2) were also implemented and they helped to realize the FSPL I outputs to some extent. TA 3769 (Capacity Building for Banking and Financial

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[31] ADB. 2002. *Technical Assistance to Cambodia for Improving Legal Infrastructure in the Financial Sector*. Manila (TA 3861, for $800,000 approved on 4 May).

[32] Twenty-five reports of suspicious transactions were received in 2007 (false passports, traveler's checks, credit-card fraud, and false identification cards); six of these were referred for police action. Thirteen such reports were received in January–May 2008 (false deposit withdrawals, false fund transfers, and those cases mentioned above), and one of these was referred for police action.

[33] CBS offers a 2-year associate degree in banking-related subjects (including accounting, law, economics, bank management, and marketing) backed by internships. So far, about 1,500 graduates, or about 140 yearly, have completed the degree program. Most are now working at NBC, and the rest are working for other financial institutions including MFIs. An ADB adviser is helping the CBS to reorient its courses to MFI concerns and rural finance.

Management) helped MEF, MOC, and NBC to implement the policy actions for subprograms 1 and 2 and to strengthen bank supervision, insurance regulation and supervision, bank training institutes, and accounting and auditing practices. TA 3861 (Improving Legal Infrastructure in the Financial Sector) helped MEF, MOC, and NBC to formulate key commercial laws to support commercial and financial activities. TA 4020 (Improving Insurance Supervision) helped MEF to upgrade the legal and regulatory framework for the insurance sector to international standards and practices, establish the insurance supervision unit, build staff capacity, and restructure CAMINCO for privatization. TA 4656 (Financial Sector Program Implementation) helped MEF, MOC, and NBC to implement policy actions under subprogram 3, strengthen NBC's on-site supervision capability, develop the legal and regulatory framework for a payment and settlement system, strengthen insurance supervision capability, implement the restructuring plan for CAMINCO, develop commercial law curricula for legal personnel, and prepare the subdecree establishing the national arbitration center. TA 4755 (Developing Deposit Services in Rural Cambodia) helped NBC to strengthen its capacity to regulate and supervise MFIs, strengthen MFI capacity to deliver microfinance savings and safe deposit services, prepare MFI reforms to be included in the FSPL I policy actions, and build community awareness of the value of saving.

III. PERFORMANCE ASSESSMENT

A. Overall Assessment

1. FSPL I

19. The program completion report (PCR) rated the overall performance of FSPL I "highly successful" because it was "highly effective and highly efficient in achieving the expected outcomes." Sustainability was rated "most likely." This performance evaluation report, however, is of the view that, while the reform measures envisaged under FSPL I were introduced successfully, albeit with some delays,[34] enforcement and compliance need to be considerably strengthened. If not, many of the reforms (including those pertaining to compulsory insurance products; commercial and financial contracts; the use of accounting, auditing, and reporting standards; and the establishment of a properly functioning CIS, and interbank and money markets) will remain largely ineffective, and the envisaged outcomes will not be fully achieved. The success of a reform program should be judged on the basis of its adoption as well as its enforcement and compliance. Improvements have already been made in enforcement or are being planned, as indicated in paras. 12–16. In the circumstances, this report rates the overall performance of FSPL I "successful" (downgrading the PCR rating) on the basis of its rating of FSPL I as "relevant," "effective," and "efficient." The sustainability of FSPL I output and outcomes is "likely."[35] Details of the evaluation are given in Table 1.

[34] The reforms were adopted in 2002–2007), although they were designed for 2001–2004 in the Financial Sector Blueprint (2001–2010).
[35] The performance ratings in this report were prepared according to ADB evaluation guidelines (footnote 5).

Table 1: Overall Performance Assessment of the Program

Criteria	Weight (%)	Assessment	Rating Value	Weighted Rating
1. Relevance	20	Relevant	2	0.4
2. Effectiveness	30	Effective	2	0.6
3. Efficiency	30	Efficient	2	0.6
4. Sustainability	20	Likely	2	0.4
Overall Rating		Successful	Not applicable	2.0

Ratings: Highly successful, successful, partly successful, unsuccessful.
Highly successful: Overall weighted average is greater than or equal to 2.7. Successful: Overall weighted average is greater than or equal to 1.6 and less than 2.7. Partly successful: Overall weighted average is greater than or equal to 0.8 and less than 1.6. Unsuccessful: Overall weighted average is less than 0.8.
Source: Asian Development Bank estimates.

B. Relevance

20. FSPL I conformed to the Government's long-term Financial Sector Blueprint, which ADB helped to develop. The objective of that plan was to establish a sound, market-based financial system that was competitive, integrated, and efficient to facilitate private sector development. FSPL I was also in accordance with ADB's country operational strategy, which, among other things, specified the development of an enabling environment for the private sector through selected interventions in transportation, finance, and energy. Its relevance continued, with the Government introducing the FSPL I reform program within a reasonable period of time.[36] However, the program design did not provide for the building of sufficient capability (for example, through additional TA) to enforce the reforms effectively. Therefore, its relevance decreased to some extent as government efforts to put that capability in place fell short. These inadequacies were highlighted earlier under the five categories of envisaged reforms (paras. 12–17). As pointed out in para. 9, the problem of absorptive capacity delayed the implementation of reforms (including the establishment of a properly functioning CIS and interbank and money markets, and the supply of trained accountants and auditors). The delay held up the use of counterpart funds and government-committed funds to meet the adjustment costs. However, the Government is taking action to improve enforcement, as indicated in paras. 12–16. FSPL I is therefore rated "relevant" overall.

C. Effectiveness in Achieving Outcomes

21. FSPL I is rated "effective" in achieving the envisaged outcomes. The reform measures envisaged under FSPL I have been adopted. But until the enforcement and compliance mechanisms are considerably strengthened, some reforms will remain less effective and the outcomes short of appraisal expectations. First, bank supervision capability is spread too thinly. It must be reinforced to allow the bank supervision staff to make regular on-site and off-site audits and check the veracity of financial reporting by the relatively large number of financial institutions now in operation, cope with the present regulations and those to be introduced in 2009 as well as the proposed tightening of regulations on loan classification and provisioning starting in 2009, and be more alert to the adverse effects of the economic slowdown on the financial sector. Second, the *prakas* requiring the introduction of compulsory insurance products will be mostly ineffective until clear mechanisms are set up for their effective enforcement and compliance. Third, the court system needs to be strengthened quickly to enforce the commercial laws that have been introduced. Fourth, considerable groundwork has to be done, particularly to

[36] Subprogram 1 was closed without any delay, while subprogram 2 was closed with a delay of 8 months, and subprogram 3, with a delay of 4 months.

increase the supply of qualified accountants and auditors that will enforce the Accounting Law and the applicable regulations, and ensure that those standards are achieved in practice. Lastly, the interbank and money markets still have to be introduced, while the CIS urgently needs strengthening for effective performance. Given these shortcomings, the expected outcomes—reduced information and financial transaction costs, to bring down interest rate margins and interest rates; more reliable financial reporting systems; and a business-friendly environment in general, to facilitate private sector development and economic growth—will not be fully achieved. Government authorities must pay close attention to this matter.

22. However, the following measures are strengthening the effectiveness of the reforms over the medium to long term, which are supported by the ongoing FSPL II

(i) **Banking sector.** Bank stability is expected to be strengthened with the proposed increase in the minimum capital requirement for banks from $13 million to $37.5 million.[37] Capacity for bank supervision is continuously being strengthened with the recruitment of technical staff and the training of bank personnel by the Center for Banking Studies of NBC, CIB, and individual banks (para. 12).

(ii) **Insurance sector.** The compulsory insurance products are expected to be made effective with the continued strengthening of the compliance capability of the insurance division, and ongoing efforts to improve interministerial coordination and cooperation in enforcing the three applicable *prakas* (para. 13).

(iii) **Advancement of accounting and auditing practices.** MEF, the Ministry of Education, NAC, and KICPAA are acting to increase the supply of trained accountants and auditors to help enforce the Accounting Law. The measures include improving the accounting degree curriculum and teaching delivery methods at the universities, producing more people with certified accounting technician qualifications (the training course is shorter than that for certified public accountants), and opening the scholarship program to all Cambodian people instead of limiting it to civil servants. The Government is also implementing the recommendations of a World Bank study on accounting and auditing practices in Cambodia (para. 15).

(iv) **Promotion of financial and commercial activities.** The ongoing efforts to set up and operate commercial courts within the existing judicial system, with judges trained to deal with laws pertaining to commercial and financial transactions, should help in the effective enforcement of the laws that were introduced under FSPL I (para. 16).

(v) **Establishment of supporting institutions and accompanying development of human resources capacity.** The Center for Banking Studies of NBC, the CIB of the Association of Banks in Cambodia, and individual banks are training bank personnel. The FTB has been privatized and its staff continues to be trained. A rudimentary form of CIS has been set up and improvements that will allow it to provide both positive and negative information on prospective borrowers are planned. With regard to the interbank market and money markets, the Evaluation Mission impressed on NBC the need for liquidity management. Developments are anticipated (para. 17).

D. Efficiency in Achieving Outcomes and Outputs

23. Delay in the introduction of the FSPL I reform program resulted in concomitant delays in the closing of subprogram 2 by 8 months (including two extensions) and subprogram 3 by 4

[37] The proposed increase will need to be strictly enforced by the NBC.

months (including two extensions). The joint venture for the state insurance firm was finalized late. Also delayed was the setting up of enforcement and compliance mechanisms. Delays—particularly in introducing compulsory insurance products to the market, establishing commercial courts, upgrading the capacity of commercial entities for proper accounting and auditing and for financial reporting, establishing interbank and money markets, and putting into operation an efficient CIS—hindered the creation of a business environment conducive to private sector development. There were delays as well in the use of FSPL I counterpart funds and government funding commitments to meet structural adjustment costs.

24. The delay in the introduction of the reform program was due to a number of reasons, most of which were beyond the control of the agencies concerned. First, after the July 2003 national election, it took a year for the new government to take office—and to attend to the fulfillment of the conditions set for loan tranche release (para. 8). Second, the reform program required new legislation, which involved cumbersome and time-consuming procedures. Lastly, the wide sector coverage of the reform program hampered its adoption in view of Cambodia's general lack of institutional and staffing capacity. Despite the delays, however, almost all of the reforms were introduced. The state-owned insurance company has also now been privatized. The Government is, moreover, taking action, as already pointed out, to improve enforcement. Considering the various implementation and enforcement delays and other factors, the achievement of outcomes and outputs is rated "efficient," but with room for improvement in those delayed areas.

E. Sustainability

25. Laws, regulations, and standards were introduced under FSPL I to strengthen the banking, insurance, and commercial sectors, and thereby facilitate private sector development and accelerate economic growth. This is a significant accomplishment, considering that Cambodia had virtually no financial sector laws and standards before FSPL I. But effective enforcement and compliance have been hampered to a large extent by the absence of matching frameworks (properly functioning institutions and competent human resources). The gaps in enforcement and compliance were pointed out earlier under the five categories of reforms introduced under FSPL I (banking; insurance; commercial laws; accounting, auditing, financial reporting practices; and supporting institutions). Weak institutional and human resources capacity limits the sustainability of the reform program. Further work is needed to ensure the proper functioning of supporting institutions such as the interbank and money markets and CIS. Delays in the use of counterpart funds and government-committed funds to meet adjustment costs also appear to have constrained efforts to build effective enforcement and compliance mechanisms. However, moves are being made to improve enforcement, as indicated in paras. 22(i)–22(v). Sustainability is therefore rated "likely," with the expectation that the enforcement of reforms that are currently lagging behind will be addressed by the authorities (under the ongoing FSPL II). The Government must pay close attention to the enforcement of the reform measures to achieve the intended sustainability. The present uncertain macroeconomic environment, as well as the Government's plans to develop capital markets (including the proposed establishment of a stock exchange in 2009), is likely to exert further pressure on absorptive capacity for reform in the financial sector. However, it is expected that ongoing FSPL II will provide the necessary impetus to continue with the reforms.

IV. OTHER ASSESSMENTS

A. Institutional Development

26. Basic institutional frameworks are in place for the development of the banking sector (NBC and private sector banks) and the insurance sector (the insurance division of MEF and private sector insurance companies), and for the setting up of accounting, auditing, and financial reporting standards (by NAC and KICPAA). A FIU is also now in operation. The institutional framework, composed of a national arbitration center and commercial courts, is being set up to decide commercial cases. A rudimentary CIS is operating and is undergoing improvement, but there are no plans yet to develop interbank and money markets, although banks find them useful for liquidity management. Human resources capabilities are likewise being developed. NBC, CBS, CIB, and the individual banks have structured training programs in various functional areas for bank personnel. The insurance division and FIU also have their own staff training programs. The Accounting Law requires all business enterprises with any public interest in them (banks, insurance companies, and public companies) to prepare their accounts annually, have them audited by competent auditors, and submit financial reports. But to do all these, given the huge shortage of trained personnel in the market, would be difficult. NAC and KICPAA are striving to increase the supply, but the gap is unlikely to be closed anytime soon. A good starting point appears to be the universities, which can be equipped with appropriate curricula to prepare students for careers in accounting and auditing. Steps are already being taken in this regard. MOC, for its part, has set up a school to train judges to deal with conflicts arising from commercial transactions. ADB has been involved in most of these training efforts through TA. Measures to expedite the use of counterpart funds and government-committed funds to meet adjustment costs will also speed up institutional and human resources development. The executing agencies must prepare and submit their program cost schedules to MEF to facilitate allocations under the adjustment costs scheme.

B. Impact

27. Data on Cambodia's economic and financial sector performance (2001–2007), given in Appendix 4, show substantial positive developments in the financial sector. ADB has had a major role in these developments, along with the Government and other development partners like the IMF. The IMF has been an active partner in Cambodia's bank relicensing program through its Poverty Reduction and Growth Facility, which has helped strengthen the capital base of the banking system, consolidate banks, and privatize FTB. Many donors have also helped to develop the microfinance sector. The banking sector reforms introduced under FSPL I (regulations, strengthened supervision, staff training, and chart~~s~~ of accounts) have contributed to the banking sector developments. On the other hand, the other reforms (in insurance; commercial laws; accounting, auditing, and reporting standards; and development of new institutions like the CIS and the interbank and money markets) have not had much impact so far. The government authorities need to pay close attention to implementing and enforcing those reform measures to achieve the intended impact on financial sector development.

28. FSPL I has added value to the development of the financial sector. The banking sector had remained stable, financial intermediation has increased, and the economy has grown. Some bank consolidation has taken place, with registered banks decreasing in number from 33 in 2001 to 17 in 2004 before increasing gradually again to 24 in 2007 and then decreasing once more to 18 (including two branches of foreign banks) in 2008. Public confidence in the banking system appears to have increased. From 2001 to 2007, total deposits as a percentage of GDP increased gradually from 10.4% to 26.6%, and private sector credit grew from 6% of GDP to

18.3%, showing growth in financial intermediation in support of private sector development. During the same period, the share of M2 in GDP nearly doubled from 13% to 25.9%, and deposits with MFIs increased from \$3.8 million to \$6.1 million while their micro loans grew from \$35.9 million to \$160.1 million. These improvements will have had a positive impact on the extension of financial services to rural areas and on poverty reduction. The data also show an improvement in the quality of the banks. Average capital adequacy ratio, although dropping over the years, stood at 24% in 2007. Return on assets increased from 0.6% in 2001 to 2.8% in 2007, and nonperforming loans decreased from 8.1% of total loans to 3.4%. These bank performance data, however, are likely to change in the future for two reasons: (i) NBC's proposal to tighten the criteria for loan classification and provisioning, which is expected to increase financial transparency among financial institutions; and (ii) the possible adverse effects of the economic slowdown on banking sector performance.

C. Performance of ADB and the Executing Agency

29. ADB's performance was satisfactory. ADB took the lead in financial sector development from the start, maintaining policy dialogue with the Government and supporting its diagnostic assessment of the sector. FSPL I was based on the blueprint that resulted from the assessment. Appropriate TA grants facilitated FSPL I implementation, which ADB closely supervised, mostly through the Cambodia Resident Mission. With hindsight, however, it appears that enforcement and compliance with the reforms, particularly in view of their large number and diversity, would have been better served had the loan cluster design also included further follow-up advisory TA for institutional strengthening. Cambodia, with its limited capacity, found it difficult to handle enforcement on its own. The TA grants provided to facilitate FSPL I did not appear to be sufficient.

30. The performance of the Borrower and the Executing Agency (NBC) was also satisfactory. The Government was involved in the formulation and approval of the long-term vision and framework for reforming the financial sector according to the Financial Sector Blueprint. The Government took ownership of FSPL I and gave it leadership, commitment, and coordination, as required for the success of the reforms. The implementation of some policy actions under subprograms 2 and 3 was, however, delayed. Greater government effort to enforce the reforms and secure compliance would have made the reform program more effective and sustainable. The use of counterpart funds to meet structural adjustment costs was also rather slow (disbursements are ongoing and are expected to be completed in 2010). The \$60 million committed by the Government to meet these costs has not been used so far. Quicker use of these funds to meet structural adjustment costs would have facilitated the establishment of enforcement and compliance mechanisms, intensive staff training (particularly to increase the supply of competent accountants and auditors), and new financial market infrastructure (CIS and interbank and money markets).

D. Technical Assistance

31. On the basis of field investigations and its ratings of "relevant," "effective," and "efficient" for the five TA projects (Table 2), the Evaluation Mission rated the projects "successful," and their output and outcomes "likely" to be sustainable.[38]

Table 2: Overall Performance Assessment of the TA Grants

Criteria	Weight (%)	Assessment	Rating Value	Weighted Rating
1. Relevance	20	Relevant	2	0.4
2. Effectiveness	30	Effective	2	0.6
3. Efficiency	30	Efficient	2	0.6
4. Sustainability	20	Likely	2	0.4
Overall Rating		Successful	Not applicable	2.0

Ratings: Highly successful, successful, partly successful, unsuccessful.
Highly successful: Overall weighted average is greater than or equal to 2.7. Successful: Overall weighted average is greater than or equal to 1.6 and less than 2.7. Partly successful: Overall weighted average is greater than or equal to 0.8 and less than 1.6. Unsuccessful: Overall weighted average is less than 0.8.
Source: Asian Development Bank estimates.

(i) **Relevance.** The Evaluation Mission rated the TA projects "relevant." They helped to introduce the required laws and enabling regulations; set standards for accounting, auditing, and financial reporting practices; train staff; strengthen supervision; and establish new supporting institutions in the banking, insurance, and commerce sectors (para. 18). The TA projects would have been even more relevant if they had contributed more to strengthening enforcement and compliance.

(ii) **Effectiveness.** The Evaluation Mission rated the TA projects "effective" in introducing the FSPL I reform program. But their effectiveness was reduced to some extent by weak enforcement of regulations and standards, and the under-performance of the scholarship program for accountants and auditors. On the other hand, their effectiveness would have been enhanced if follow-up additional TA were provided to strengthen enforcement and compliance, supervision, staff training, and institutional development.

(iii) **Efficiency.** The Evaluation Mission rated the TA projects "efficient," as they achieved their objectives. Their implementation was, however, delayed (for example, the joint-venture arrangement for CAMINCO) by the low absorptive capacity of institutions and staff, and the closing dates for most of the TA projects had to be extended several times. The reform initiatives and concepts were new to Cambodia and were so wide ranging that staff training and institution building could not keep up. There were also instances where the staff-training efforts of the consultants were thought to be inadequate by the executing agencies. The PCR stated, "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."

[38] The TAs were rated as follows in their TA completion reports (TCRs): (i) TA 3769 (Capacity Building for Banking and Financial Management) was rated "partly successful" because of weak enforcement of regulations; (ii) TA 3861 (Improving Legal Infrastructure in the Financial Sector) was rated "successful" although its implementation was delayed by the 2003 general election, because it delivered the expected outputs; and (iii) TA 4020 (Improving Insurance Supervision) was rated "partly successful" because of the delay in restructuring and identifying a joint-venture partner for CAMINCO. The TCRs on TA 4656 (Financial Sector Program Implementation) and TA 4755 (Developing Deposit Services in Rural Cambodia) have yet to be prepared.

(iv) **Sustainability.** The Government and the executing agencies appear committed to carrying the FSPL I reform program forward. The Evaluation Mission, however, rated the sustainability of the outputs of the TA projects "likely" for two reasons. First, the sustainability of the contributions made by the TAs depends on further measures to strengthen enforcement and compliance capability, in terms of institutions and staff competence, to make the reform program more effective. Second, sufficient budgets must be made available on time to carry forward the institution-building and training efforts (such as setting up courts for commercial cases and the commercial arbitration center, and increasing the supply of trained accountants and auditors), and for early establishment of much-needed supporting institutions such as the CIS, and interbank and money markets. The Evaluation Mission drew the attention of the Government to the need for the timely availability of adequate budgets to facilitate the implementation of the reforms. Improvements have been made in enforcement or are being planned, as indicated in paras. 12–16.

V. ISSUES, LESSONS, AND FOLLOW-UP ACTIONS

A. Issues

32. The implementation of FSPL I brought out the following issues:

(i) **Banking sector development.** NBC supervision needs to be strengthened further to enable it to exercise more rigorous oversight and control of the large number of financial institutions now in operation, with some being relatively on the marginal side, to keep close watch on the possible adverse effects of a slowing-down of the economy on the financial sector, and to take proactive mitigation measures.

(ii) **Insurance sector development.** Workable enforcement and compliance mechanisms need to be set up by the insurance division of MEF to make the compulsory insurance products more effective to minimize risks and safeguard the general public.

(iii) **Commercial sector.** As it proposes to do, the Ministry of Justice needs to set up courts for commercial cases with appropriately trained judges within the present judicial system for effective enforcement and compliance with the commercial laws that have been introduced to improve the business climate and to promote private sector activity.

(iv) **Accounting, auditing, and financial reporting standards.** NAC and KICPAA need to move quickly in increasing the supply of trained accountants and auditors to meet the requirements of the Accounting Law, and to adopt the recommendations made by the World Bank (in its Report on the Observance of Standards and Codes, of 1 February 2007). Properly prepared and audited financial information on business enterprises can thus be made available to the public to enhance financial transparency.

(v) **Supporting institutions.** NBC needs to set up a proper CIS and interbank and money markets and make them operational to facilitate business transactions and reduce related costs.

(vi) **Adjustment costs.** MEF needs to accelerate the use of counterpart funds and government-committed funds to meet the structural adjustment costs of the various agencies involved (NBC, insurance division of MEF, MOC, NAC, KICPAA, and the universities), and carry forward ongoing efforts to build capacity for more effective enforcement and compliance with the FSPL I reforms.

(vii) **Low savings rate.** This was adversely affecting investment and private sector activity. More innovative savings schemes, particularly in the rural sector, backed perhaps by deposit mobilization and insurance schemes, would help to increase the savings rate.

(viii) **High interest rate margins and interest rates.** These add transaction costs to investment and private sector activity. More effective enforcement of the FSPL I reforms (particularly the commercial and financial laws) would help to lower the risks of bank lending and thereby reduce interest rate spreads and interest rates.

B. Lessons

33. Two lessons were identified by the Evaluation Mission. First, enforcement and compliance are as important to the overall success of a reform program as the adoption of the reforms. FSPL I appears to have given more emphasis to the latter than to the former, reducing the effectiveness of the FSPL I reform program. Second, a country's absorptive capacity, in terms of its institutions and staff competence, should be taken into consideration when designing a reform program, particularly one that is multisector and wide ranging, in nature involving new initiatives and concepts, and requiring new laws. In the case of FSPL I, TA projects were expected to make up for the capacity shortcomings but they too encountered problems of absorptive capacity, which reduced their overall effectiveness. Perhaps the TA projects should have been given more time to facilitate with implementation or FSPL I should have included another subprogram specifically for enforcement and compliance. ADB's future program loan clusters that are designed to introduce reforms should give equal weight to reform adoption and to reform enforcement and compliance to be more effective and sustainable.

C. Follow-Up Actions

34. **Assist NBC in strengthening its capacity to accelerate financial sector development.** Options for ADB to consider in implementing this action would include to (i) strengthen NBC's oversight and supervision capability, including staffing, to be able to monitor developments closely and take early mitigation action to maintain the stability of the banking system and keep public confidence in the system in the challenging economic times ahead; (ii) help secure the early adoption and enforcement of its proposals to introduce new banking regulations, tighten loan classification and provisioning, and increase the minimum capital requirement for banks; and (iii) help introduce government securities to develop the interbank and money markets.

35. **Help the Government to implement and enforce the reform measures that were adopted under FSPL I but are still ineffective**, so that they become widely used and exercised. Areas to emphasize in strengthening implementation and enforcement are discussed in paras. 22(i)–22(v) and 32(i)–32(viii).

36. **Dialogue with the Ministry of Economy and Finance to ensure adequate and timely availability of budgets to expedite the establishment of reform enforcement measures.** There should be adequate budgetary support for key activities such as (i) making compulsory insurance products more effective, (ii) training accountants and auditors for the private sector, (iii) establishing an efficient CIS and deposit insurance system, (iv) strengthening the NBC's capacity for prudential regulation, and (v) developing interbank and money markets and introducing instruments to be traded in these markets.

PROGRAM EVALUATION FRAMEWORK

Evaluation Criteria	Evaluation Subcriteria	Major Indicators and Areas of Consideration	Sources of Information	Data Collection Methods
Relevance	a. Consistency with the country's overall development strategy b. Consistency with ADB's assistance strategy c. Importance of contextual circumstances d. Ownership of reforms e. Validity of the diagnosis f. Relevance of program formulation and design to the objectives g. Extent of harmonization with the work of other development partners	• Extent of sector and macroeconomic analysis carried out at appraisal • Consideration given to constraints • Evidence of diagnostic assessment of problems and opportunities • Consistency of program goals, purposes, and outputs with the Government's development strategy, and with ADB's strategy and program • Choice of modality and instrument • Responsiveness of government agencies and affected financial institutions • Clarity of expected results • Level of dialogue with government agencies and other development partners carried out at appraisal and during implementation	• Board meeting minutes • RRP and other project documents • BTORs • National development plans • Discussions with stakeholder • Discussions with ADB officials and other development partners	• Desk review, combined with discussions during mission to Cambodia • Structured questionnaires
Effectiveness	a. Extent to which main program objectives were achieved b. Extent to which the political economy context was conducive to the achievement of program objectives c. Extent to which program financing and contemporaneous macro reforms contributed to the desired macro outcomes d. Extent of program contribution to meeting key policy goals (financial sector reform, sector regulation) e. Extent of program contribution to meeting institutional development objectives (capacity for efficient and	• Degree of achievement of the program purposes as stated in the RRP • What went right and what went wrong • Comparison between actual outcome at the time of completion and the targets in the DMF • Major factors responsible for any shortfalls in achievement	• Secondary data from government sources and other development partners	• Discussions with stakeholders • Structured questionnaires

Evaluation Criteria	Evaluation Subcriteria	Major Indicators and Areas of Consideration	Sources of Information	Data Collection Methods
	effective regulation of the sector, capacity of EA and IAs to implement the reforms)			
Efficiency	a. Program effects and benefits relative to program costs b. Efficiency of preparation and implementation c. Timeliness of provision of financing d. Adequacy of the Government's budget provision to meet its share of structural adjustment costs	• Satisfactory use of resources to achieve the program outcomes • Timeliness of finance • Efficiency of major reform measures • Achievement of program outcomes with economic use of program measures • Efficiency of process (ADB's internal management of program, organization and management of the EA and IAs, funding of program cost, program management cost) • Appropriateness of implementation arrangements	• Stakeholders • Development partners • ADB performance data	• Discussions with government officials and ADB staff • Structured questionnaires
Sustainability	a. Continued support for and commitment to the Program and implementation of measures b. Absence of major policy reversals c. Adequacy of institutional arrangements for implementing reforms agreed on d. Conducive political and macroeconomic setting e. Degree of reform resilience	• Likelihood that human, institutional, and financial conditions are sufficient to support the program outcomes • Continued support for program outcomes from key stakeholders • Absence of major policy reversals	• Funds allocated by the Government • Financial data • Discussions with government officials, ADB staff, and development partners	• Discussions with government officials, ADB staff, and development partners • Structured questionnaires
Institutional development and other impact	a. Contribution of Program to building capacity for undertaking financial reforms, legal and regulatory reforms, and bank restructuring b. Contribution to improving agency capacity c. Contribution to private sector capacity d. Contribution to governance of policy reform process	• Contribution of the Program to institutional development • Better definition, stability of institutional arrangements • Better alignment of mission and capacity of an organization with its mandate • With- and without-Program analysis and assessment of additionality from the reform program, to the extent	• Central bank reports (if available) • Various national account statistics	

Evaluation Criteria	Evaluation Subcriteria	Major Indicators and Areas of Consideration	Sources of Information	Data Collection Methods
	e. Extent to which capacity to manage and lead the reform process in core government agencies has been developed f. Anticipated or unanticipated impact identified	possible • Anticipated and unanticipated (positive and negative) impact • Impact attributable to the Program		
ADB Performance	a. Quality of program design and objectives at entry b. Quality of ADB supervision	• Selectivity of policy measures • Adequacy of rationale used • Adequacy of risk assessment • Incorporation of lessons • Extent to which supervision contributed to achieving desired reforms • Attention paid to monitoring and evaluating data and processes • Quality and timing of ADB self-assessment (PCR)	• Stakeholders • Development partners • ADB performance data	• Structured questionnaires • Interviews with development partners
Borrower's Performance	a. Quality of preparation b. Quality of implementation c. Adequacy of monitoring, evaluation, and reporting	• Degree of ownership of design • Political support • Adequacy of institutional arrangements • Compliance with covenants • Adequacy of monitoring, evaluation, and reporting	• Stakeholders • Development partners • ADB data and staff feedback	• Structured questionnaires • ADB staff interview • Development partners interview

ADB = Asian Development Bank, BTOR = back-to-office report, DMF = design and monitoring framework, EA = executing agency, IA = implementing agency, PCR = program completion report, RRP = report and recommendation of the President.
Source: Operations Evaluation Mission.

STATUS OF THE CONDITIONS FOR THE RELEASE OF THE FIRST FINANCIAL SECTOR PROGRAM LOAN CLUSTER TRANCHES

Subprogram	Tranche Conditions	Status
A. Subprogram 1		
1. Banking subsector		
a. Strengthen bank supervision and prudential regulations	NBC to reconcile old and new prudential regulations and issue clarifying guidance to commercial banks.	Fully implemented in 2002 with periodic updates
	NBC to fully staff the onsite inspection division of the Banking Supervision Department in a manner acceptable to ADB.	Fully implemented in 2002 with ongoing training provided
	NBC to adopt a formal procedure for soliciting comments from the private sector on proposals for or revisions to laws, regulations, procedures, and policies affecting banking subsector.	Comments now being solicited Fully implemented since 2002; separate prudential regulations were issued for MFIs
	NBC to adopt surveillance and inspection procedures including standardization of reports submitted by commercial banks; unless specified otherwise in the NBC regulations, these procedures are also to be applied to licensed MFIs.	The system was adopted in 2002; initial implementation required technical support
	NBC to adopt a prompt corrective action system for commercial banks, acceptable to ADB; a similar system is to be applied to licensed microfinance institutions with modified capital adequacy standards.	Two key regulations were adopted in 2002: “Know Your Customer” and “Reporting Suspicious Transactions”. Financial Intelligence Unit under NBC now in operation and begun to follow up and prosecute suspicious cases
	NBC to adopt an anti-money laundering regulation; unless otherwise specified in the NBC regulations, this regulation is also to be applied to licensed MFIs.	
b. Build capacity	NBC to establish a CBS as an NBC subsidiary with separate management and accounts.	CBS was established with a separate budget (sourced from trainees)
	NBC to ensure that FTB management adopts a comprehensive staff training program, including accounting, risk management, asset and liability management, and a management information system.	Staff training program was adopted in 2002 followed by the privatization process, which was completed in 2005
2. Insurance subsector		
Establish regulatory and supervisory framework for insurance development	MEF to establish an insurance supervisory unit.	Insurance supervisory unit established within MEF in 2002
	MEF to ensure issuance of a subdecree to implement the Insurance Law.	Implementation of the subdecree commenced in 2002
3. Money/interbank markets		
Create interbank market arrangements	NBC to recognize bankers association as a self-regulatory organization.	Bankers association has been operating independently since 2002

Subprogram	Tranche Conditions	Status
	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
	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
4. Accounting, auditing, and legal infrastructure	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.	18 accounting, 10 auditing standards, and 2 reporting standards (internationally based) adopted and implementation started
	MOC to submit to the National Assembly a draft law on commercial enterprises	Adopted by the National Assembly 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. But, it provides only negative information on borrowers. Need to develop IT and provide positive information as well
	NBC to adopt a uniform chart of bank accounts and disclosure rules for commercial banks consistent with IAS.	NBC *prakas* 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.	Secured Transactions Law adopted in 2007
	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

Subprogram	Tranche Conditions	Status
2. Insurance subsector		
a. Establish framework for compulsory insurance	MEF, in consultation with related ministries, to adopt interministerial regulations for development of compulsory insurance.	Three interministerial *prakas* (on compulsory motor vehicles or third party liability insurance, compulsory insurance of passenger transports, and compulsory insurance for construction site) adopted in 2002. But, due to lack of enforcement and compliance, the *prakas* lie largely ineffective
b. Promote private sector development	MEF to establish a joint venture between the state-owned insurance company and a private insurance company.	Government approved joint-venture with 75% private sector and 25% government, in November 2007
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 (see below) The National Assembly passed the law in July 2002
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.	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	Adoption of a secured transactions law by the National Assembly.	Secured transactions law was adopted in May 2007
b. Develop commercial law and build capacity	MOC to establish a public registry for secured transactions.	MOC officially launched the online filing registry in December 2007
	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.	FIU was established in June 2005 under the Bank Supervision Department and now in operation
	Adoption of a law for commercial arbitration by the National Assembly.	Adopted in March 2006
	Submission of an insolvency law to the National Assembly.	Draft insolvency law submitted to the National Assembly in July 2007 and adopted in October 2007
	MOC to ensure dissemination of commercial laws via the internet MOC to work with the relevant law.	Website established and all commercial laws uploaded in December 2005 Curriculum for commercial law program

Subprogram	Tranche Conditions	Status
2. Development of the insurance subsector a. Strengthen capacity of the regulator	institutes to develop commercial law curricula based on the new commercial laws for training judges, lawyers, and legal clerical staff.	adopted by 3 selected legal faculties in May 2007. Commercial court needs to be established for effective enforcement of these laws and training expedited
	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.	Prudential regulations formally approved by the senior minister of MEF in March 2007
b. Promote private sector involvement in the insurance subsector	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.	Government approved joint-venture with 75% private sector and 25% government, in November 2007
3. Development of interbank and money markets		
Develop legal framework for money market development	Adoption of a law on negotiable instruments and payment transactions by the National Assembly.	Law adopted by the National Assembly in September 2005. But, these markets were yet to be established
	NBC to draft and adopt implementing regulations for the law on negotiable instruments and payment transactions.	Three implementing regulations adopted in December 2006
4. Development of Accounting and Auditing Practices		
Provide capacity support to develop professional members for KICPAA	MEF to ensure financial support for at least 70 scholarships per year for the development of professional members of KICPAA.	MEF continues to annually sponsor 70 scholarships with awardees selected on a competitive basis.

ADB = Asian Development Bank, CBS = Center for Banking 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, IT = information technology, KICPAA = Kampuchea Institute of Certified Public Accountants and Auditors, M2 = a broad money supply measure, MEF = Ministry of Economy and Finance, MFI = microfinance institution, MOC = Ministry of Commerce, MOU = memorandum of understanding, MPDF = Mekong Project Development Facility, NBC = National Bank of Cambodia, NPL = nonperforming loan, ROA = return on assets, TA = technical assistance.

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

Source: Asian Development Bank.

PROGRESS MADE IN THE FIRST FINANCIAL SECTOR PROGRAM LOAN CLUSTER OUTPUTS

A. Development of the Banking System

1. **Ownership and Autonomy.** All the 42 financial institutions now in operation (18 banks, 7 specialized banks, and 17 licensed) and 26 registered microfinance institutions (MFIs), except the Rural Development Bank, are in the private sector. Of the banks, about 5–6 are considered relatively large, while about 17–18 are relatively small. The banks enjoy full autonomy in lending and deposit taking, interest-rate setting, and other day-to-day operations. Shareholders appoint their own boards of directors, and these in turn appoint all the operations officials. The larger financial institutions have credit and internal audit committees. Generally, the operations of the financial institutions appear successful (see comments below). Financial intermediation for private sector development has increased, but banking services need to be spread to the rural areas. The statutory reserve requirement (SRR) for banks was increased from 8% to 16% in September 2008 to moderate inflation and as required by the Asian Development Bank (ADB) as a policy condition of the Second Financial Sector Program Loan. In September 2008, the National Bank of Cambodia (NBC) proposed to increase the minimum capital requirement for banks from $13.0 million to $37.5 million to strengthen their capital base and to provide a cushion for overexposure to any particular sector like property development. The proposed increase must be rigorously enforced to strengthen the financial position of banks.

2. **Impact of the Ongoing Global Financial Crisis and Economic Slowdown.** The recent global crisis appears to have had some adverse impact on banking operations. Export earnings, worker remittances, tourist arrivals and spending, foreign direct investment, and property values—all of these have dropped even as the risks of property-secured lending have increased. The recent minimum capital increase requirement and the negative impact of global economic developments could adversely affect the relatively smaller banks and force them to merge with larger ones or even close down their operations, leading to some bank consolidation. NBC must watch out for these developments and be prepared to take action to maintain banking stability and public confidence in the banking system. These adverse developments also appear to have reduced banks' liquidity. In such circumstances, NBC may have to consider reducing the relatively high SRR to increase market liquidity and sustain the relatively rapid economic growth the country has enjoyed so far.[1] The application of the SRR needs to be reexamined. The interest rate paid to banks on the SRR is relatively on the low side (nothing up to 50% of the SRR, and up to 50% of the Singapore interbank offered rate [SIBOR] on the other 50% of the SRR), thus reducing the earning capacity of banks. Moreover, the SRR is fixed on the basis of deposits outstanding at the start of each month, and cannot be changed even if deposits are reduced during that month. There is therefore less bank liquidity for lending purposes.

3. **Prudential Regulations.** The prudential regulations required under the Financial Sector Program Loan (FSPL I) have been introduced. The Basel Committee on Banking Supervision required banks to adopt 25 core regulations. NBC has introduced 18, including those pertaining to the capital adequacy ratio, loan classification, and provisioning, and is drafting another five for adoption in 2009. These five relate to the audit of consolidated accounts and overseas branches of local banks, the capital market activities of banks, and prevention of lawsuits against NBC staff in the course of supervision work. NBC also proposes to tighten the present regulation

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[1] Sri Lanka reportedly reduced the SRR requirement to 7.75% from 9.25% in February 2008 with the same thing in mind.

regarding loan classification and provisioning to include, in addition to past-due status, two other criteria: the financial condition of borrowers, and the quality of their loan documentation (see below). Financial transparency among financial institutions is expected to improve as a result. The new regulations are expected to be adopted in the early part of 2009. The Law on Banking and Financial Institutions is also being amended to make it clear that matters relating to insolvency of banks should be dealt under this law and not the Insolvency Law adopted in 2007. The amendments are expected to be submitted to the National Assembly for consideration toward the end of 2009.

4. **Accounting, Auditing, and Financial Reporting.** A common chart of accounts as proposed under FSPL I has been introduced by NBC and is being used by all the financial institutions including banks, specialized banks, and MFIs. Accounts are prepared, audited, and presented on the basis of the Cambodian Accounting Standards (CAS) and any special requirements of NBC. Financial institutions are required to submit their audited financial statements by 31 March of each calendar year, as well as monthly financial reports, to NBC. They are also required to publish their abridged financial statements in leading newspapers in the interest of transparency, to win the confidence of the public in the banking system.

5. **Bank Supervision.** Bank supervision has been strengthened, as required under FSPL I. However, capacity to effectively supervise all the financial institutions, and to enforce the prudential regulations and the chart of accounts, appears to be a major concern. Given the complex nature of the supervision needed, NBC's supervision department is not large enough to cover both on-site examination and off-site supervision functions. The department's staff of 57 must deal with the 42 institutions under NBC's regulatory and supervisory responsibility (a ratio of about 1.4 staff-persons per financial institution), besides coping up with a vast range of prudential regulations to be enforced, comprehensive audited statements (annually, monthly) to be examined on- and off-site, and the high risks that are likely to confront financial institutions in these uncertain time. The concern is exacerbated by the need to further upgrade staff expertise for closer supervision work. Staff training is done on the job and overseas, but it is being nullified to some extent by high turnover as staff members, attracted by better salaries and benefits, join the private sector in large numbers. Financial institutions are supervised annually on-site, and smaller ones are subjected to on-site supervision at least twice a year. All financial institutions are examined on-site at least once every 2 years. Off-site examinations are undertaken as a regular activity. These examinations follow the "CAMELS" principles.[2] A further challenge to bank supervision is expected with the adoption of the proposed additional regulations referred to earlier, the Government's recent decision to develop capital markets, which might encourage financial institutions to engage in such activities in the future, and the recent downturn in the economy. All these point to the need to increase capacity for supervision in terms of both staff numbers and quality of expertise. NBC plans to increase its staff by 27 in 2009.

6. **Anti-Money Laundering System.** A financial intelligence unit (FIU) was established in NBC in January 2008 to administer the Law on Anti-Money Laundering and Countering Financing of Terrorism, introduced under FSPL I. The applicable regulations were introduced in May 2008. FIU began operations with a five-member board of directors representing NBC, the Ministry of Economy and Finance (MEF), Ministry of Commerce, Ministry of Justice, and Ministry of Interior, supported by a secretariat with a staff of five. Staff members are trained overseas and by NBC, World Bank, the United Nations Office on Drugs and Crime (UNODC),

[2] The "CAMELS" principles entail examining and auditing banks on the basis of capital, assets, management, earnings, liquidity, and sensitivity to market risks.

and ADB. The Bank of France is expected to set up an information technology (IT) system and to provide training. FIU has sufficient budget support from NBC for salaries, amenities, and staff training. All the financial institutions, except a few new ones, have appointed compliance officers, and FIU has set up reporting systems. FIU had begun handling suspicious cases.[3] Further capacity building, where donors will have opportunities to assist, appears necessary.[4]

7. **Interbank and Money Markets.** These were to be developed under FSPL I. However, no progress has been made so far. Bankers interviewed by the Mission expressed the need to increase market liquidity and financial intermediation, especially in the present tight liquidity in the market. However, the needed framework of rules (including rules to guard against defaults and provide some comfort system) has yet to be introduced by NBC. NBC is of the view that it is difficult to develop these markets without government securities to secure interbank and money market transactions. In the absence of these securities, and with the lack of confidence between banks, these markets are still undeveloped. Some transactions are taking place but are secured against certificates of deposit like normal deposit transactions. Generally, excess liquidity is placed in overseas markets like Singapore, on relatively small margins of 1%–2%.[5] The evaluation mission impressed on NBC the need to take early action to develop these markets, perhaps, by launching awareness programs to infuse trust among the banks.

8. **Credit Information Sharing System (CIS).** This was to be developed by NBC in close collaboration with the Association of Banks in Cambodia. A rudimentary form of CIS had been set up, but so far it provides only negative information on prospective borrowers. NBC and the banking community recognize the need for an efficiently functioning CIS that will provide positive information as well. The IT system will have to be adjusted appropriately for this purpose.

9. **Capacity Building.** FSPL I stressed the need to build the capacity of financial institutions which is another key concern. The gravity of the problem is compounded by the likely adverse effects of a slowing economy on the banking sector. Currently, staff training is being done by three institutions: the Center for Banking Studies (CBS) of NBC,[6] the Cambodia Institute of Banking (CIB) of the Association of Banks in Cambodia, and individual financial institutions (Acleda Bank among them). The training uses structured (classroom) programs and on-the-job methods. The programs are supported by donors including ADB. Further donor assistance appears necessary to strengthen training in credit and risk management, risk-hedging instruments; property valuation; loan documentation; debt recovery; financial analysis; and understanding and interpreting of laws and regulations; and the accounting, auditing, and financial reporting systems of financial institutions. The need for further training is heightened, as mentioned earlier, by the adverse effects of a possible economic slowdown on

[3] Twenty-five reports on suspicious transactions were received in 2007 (false passports, traveler's checks, credit-card fraud, and false identification cards); six of these were referred for police action. Thirteen such reports were received in January–May 2008 (false deposit withdrawals, false fund transfers, and those cases mentioned above), and one of these was referred for police action.

[4] Areas where further training appear to be necessary are skills and ability to coordinate with relevant ministries and agencies to ensure collaboration and cooperation; implement electronic reporting and collection of data; analyze and interpret data received from reporting institutions and prepare appropriate reforms; develop a compliance and enforcement strategy and policy, supervise reporting institutions; recommend enforcement action and sanctions, where appropriate; understand and interpret the applicable laws and regulations; and provide IT support.

[5] Liquidity placements in Singapore are between 3% and 4% (overnight) and between 7% and 8% on term deposits.

[6] CBS offers a 2-year associate degree in banking-related subjects (including accounting, law, economics, bank management, and marketing) backed up by internships. So far, about 1,500 graduates, or about 140 yearly, have completed the degree program. Most are now working at NBC, and the rest are working for other financial institutions including MFIs. An ADB adviser is helping the CBS to reorient its courses to MFI concerns and rural finance.

financial institutions, as well as by the Government's plans to proceed with capital market development, including the proposed establishment of a stock exchange in 2009, which might draw financial institutions into the capital market. There is also a need to coordinate the training efforts of CBS, CIB, and the individual banks, and to emphasize training in branch operations, microfinance, and rural finance.

10. **Other Matters.** There also are following pending amendments relating to improving past-due accounts handling and the inclusion of these in the laws insolvency and liquidation of financial institution and insurance companies:

(i) Handling of past-due accounts. Based on current regulation, loan classification and provisioning is done only on the basis of past-due accounts.[7] On that basis, financial statements present the following picture of the financial standing of banks: between 2001 and 2007, nonperforming loans as a percentage of total loans outstanding decreased from 8.1% to 3.4%, and the average return on total assets increased from 0.6% to 2.8%. NBC proposes to amend that regulation to include two additional criteria—the financial standing of the borrower and the quality of their loan documentation—in the calculation of the bad-debts position and provisioning. That move is expected to increase financial transparency among financial institutions. The resulting financial position, in all probability, will be less attractive, and made even less so by the likely adverse effects of a slowing-down economy on the performance of the institutions.

(ii) Insolvency Law. This law, issued in 2007, does not cover insolvency and liquidation of financial institutions and insurance companies. Under this Law, insolvency and liquidation of financial institutions and insurance companies are covered by the Law on Banking and Financial Institutions, and the Insurance Law, respectively. Appropriate amendments to these laws are now being drafted for consideration by the National Assembly toward the end of 2009.

B. Development of the Insurance Sector

11. The insurance sector is supervised directly by the insurance division under the Department of Financial Industry of the MEF.[8] As required under FSPL I, a legal framework was introduced in 2001–2008, together with a series of regulations, including those on the licensing and minimum capital requirements. However, their effective enforcement appears to be a matter of concern (see below). Accounting and auditing standards were introduced in 2007, while reporting standards were introduced in 2008. As required under FSPL I, the privatization of the state insurance company, the Cambodia National Insurance Company (CAMINCO), under a joint-venture arrangement (75% owned by two companies, one local and the other foreign, and 25% by the Government), was approved in November 2008. Five private sector insurance companies are now in operation, and the sixth has received preliminary approval. A joint-venture reinsurance company with government majority ownership (to kick-start this needed service) is also now in operation. The Insurance Law and interministerial *prakas* (form of regulation) provide for the introduction of compulsory insurance products (motor vehicles or

[7] Thirty percent provision for loans more than 30 days and up to 60 days overdue, 60% for loans more than 60 days and up to 90 days overdue, 90% for loans more than 90 days and up to 360 days overdue, and 100% provision for loans more than 360 days overdue.

[8] The staff of 14 including the commissioner is distributed among four divisions (regulations, supervision, market development, and international cooperation). Staff training is provided on the job, through overseas secondment, and by ADB. To strengthen supervision, particularly for the expanded range of products, seven more staff members will be recruited in 2009. A manual of supervision has been introduced and is being used by staff in day-to-day regulation and supervision including due diligence, off-site and on-site supervisions, and tracking by the early-warning systems.

third-party liability insurance, insurance of passenger transport, and insurance for construction sites), as required under FSPL I. However, in view of insufficient enforcement mechanisms, compulsory insurance coverage is limited. For example, because the Road Traffic Act does not require commercial vehicles to be insured, only about 5% of commercial vehicles on the road carry this form of insurance. Also, since building permits do not require third-party liability insurance, most construction works, except for that undertaken under donor assistance, does not carry this form of insurance. The evaluation mission impressed on the Government the need for interministerial coordination and cooperation to put in place effective mechanisms for the enforcement of these three *prakas.* Without them, the general public is at risk, as most vehicles, passenger transport, and construction activity are not covered for third-party liability. Preliminary approval has been given to a joint venture between government and foreign partners to introduce life insurance products. The insurance industry appears to need considerable staff strengthening, particularly in the area of supervision, to deal with the increasing number of market players and product diversification.

C. Promulgation of Laws Necessary for Commercial and Financial Activities

12. The laws required under FSPL I have been adopted. But there is a need for capacity enhancement, in terms of both institutions and staff expertise, to strengthen enforcement and ensure compliance. Banks and businesses find these laws to be useful in facilitating the development of financial transactions and commercial enterprises. But enforcement appears to be a concern because of institutional and staffing constraints. The Government is acting to overcome this problem by (i) establishing a school to train judges in civil and commercial cases under the Legal Reform Project, and setting up new courtrooms and judges' chambers in the capital and the provinces; and (ii) establishing courts specifically for commercial cases within the existing judicial system (the law for this has been drafted and is now being considered by the Council of Ministers, which is expected to endorse it to the National Assembly for final approval). This training arrangement, financed by Canada and the United Nations Development Programme (UNDP), will provide a pool of judges well trained in business transactions to enforce these laws effectively and resolve business conflicts efficiently and expeditiously. Such an approach will facilitate trade, financial transactions, and business development. The evaluation mission urged the Government to expedite the implementation of both these schemes, as the various laws and regulations introduced under FSPL I would remain ineffective without them.

D. Advancement of Accounting and Auditing Practices in Line with International Standards and Best Practices

13. Thus far, 18 accounting, 10 auditing, and 2 financial reporting standards have been introduced, as required under FSPL I. These became enforceable after the passage of the Accounting Law referred to earlier, the Law on Corporate Accounts, Their Audit, and the Accounting Profession; the establishment of the National Accounting Council to set standards; and the creation of the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA). As mentioned earlier, these accounting, auditing, and reporting standards are being enforced and complied with to some extent by financial institutions and insurance companies. ADB has introduced a template to guide business enterprises in preparing their accounts. A World Bank study in February 2007 on accounting and auditing in Cambodia[9] identified many issues and made recommendations to be implemented by Cambodia. The Accounting Law states that all enterprises attaining certain thresholds are subject to statutory audit. In this

[9] World Bank. 2007. *Report on the Observance of Standards and Codes*. Washington, DC.

regard, MEF issued a *prakas* (Obligation to Submit Financial Statements for Audit) on 26 July 2007 defining the audit criteria and thresholds. The issue identified by the evaluation mission and by the World Bank is the acute shortage of skilled accounting and auditing professionals and the inability of the present system of education to produce professionals of reasonable quality to enforce the accounting, auditing, and reporting standards introduced under FSPL I. The scholarship program introduced by ADB to increase the supply of professional accountants, mainly among civil servants, has not been a success: the dropout rate is high and the program has produced only two qualified accountants in its 5 years of operation. Using the funds to upgrade the standards of teaching of accounting and auditing in some universities would have had longer-term benefits. There is also a need to set up an oversight board. These issues, as well as other issues raised by the World Bank, are being looked into by the MEF, the National Accounting Council, and KICPAA, but need funding support from donors.

E. Establishment of Supporting Institutions and Accompanying Development of Human Resources Capacity

14. A CBS has already been established (para. 9), the Foreign Trade Bank has been privatized and its staff has been trained and continues to be trained, the Association of Banks in Cambodia has been set up, a CIS system is being developed (para. 8), and a bank training institute (CIB) has been set up by the Association of Banks in Cambodia (para. 9). The status of the development of interbank market and money markets is discussed in para. 7.

KEY MACROECONOMIC AND FINANCIAL SECTOR DATA

Table A4.1: 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.

Table A4.2: Key Financial Sector Data

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.