



Kingdom of Cambodia
Nation Religion King

Financial Sector Development Strategy 2011–2020



Adopted by the Council of Ministers in
the Plenary Session on 25 November 2011

ROYAL GOVERNMENT OF CAMBODIA



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Foreword

Over the decade to 2010, Cambodia's economy developed remarkably, with an average annual growth rate of 8%. Such growth was achieved by implementing an open market economy, based on the country's competitive advantages, and by providing an environment conducive to private sector investment. Political and social stability, supported by prudent fiscal and sound monetary policies, have also been fundamental for appropriate macroeconomic management. Following adoption by the Royal Government of Cambodia (RGC) of the *Vision and Financial Sector Development Plan 2001–2010*, which was later updated to become the *Financial Sector Development Strategy (FSDS) 2006–2015*, the financial sector has also contributed to high economic growth.

In 2009, the global financial crisis began to impact Cambodia's small but open economy, exposing several structural weaknesses that the *National Strategic Development Plan Update 2009–2013* is seeking to address. The government's timely and effective response to the crisis lessened its impact on the economy and maintained financial system stability. Moreover, *FSDS 2006–2015* helped the banking and financial system to continue making progress.

However, challenges remain to be addressed. To respond to these needs, and based on the request of the Committee on Economic and Financial Policy and support from *Samdech Akka Moha Sena Padei Decho*, Hun Sen, Prime Minister of the Kingdom of Cambodia, the government decided to update *FSDS 2006–2015* as *FSDS 2011–2020*. After the Committee on Economic and Financial Policy carefully reviewed the *FSDS 2011–2020*, the Council of Ministers adopted it on 25 November 2011 as the blueprint for medium-term financial sector development.

Updating this strategic document took into account achievements from implementing *FSDS 2006–2015* as well as lessons learned from past reforms, experiences from the global financial crisis, and anticipation of rapid financial market development. *FSDS 2011–2020* also stresses that financial sector development has to be based on principles of good governance, which are even more important in an increasingly complex and competitive economic and financial environment.

The financial system is now entering an era of specialization, with the emergence of the money and securities markets, and continues to diversify in terms of institutions and instruments. An interbank market framework has been developed, and this market is

expected to become operational in the near future. In addition, when conditions are favorable and the prerequisite infrastructure and regulatory frameworks for money market development have been put in place, the RGC will issue government securities. A broad-based government securities market is essential for implementing monetary policy in parallel with promotion of the Cambodian riel.

The Cambodia Securities Exchange, the market operator for the new stock exchange, has been granted a license to operate by the Securities and Exchange Commission of Cambodia and has held its official launch. The insurance sector is diversifying to include life and microinsurance. Banking intermediation is now conducted through m-banking, ATMs, and other forms of electronic transfer. Other important financial sector developments include money exchanges, trusts, leasing, pensions, pawn businesses, and collective investment schemes.

The aim of financial sector development is a competitive, integrated, and efficient financial system that is appropriately regulated and supervised to efficiently mobilize savings to finance sustainable economic growth. In line with the priorities stated in the *National Strategic Development Plan*, the financial sector should respond to market needs, including those of the growing middle class and emerging microentrepreneurs in hard-to-reach areas. The sector should also provide support for the critical infrastructure projects required for Cambodia's rapidly growing population and for lessening dependence on foreign aid. As Cambodia is now part of the Association of Southeast Asian Nations (ASEAN) Economic Community, *FSDS 2011–2020* takes account of the proposed financial integration of Cambodia with the other ASEAN economies.

FSDS 2011–2020 was carefully prepared, checked, and verified under the authority of the Technical Working Group and the Steering Committee for Implementing the Financial Sector Development Strategy. Support was provided by the Asian Development Bank, with contributions from a team of consultants from Maxwell Stamp. The Technical Working Group comprises members from related key ministries and agencies, including the Ministry of Economy and Finance; the Ministry of Commerce; the Ministry of Justice; the Ministry of Labor and Vocational Training; the Ministry of Social Affairs, Veterans and Youth Rehabilitation; the National Bank of Cambodia; the Council for the Development of Cambodia; and the Securities and Exchange Commission of Cambodia. This Technical Working Group reports to the Steering Committee, which is chaired by the Governor of the National Bank of Cambodia. Experts from the banking sector, securities sector, insurance sector, real estate sector, pension sector, microfinance sector, and other related entities, also provided valuable inputs to the *FSDS 2011–2020*.

During the updating process, the Steering Committee and Technical Working Group for Implementing the Financial Sector Development Strategy conducted research, and organized workshops and meetings to finalize *FSDS 2011–2020* from January to August 2011. Along with this, a national workshop was organized on 19 July 2011; its outcomes were reviewed by the Steering Committee at a meeting on 17 August 2011 and then checked and approved at the interministerial Committee on Economic and Financial Policy meeting on 24 August 2011. On 25 November 2011, the Council of Ministers adopted the new FSDS.

We would like to express our deep gratitude to the ministries and agencies of the RGC who have contributed to the preparation of this important strategic document. We also wish to express our sincere thanks to the Asian Development Bank for its valuable technical assistance and that of related parties for their efforts and contributions to developing this *FSDS 2011–2020*.

Phnom Penh, 29 November 2011



Keat Chhon
Deputy Prime Minister
Minister of Economy and Finance



Chea Chanto
Governor
National Bank Of Cambodia

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The Government of Cambodia wishes to express sincere thanks to the Steering Committee and the Technical Working Group for Implementing the Financial Sector Development Strategy, as well as all the related ministries and government agencies that contributed to the development of the Financial Sector Development Strategy 2011–2020.

The government would also like to specially thank the Asian Development Bank mission team and its consultants for providing strategic and technical inputs in developing the Financial Sector Development Strategy 2011–2020.

Currency Equivalents

(as of 22 February 2012)

Currency Unit	–	riel (KR)
KR1.00	=	\$0.000248
\$1.00	=	KR4,021

Abbreviations

ADB	Asian Development Bank
AML	anti–money laundering
CAFIU	Cambodian Financial Intelligence Unit
CFT	countering the financing of terrorism
CIFRS	Cambodia International Financial Reporting Standards
CMA	Cambodia Microfinance Association
CPA	certified public accountant
FATF	Financial Action Task Force
FSDS	Financial Sector Development Strategy
GDP	gross domestic product
GIAC	General Insurance Association of Cambodia
IAIS	International Association of Insurance Supervisors
IAS	international accounting standards
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
IT	information technology
KICPAA	Kampuchea Institute of Certified Public Accountants and Auditors
KR	Cambodian riel
L-MFI	licensed microfinance institution
L-MDI	licensed microfinance deposit institution
MEF	Ministry of Economy and Finance
MFI	microfinance institution
MLMUPC	Ministry of Land Management, Urban Planning and Construction
MOC	Ministry of Commerce

MOJ	Ministry of Justice
MLVT	Ministry of Labor and Vocational Training
MoSVY	Ministry of Social Affairs, Veterans and Youth Rehabilitation
MOU	memorandum of understanding
NAC	National Accounting Council
NBC	National Bank of Cambodia
NFV	National Fund for Veterans
NGO	nongovernment organization
NSSF	National Social Security Fund
NSSFC	National Social Security Fund for Civil Servants
PWDF	Persons with Disability Foundation
SECC	Securities and Exchange Commission of Cambodia
SMEs	small and medium-sized enterprises

Executive Summary

Cambodia's Vision and Financial Sector Development Plan 2001–2010 (Blueprint) focused on the development of a sound, market-oriented financial sector that will mobilize and allocate resources to support sustainable economic growth. In 2006, the first Blueprint 2001–2010 was updated to become the Financial Sector Development Strategy (FSDS) 2006–2015.

The long-term vision and strategy described in the first Blueprint and the subsequent FSDS 2006–2015 remain broadly appropriate for the country. Overall, the Government of Cambodia has achieved significant progress; however, some challenges still need to be addressed. To respond to current conditions and demonstrated needs, the government has decided to update the FSDS 2006–2015 as the FSDS 2011–2020.

The FSDS 2011–2020 reflects Cambodia's economic achievements to date and provides an assessment of current challenges and constraints, an endorsement of the objectives in the FSDS 2006–2015, and action plans for the future. The FSDS 2011–2020 synthesizes and prioritizes the goals, strategies, and plans for each subsector of the financial system, and aligns these with the long-term vision for the financial sector as a whole. It also serves as a guide to enable development partners to coordinate the capacity building and other forms of technical assistance that they provide.

The FSDS 2011–2020 draws on the results, lessons learned, experiences, and challenges from implementing the previous strategies. (For details on the specific goals and action plans of the FSDS 2011–2020, please refer to the Action Plan Matrix that begins on page 51).

The FSDS 2011–2020 is designed to be flexible to respond to changing conditions in the economic, social, and political situation in Cambodia; to financial industry developments; and to the changes and challenges that result from Cambodia's increasing integration into the regional and global markets.

Major Achievements over the Past Decade

The government has achieved a great deal over the past decade through the implementation of many reforms. Among the most notable are

- passage of major commercial and financial sector laws to support development of a sound and market-driven financial sector,
- restructuring of the banking sector and the strengthening of key financial institutions,

- introduction of the financial sector infrastructure necessary to support financial market activities and improve outreach to the rural poor,
- development of human resources and specialized knowledge, and
- mobilization of the domestic financial resources needed to meet the demands of a fast-growing economy.

Along with past achievements, the FSDS 2011–2020 is intended to address the following key challenges:

- emerging risks and challenges from external shocks that could jeopardize Cambodia’s achievements to date,
- internal risks caused by delays in implementing critical reforms that could impact financial stability,
- weak policy coordination that delays the addressing of gaps in the legal and regulatory framework, and the pace of upgrading institutional infrastructure to keep up with rapid developments in the industry,
- the ongoing need to upgrade financial sector human resources and sustain these improvements,
- the need to harmonize relevant legal and regulatory frameworks so they keep pace with developments in the financial sector, and
- the need for concerned authorities to collaborate in order to avoid interconnected risks that could damage the whole economy.

Preparing for Challenges

To prepare for any challenges that may arise during implementation, the FSDS 2011–2020 will require

- awareness, preparedness, and close coordination among all key stakeholders;
- regular monitoring of achievements and early identification of problems in order to address problems swiftly and in an appropriate manner;
- allocation of the resources necessary to implement this strategic plan;
- ownership of this strategic plan by all relevant authorities;
- clarity about who is responsible and accountable for implementing the action plans;
- cooperation among international organizations and development partners that provide technical assistance and other forms of support, and oversight by the concerned authorities; and
- building a sound foundation for ongoing capacity development.

Additional challenges worth emphasizing include

- keeping up with international standards of risk-based supervision as well as the pace of financial market development, and establishing a cooperation framework that covers all the concerned authorities;
- recognition by all concerned that designing the institutional framework required for regulating and supervising the financial sector as a whole and updating the current legal framework will take years before all has been adopted by the legislature;

- strengthening technical capacity in key new areas in order to keep up with the increasing interconnection of the banking, securities, and insurance sectors as well as new risks emerging that could threaten financial stability;
- good technical skills and well-coordinated supervision to assess and address emerging market, operational, and liquidity risks;
- developing risk awareness and the capacity to make good judgments of supervisory staff at all levels;
- incentives to retain specialized staff that have been trained by various regulatory agencies so they resist growing offers of jobs in the private sector;
- achieving compliance with international standards in order to harmonize and integrate Cambodia's financial system with those of other countries in the Association of Southeast Asian Nations (ASEAN) region;
- effectively implementing of new regulations intended to improve data quality, transparency, corporate governance, business ethics, market disclosures, and achieve fair competition across the financial sector;
- through cooperation between regulatory authorities and concerned institutions, upgrading the existing infrastructure with a new IT system and database, prioritizing a corporate database in order to improve effectiveness in supervision, and identifying unregistered entities;
- promoting use of the national currency in the economy and monitoring the risks involved; and
- establishing an effective cooperation framework for the authorities responsible for crisis management.

Objectives and Strategies

The objective of the FSDS 2011–2020 is to develop a sound financial sector that can contribute to poverty reduction by supporting economic growth and increasing poor people's access to finance.

Adjustments to the institutional framework need to take into account new finance industry developments. The Law on the Issuance and Trading of Non-Governmental Securities has established the Securities and Exchange Commission of Cambodia to act as regulator of the securities market and market participants. Given the interconnection between the securities market and the banking sector, to ensure effective supervision of both, an effective cooperation mechanism needs to be established among related financial sector authorities.

The revision of legal and cooperation frameworks. There are currently some inconsistencies between existing laws and international standards that need to be addressed. The problem of supervision agencies whose jurisdictions overlap in some areas also needs to be addressed.

Crisis preparedness. A crisis management framework needs to be established and will require periodic testing to ensure that it suits Cambodian economic and financial conditions and addresses the new risks that may arise as a result of growing interconnections within the financial sector. Because of the high level of dollarization, it is necessary to pay close attention to the potential systemic risks. Establishing a financial stability unit within the National Bank of Cambodia and an early warning system within the banking system

will help identify potential risks. In order to establish a financial stability unit and early warning system, the concerned financial authorities should set up a national financial stability committee.

In light of the government's long-term objective of promoting use of the riel and eventual de-dollarization, the establishment of sound monetary policy and supporting market infrastructure is imperative over the coming decade. Due to a limited range of monetary policy tools, the National Bank of Cambodia must explore new tools for ensuring financial stability and economic growth, build internal capacity, and gain greater autonomy in designing and implementing monetary policy.

The banking subsector continues to dominate the financial sector and will continue to be the sector's most critical segment. With regard to banking, the priorities are

- maintaining monetary and financial stability,
- addressing constraints in order to accelerate sector development, and
- intensifying resource mobilization and enhancing the efficiency of resource allocation through development of a money market.

The vision for microfinance is to strengthen the sector so that it can provide the poor with affordable financial services, increased income, and reduce poverty. The goal over the coming decade is to further develop the sector so that it covers greater numbers of low-income people.

For the insurance sector, the strategy is to implement the action plan specified in the first Blueprint 2001–2010, develop new products, and enhance regulations and supervisory capacity in line with the Insurance Core Principles of the International Association of Insurance Supervisors, of which Cambodia is a member.

Steps to establish a securities market have progressed substantially. A stock market was officially launched in July 2011, and trading began in April 2012. The Securities and Exchange Commission of Cambodia will follow the core principles of the International Organization of Securities Commissions. Among others, development of a successful securities market will require supporting infrastructure and facilitation of access to the payment system.

The development and operation of the payment system must be demand-led, provide support, and facilitate market operators' access. Early connection with the ASEAN country payment network will be necessary to achieve the goal of ASEAN financial sector integration.

The FSDS 2011–2020 provides action plans for close cooperation of the banking sector with other relevant sectors to

- build capacity for consolidated supervision and surveillance;
- combat money laundering and the financing of terrorism;
- promote leasing; and
- improve corporate governance, data quality, accounting, and auditing, as well as property valuation, real estate services, and the housing market.

Overall, the reform strategies and action plans for each sector stipulated in the FSDS 2011–2020 are critical and closely interconnected. Delays in attaining the goals for any sector will disrupt reform processes in other sectors. Based on the experience of implementing the previous Financial Sector Development Strategy, coordination and cooperation among competent authorities, international organizations, and development partners are critical for ensuring reform success. Therefore, the government emphasizes the need to regularly monitor the performance of reform programs as well as the challenges arising from rapid financial market development, and to take timely and appropriate actions when needed.

CHAPTER 1

Background

Introduction

Over the coming decade to 2020, diversification and modernization of the economy to support sustainable economic growth, improve people's living standards, and reduce poverty are priority goals of the Government of Cambodia. To support this, the Financial Sector Development Strategy 2011–2020 (FSDS 2011–2020) is the strategic document for continuing to develop a strong financial system and market-based principles that will effectively mobilize and allocate the resources needed to achieve sustainable development. This document retains the long-term vision that was set out in the Vision and Financial Sector Development Plan for 2001–2010 and the Financial Sector Development Strategy for 2006–2015, as this vision is still appropriate for Cambodia. Over a decade of implementing this strategy, Cambodia has achieved a great deal, but significant challenges remain. These include rapid finance industry diversification, bringing regulations and supervision up to international standards, establishing a mechanism to manage in times of crisis, and assisting the financial sector to provide needed financing and financial services to the agriculture, industry, and other real economic sectors. In preparing the FSDS 2011–2020, the government built on the experiences and lessons learned from the Asian financial crisis of 1997–1998 and the recent global economic crisis, and from implementing previous strategies with regard to integrating Cambodia into the regional financial sector.

Macroeconomic Management

The FSDS 2011–2020 update takes into account three key contexts: (i) Cambodia's economic development over more than a decade of peace, political stability, and improving social welfare; (ii) changes in the global economy, especially since the 2008–2009 global economic crisis; and (iii) the need for a new approach to ensure economic growth across all sectors of the economy where the financial sector can play a crucial supportive and integrating role.

Since the late 1990s, when peace finally came after decades of war and isolation, Cambodia has achieved rapid economic progress. Self-confidence and pride are returning for Cambodians nationwide, giving them a vision of a prosperous future that includes access to decent employment and the good living standards that come from economic development. The strategy of the government is to lead, manage, and coordinate in order to achieve this vision, especially with regard to helping Cambodia to compete regionally and globally.

In recent years, Cambodia has had one of the fastest-growing economies in the world. The national economy recovered quickly from the 2008–2009 global economic turmoil and has become an attractive country for investors. This economic achievement is the result of rapid improvements in physical infrastructure that have taken place since the general election of 1993. The government has been engaged in a broad reform program in all sectors in order to achieve economic liberalization by eliminating price controls and providing incentives to stimulate local as well as foreign investment in private enterprises. The national economy, which was previously limited to the agriculture sector, now includes thriving manufacturing and service sectors.

Since 1999, the government has focused its efforts on speeding up market-based private sector development, and has achieved impressive results. Between 1998 and 2008, Cambodia's annual gross domestic product (GDP) averaged above 9.3% due to high growth in the garment, construction, and tourism sectors. Strong economic performance from 2004 to 2008 coincided with the launch of the government's Rectangular Strategy that stresses public financial management reform, public administrative reform, and decentralization and deconcentration as three priority areas for reform. To this end, the government has invested heavily in infrastructure, stressing development of the provincial and rural road network. Foreign direct investment has increased substantially since 2004, and especially up to the start of the global financial crisis in 2008.

The global economic crisis had little impact on the financial sector in Cambodia, and banks in particular, but for the key economic sectors—garment manufacturing, construction, and tourism—the indirect impact was more noticeable. Cambodia's economic growth fell sharply in 2009 but fortunately recovered quite substantially in 2010 and 2011. Also importantly, with the launch of manufacturing (primarily garments), construction, and the service sector, Cambodia's economy has diversified from dependence on only agriculture. Management of macroeconomic conditions through prudent monetary and fiscal policies, together with financial sector reforms, have contributed to Cambodia's economic achievements. For the medium term, Cambodia's annual economic growth is expected to reach 6%–7%, and growth could be even higher once production from Cambodia's offshore petroleum resources starts, which is expected in the near future.

Cambodia's efforts toward regional integration have contributed to high economic growth in the past decade. However, in the near future Cambodia will face stiffer competition in the global market and especially with neighboring countries that are economically stronger. Recent accession of Cambodia's competitors to the World Trade Organization and the relatively high cost of doing business in Cambodia, especially with regard to electricity and transportation, are ongoing barriers to economic development. In response to these challenges, the government recently launched a policy for the promotion of paddy production and rice exports, and is considering a policy to stimulate industrial development and modernization of the economic structure. For Cambodia to sustain the high economic growth needed to reduce poverty, focusing only on the internal market is not an option for such a small economy. Thus, it must identify new international markets for its products and scale up cooperation with all development partners to ensure that the country remains competitive in attracting foreign investors. With these goals in mind, bringing the financial system up to international standards is imperative in order to capitalize on the current and potential benefits of globalization.

For Cambodia's highly dollarized economy, fiscal policy plays a key role in controlling the macroeconomy. From 1995 to 1998, the country experienced high inflation that reached 14.7% in 1998. This high inflation originated from external sources and high fiscal deficit. Implementing budgetary discipline has helped Cambodia maintain low inflation and avoid economic crises. Such discipline includes controlling government expenditures, improving revenue collection, ceasing deficit financing from the National Bank of Cambodia (NBC), and seeking finance only from concessional loans, primarily for needed infrastructure. Through such policies, today the amount of the country's debt and the cost of servicing that debt are both still low and manageable. The Public Financial Management Reform Program that has been implemented since 2004 has been an important tool for modernizing and improving fiscal efficiency.

The main goal of monetary policy is to maintain price stability through macroeconomic stabilization. To this end, NBC's monetary policy stance has been to intervene in the foreign exchange market to stabilize exchange rates and also impose the reserve requirements on banks in order to manage the level of liquidity in the banking and financial sector as a whole, while also promoting de-dollarization. NBC predicts an inflation rate of less than 5.0% in the short term and approximately 3.5% in the medium term. The economy is subject to externalities as the country depends on imports of consumer products as well as oil, and Cambodia's foreign exchange market is still underdeveloped. Under the current monetary regime, fluctuation of exchange rates and commodity prices on the international market has an immediate impact on domestic prices and the national economy.

The country maintains a managed floating exchange rate, which is favorable for the accumulation of foreign reserves. With regard to de-dollarization, the NBC is not equipped with appropriate monetary policy tools beyond its intervention in the money exchange market and bank reserve requirements that are both prescribed by law.

In order to maintain the macroeconomic stability needed to support and sustain economic growth, coordination of monetary and fiscal policies is required. The government will continue to cautiously implement monetary policy in combination with budgetary discipline.

The Financial Sector

The financial sector of Cambodia has developed quickly and is highly competitive. The value added by the sector increased an average of 22.1% per year from 2004 to 2008, reflecting the deepening and wider scope of financial intermediation. When preparing the Vision and Financial Sector Development Plan in 2000, the ratio of money supply to GDP was only equal to 12.5%. This ratio rose to 20.5% in 2006, when the Financial Sector Development Strategy 2006–2015 was updated, and it has further increased to 38.3%. The ongoing rise in deposits and use of credit demonstrates growing public confidence in the banking sector.

The country's banks are all privately owned and most with majority foreign shareholders. Over the last decade, the banking sector has experienced high growth. NBC supervises the banking system of the country. Despite progress in the banking sector, the financial sector is still in the early stage of development as it lacks the infrastructure to engage in all financial operations. The challenges that need to be addressed in the FSDS 2011–2020 include the high dependence on the banking system for resource

mobilization, the concentration of financial assets in a few large banks that could suffer from systemic risks, the high cost of bank intermediation, lack of long-term finance, lack of qualified human resources, lack of managerial and supervision capacity, lack of reliable credit information and related infrastructure, limited use of the national payment system, the need to strengthen supervision in the nonbank financial sector, lack of a coordinating mechanism and exchange of information between concerned regulatory bodies, and limited financial services in rural areas.

Cambodia's financial sector is entering a stage of specialization with the development of specialized institutions and financial instruments. The government is expected to launch an interbank market and is considering issuing government securities after the necessary infrastructure and regulatory framework have been put in place. This is a major condition for establishing a domestic money market. A broad-based government securities market would enable the authorities to conduct an open market operation. This has to be implemented in parallel with promoting increased use of the riel. Cambodia's securities market will commence trading after the key market players receive their business licenses. The growing insurance sector provides general insurance, life insurance, compulsory vehicle insurance, and microinsurance. The upgrading of the national payment system has helped implement the mobile banking market and increased funds transfer through electronic systems and the emergence of money exchange services. Other new developments in the financial sector include the establishment of trusts, leasing operations, pension schemes, pawn businesses, and collective investment schemes.

Structure and Strategic Document Preparation

To prepare the FSDS 2011–2020, broad consultation took place with the line ministries of the government, including the Ministry of Economy and Finance (MEF); NBC; Ministry of Commerce (MOC); Securities and Exchange Commission of Cambodia (SECC); Ministry of Justice; Council of Jurists; Ministry of Social Affairs, Veterans and Youth Rehabilitation; and Ministry of Land Management, Urban Planning and Construction (MLMUPC), as well as with banks and other private sector financial institutions, insurance companies, securities firms, and nongovernment organizations. Key development partners such as the Asian Development Bank, International Finance Corporation, International Monetary Fund, and World Bank were also consulted.

The data for preparing this strategy were obtained from the MEF, MOC, MLMUPC, NBC, and SECC as well as from other relevant institutions in the financial sector. Inputs for analysis and for documenting this strategy include the study on the financial sector and the discussion paper on Article IV between the government and the International Monetary Fund. In addition, a number of consultative workshops were held with the ministries and institutions of the government, regulators, supervisory bodies, financial market participants, and development partners so they could provide their comments on the draft FSDS 2011–2020.

This strategic document has been prepared to reflect the relationship between the bank and nonbank financial sectors and the infrastructure that supports financial sector development. Currently, the banking and microfinance sectors experience the highest growth in the financial sector in delivering financial intermediation services to all sectors, including financing to small enterprises and rural households. The development of the

domestic money and capital markets should offer (i) new sources of financing; (ii) the longer-term financing needed for infrastructure, manufacturing, and other forms of industry; and (iii) financing for large enterprises. The growing nonbank financial sector is another source of funds for promoting large-scale and effective financial intermediation. In the long term, the initiative to develop the infrastructure necessary to support development of the financial sector and capacity building should ensure development of both the bank and nonbank financial sectors.

The overall strategy and a large part of the action plans for reform as prescribed in the FSDS 2011–2020 are closely interconnected. The process and the strengthening of reform policy require an appropriate timeline. To effectively implement the reform program, the strategy must take into consideration challenges over the course of implementation as the majority of reform activities necessitate preconditions that are tailored to economic and political circumstances. On the other hand, any delay in achieving objectives in one sector may deter the reform process in other sectors. Based on experience gained in implementing the previous strategy for financial development, coordination and cooperation among competent authorities, international organizations, and development partners are crucial to reform success. Hence, the government pays close attention to the pace of the reforms and regularly monitors their implementation and challenges that arise due to rapid market evolution so that appropriate and timely measures can be taken.

The FSDS 2011–2020 is organized as follows: Chapter 1 provides an overview of macroeconomic management and finance industry achievements and challenges; Chapter 2 covers the banking sector, including the banking system, measures to combat money-laundering and the financing of terrorism, as well as to promote microfinance and leasing; Chapter 3 covers the nonbanking financial sector including insurance, pensions, and the capital market; Chapter 4 covers governance and the legal and regulatory framework for financial sector infrastructure, as well as accounting and auditing, the payment system, the system for recording collateral, and the credit bureau; Chapter 5 discusses capacity building needs; and Chapter 6 presents the Action Plan for Financial Sector Development 2011–2020.

CHAPTER 2

Banking Sector

Banking System

Background

The National Bank of Cambodia (NBC) is the supervisory authority for banking in Cambodia, and its principal mission is to formulate and implement monetary policy aimed at maintaining price stability and successful economic development. NBC's main functions are to (i) act as the monetary authority and implement monetary policy (NBC intervenes in the foreign exchange market when deemed necessary to keep a stable exchange rate and ensure price stability), (ii) act as the sole issuer of the national currency, (iii) act as the supervisory authority for the banking and financial system, and (iv) oversee the payment system.

There were 17 banks in operation in 2003, with the number rising to 20 in 2006. At the end of 2010, there were 35 licensed banks, more than double the original number in 2003. From very few banks after the banking system was restructured in 2003, the number of bank branches rose from 35 in 2004 to 360 bank branches¹ by December 2010. ATMs have also started to proliferate and numbered more than 500 at the end of 2010.

Bank assets have grown in tandem with the increase in banking institutions, with the total assets to gross domestic product (GDP) rising from about 20% at the end of 2000 to about 26% in 2006, and then jumping to 53% by the end of 2010. Total deposits to GDP followed a similar trend, rising from approximately 11% in 2000 to about 18% in 2006, and then to about 34% at the end of 2010. While total credit to GDP was approximately 6% in 2000, it rose to 12% in 2006, and then to 28% at the end of 2010.

Progress and Achievements

As the monetary and banking supervisory authority, NBC has actively participated in maintaining financial stability through further improvement of the soundness and effectiveness of the banking sector as well as development of the interbank and foreign exchange markets. NBC has regularly strengthened banking regulations and supervision, improved governance and transparency of the banking system, and developed human capacity.

NBC has (i) established the infrastructure and negotiable instruments for interbank operations, which are expected to be launched shortly; (ii) installed an integrated

¹ Includes head offices.

accounting system at its headquarters that was rolled out to all the branches in 2011; and (iii) issued *prakas* (rules and implementing regulations) to regulate the operation of mobile phone payment systems.

An off-site supervision system was introduced, using the Cambodian Off-Site Bank Reporting for Prompt Corrective Action. The Asian Development Bank (ADB) has been providing technical support to help NBC upgrade the capacity of bank supervision staff and strengthen NBC's surveillance capability.

ADB continues to support the bank's on-site supervision while the International Monetary Fund provides a resident adviser to develop the off-site capability of NBC supervisory officials. Arrangements have also been made with the United States Treasury Department for long-term technical assistance for bank supervision. In December 2010, NBC also tripled the capital requirement for banks that are owned by nonbank entities.

Human resources in the NBC Supervision Department have been increased with the addition of 20 new staff recruited in 2010. Of this number, three have been assigned to handle functions related to monitoring financial stability, and the rest work on banking supervision. However, new staff will require training to bring them up to the required level of expertise.

With NBC's support, a credit bureau was incorporated in 2011 under the joint ownership of the Association of Banks in Cambodia, the Cambodia Microfinance Association (CMA), and a private service provider. To facilitate access to credit for borrowers with a good credit history, the credit bureau will serve as a repository of credit histories for all participating financial institutions.

With the growing number and size of activities generated by registered money changers, NBC issued a code of conduct to be followed by these entities. NBC has conducted a series of workshops to explain the purpose of the code and the roles and obligations of each money changer. Since then, 14 large money changers have been licensed and 25 others have notified NBC of their wish to become licensed.

Cambodia has been active in pursuing financial cooperation in the region and has participated in the various forums of the Association of Southeast Asian Nations (ASEAN) and ASEAN +3.² In July 2006, NBC became a full member of the Association of South East Asia Central Banks.

Constraints, Challenges, and Gaps

Monetary Policy and Financial Stability. There are benefits to dollarization, such as limited exchange rate movements that promote growth in foreign investment and provide a stable environment for the implementation of prudent fiscal policy. However, the loss of seigniorage and constraints on the wider use of market-based instruments in implementing monetary policy, such as open market operations³ and foreign currency interventions, raise serious concerns over how well a crisis would be handled, should one occur. This is exacerbated by the limited ability of the NBC to act as the lender of

² Association of Southeast Asian Nations plus the People's Republic of China, Japan, and the Republic of Korea.

³ When the riel becomes the dominant currency and a broad-based government securities market develops.

last resort and to provide emergency support to the financial system in the event of a systemic problem. More important than this, the lack of close coordination among ministries (particularly the Ministry of Economy and Finance [MEF]), as well as lack of a clear framework to use in resolving a crisis, are critical gaps that need to be addressed. The fiscal position of the government and adequate “headroom” are crucial for the government to be able to lend support in the event of a crisis.

Insufficient supervision. Despite progress in extending the range of on-site and off-site supervision, as well as coverage that includes all banks and microfinance institutions (MFIs), the current level of supervision is still rule-based and requirements under the Basel Core Principles are still to be fully met.

Resource/savings mobilization and allocation. Despite the rapid growth of the country’s financial sector, the level of savings mobilized has remained relatively low compared with other ASEAN countries. The savings–investment gap in the country had risen from just –0.7% in 2006 to –7% by the end of 2010. Further, analysis by the World Bank suggests a high dependence on foreign savings, which cannot be assured in the current environment. Over the medium to long term, the country will need to raise its level of savings from domestic sources.

The continued lack of reliable credit information that is based on international accounting and auditing standards, a system of disclosing information, and a database or centralized repository of borrowers’ credit histories impedes the greater flow of credit and collateral-based lending (for details, please see the Credit Bureau section in Chapter 4). This has also raised the risk premium that banks require.

These weaknesses, along with the lack of effective competition within the banking system, raise the overall cost of intermediation.

Limited range of financial products. The financial products available have continued to be limited to deposits and loans. While some nonbank financial institutions are starting to emerge with more products, money changers and pawn businesses still predominate at the low end of the financial sector.

Lack of a securities market. A securities market is still in the early stages of development in Cambodia for the following reasons: (i) the lack of tradable instruments, such as government securities, and a trading platform and framework; (ii) the absence of market makers and a network of intermediaries; and (iii) the lack of a benchmark rate against which securities could be priced when they are issued.⁴

Further, borrowers’ requirements for funds may not have reached a sufficient size and level to necessitate borrowing directly from the public, and the funds available in the local market are still substantially retail in character.

No functional interbank/money market. NBC has developed the framework for operation of an interbank market, including the use of negotiable certificates of deposit. However, this is still to be utilized as banks currently have excess liquidity and have found no need to borrow from the interbank market.

⁴ In other jurisdictions where a government securities market has not developed, alternative benchmark rates have been used by the market, such as the central bank rediscount rate or the prime rate quoted by banks.

Mismatches in the duration of funds. The current loan and deposit market in the country is basically short-term in nature, with loans usually maturing within 1 year. Some loans are extended from 2 to 5 years, and a few for housing have terms up to 20 years, but these are the exceptions. Such mismatches (long-term requirements financed through short-term loans on the part of the borrower, and short-term deposits that can be withdrawn at any time by the lender) make borrowing a considerable risk.⁵ It was this mismatch between borrowers and lenders that precipitated the Asian financial crisis in 1997.

Over the medium to long term, long-term funds must be readily available for uses such as leasing or a strong secondary market that will allow greater scope for bridging when borrowed funds mature.

Loan size to market need. In terms of loan size, some banks reported on their efforts to arrange the syndication of loans for local clients with large requirements, but banks have found it difficult to form such syndicates due to inherent lack of trust among banking institutions, and also because banks may be unfamiliar with what is required.

Two examples of market need are not being adequately served and will continue to be underserved, and thus constrain economic growth. These are the demand for medium-to long-term funds and for large loans that exceed individual bank limits for single borrowers. Such needs are likely to grow as the economy further develops and market demand becomes more diversified and sophisticated.

Liquidity support. The principal means in the local market for providing liquidity support to borrowers is that of providing revolving credit (i.e., renewing loans on the date of maturity, also referred to as “evergreen loans”) in the absence of a secondary market for such funds. In this manner, banks are able to stretch the maturity of short-term loans and borrowers are able to meet their longer-term need for financing.

Future Strategy and Plan

Implementation of monetary policy and maintenance of financial system stability. Maintaining price and financial system stability continues to be the primary concern of NBC to protect past achievements and foster rapid financial sector development.

Promotion of use of the riel and de-dollarization. Promotion of the riel has been adopted as government policy over the short to medium term, and de-dollarization as the long-term goal. However, in order to ensure investors’ confidence in using the local currency, it must be firmly anchored in credible exchange rates and stability. Despite stability of the exchange rate and the financial system, in general, over the last decade, limited progress has been made in using the local currency. Thus, vigorous promotion of the riel is required.

Measures to promote use of the riel include using the riel to quote prices for goods and services in the domestic market and for making local payments. All official disbursements by the government must also be in riel, except for foreign currency-denominated obligations. Over the medium term, other measures may include treating the US dollar and the riel differently (as is the case now for reserve requirements on deposits) and

⁵ Studies in certain countries have shown that, on average, deposits remain with banks for about 2 years.

extending payment and banking services in the local currency in rural areas, where the riel is usually used in favor of foreign currencies.

Use of the riel is said to be more prevalent in rural areas because rural people were using the riel before the dollar rose to prominence. Also, use of the riel is more practical for smaller transactions that predominate in rural areas because the smallest denomination of the US dollar is the one-dollar bill (in Cambodia, no US dollar coins are in use). People are also worried about receiving fake dollar bills. If initiatives do not increase use of the riel, a tax may be imposed on domestic transfers of foreign currency.

Investment products in riel such as treasury bills and bills of longer duration may also be issued to provide an investment opportunity for Cambodians.

Role of banking supervision. The role of banking supervision will be further strengthened through greater coordination among financial sector regulators. A joint task force with representatives from each regulatory agency needs to be established to lead the discussions and a joint memorandum of understanding needs to be prepared for signing by concerned financial sector regulators. Common supervision approaches, including a risk-based consolidated approach, will be introduced to help supervise banks and financial institutions that undertake several market functions. This also highlights the crucial role that banking supervision authorities and other regulators play in maintaining financial system stability and preventing potential crises.

Compliance with the Basel Core Principles and prevailing global standards are key elements for enhancing the effectiveness of banking supervision. Currently, NBC is making good progress toward fully complying with the 25 Basel Core Principles. Some key areas where compliance has yet to be achieved concern the following: legal protection for the supervisory authority (critical for supervisory independence); moving to a risk-based approach to banking supervision (in contrast with the current rule-based approach); internal controls (concerning the role and function of corporate boards and management, and monitoring and evaluating the internal control system); auditing; abuse of financial services, such as money laundering; consolidated supervision (most banks have foreign investors); and cooperation between home and host supervisors (information sharing with other supervisory agencies).

The move to risk-based and consolidated supervision under the Basel II, in an increasingly complex environment, will entail major changes in structure and the way supervision is currently carried out. As explained above, the focus has shifted from rule-based supervision to one that stresses governance, auditing procedures, and effectiveness of risk identification and management systems. This clearly presents an improvement over current supervisory processes and procedures, but the personnel who undertake these new responsibilities will require new skills and qualifications; new standards for assessing risk management systems; a new reporting framework; and effective data collection, storage, and retrieval. The structure and organization of banking supervision will also have to be continually aligned to match changing priorities.

The readiness of the current banking system and the legal and regulatory structure will need to be carefully assessed and time lines established for compliance. Wide consultation among stakeholders will also be needed in the course of carrying this out and it will be essential to undertake pilot, risk-based examinations before fully applying the requirements.

For small banks, it may be too costly for them to comply with all requirements. Also, some risks are still not found in Cambodia, notably the market risks.

Crisis prevention and resolution. Due to the absence of market signaling systems, such as a broad-based government securities market, an early warning system and feedback mechanisms need to be established to facilitate two-way communication between financial institutions and NBC. It is also crucial to strengthen capacity for monitoring financial market developments; for producing reliable, timely, and accessible data; and for coordinating concerned regulatory agencies. Identifying market risks—including speculative bubbles such as those in the real estate market, and in the securities market—will require effective indicators, statistical analysis, and forecasting tools.

NBC and other financial sector agencies should have a joint crisis management framework that includes (i) appropriate legal authorities that can act swiftly to resolve a crisis; (ii) legal protection for the officers and staff undertaking crisis resolution functions such as taking over bank operations, but with parallel accountability to prevent them from abusing their authority; (iii) development of a memorandum of understanding regarding a coordination mechanism at the highest levels that will ensure a synchronized and credible response; (iv) a transparent action plan for taking over a problem bank or resolving a systemic risk; and (v) identification of safety nets, where possible. All could be stipulated in the memorandum of understanding for concerned regulatory authorities to jointly sign.

Safety nets. These may take the form of the liquidity reserves that NBC builds over time. These nets could include liquidity pools (which are set up by the banks themselves for extending liquidity support when banks experience liquidity problems but are still solvent) and standby lines of credit with foreign financial institutions if urgent need arises.

In addition to these safety nets, there are special arrangements available, such as bilateral swaps under the Chiang Mai Initiative and other initiatives of ASEAN +3. These include the newly established \$120 billion Chiang Mai Initiative Multilateralization, the Asian Bond Markets Initiative, and, more recently, the \$700 million Credit Guarantee and Investment Facility for corporate bond issuers, as well as liquidity facilities that Cambodia could secure from multilateral institutions.

When conditions are favorable, NBC should consider establishing a deposit guarantee institution that would (i) administer a deposit guarantee system, (ii) set service fees, (iii) identify problem banks, (iv) pay money out to adversely affected depositors, and (v) act as the first line of defense for the banking system in containing a run on a bank or banks. The purpose of this institution would be to provide some stabilizing influence over the market and to reassure small depositors, who currently predominate and are prone to panic and could precipitate a run on the system. A deposit guarantee scheme could also help attract more depositors,⁶ and especially rural people, by building greater confidence in the system. This should, however, be balanced against creating a moral hazard for banks, such as that of protecting weak banks. That said, barring concerns about contagion, a deposit guarantee safety net would allow NBC to shut down a delinquent bank.

Ultimately, the development of secondary markets for assets and securities would provide essential liquidity support to financial institutions, where asset collateral could be disposed

⁶ The number of depositors is still low relative to the size of the country's population (an estimated 0.5 million people).

of without much loss in value and securities and loan portfolios can be securitized or liquidated on short notice.

Cooperation and integration with ASEAN. It is clearly in Cambodia's interest to foster closer cooperation with ASEAN, especially in the financial sector. Since the East Asian Financial Crisis in 1997, much emphasis has been given to regional arrangements in helping individual countries to prevent financial crises. Through active participation in various ASEAN forums, Cambodia is preparing for eventual integration with its regional neighbors and greater cross-border flows.

Based on the Development Action Plan, necessary reforms to achieve policy alignment and coordination with ASEAN are through developing the market and legal infrastructure for (i) accounting and auditing; (ii) the payment, clearing, and settlement system; (iii) stock market listing and securities trading; (iv) taxation of financial instruments; (v) credit rating, (vi) insolvency; (vii) secured transactions; and (viii) intellectual property. The ultimate objective is to establish a single common market where ASEAN investors may invest in each member country as if it were one market. However, achieving integration in various areas requires specialized expertise and in-depth treatment, especially where the region is concerned.

Implementation of an interbank market. While demand for using the interbank market is limited as banks have excess liquidity, there is clear need to start an interbank market because of the difficulties that banks have in covering their reserve positions and also in seeking temporary investments for their excess funds. To fulfill the need for such securities, NBC expects to introduce negotiable certificates of deposit shortly.

Nonetheless, before an active market can emerge, all banks will have to be confident that the interbank market can provide reliable backup liquidity to bridge their short-term liquidity needs. This will allow them to eventually lessen their reliance on retained deposits to meet their temporary liquidity needs.

Development of a money market. To facilitate money market development as Cambodia plans, the relevant authorities need to set up the legal and regulatory framework to allow specialized nonbank financial institutions the right to issue and use various trading instruments in the market. Once documentary credits become more prevalent in the market, this means being able to issue and use various negotiable instruments such as commercial papers and negotiable promissory notes, including bills of exchange. Repurchase agreements that cover these underlying instruments have already been addressed. Limits on how much can be issued to the public by securities firms or financial institutions themselves will have to be established and monitored. In some jurisdictions, part of the issue may require a bank guarantee (say 10% of the issue). This provides some protection for investors, as it provides a partial guarantee in case of loss and ensures that the issue will be reviewed by a bank before it is issued to the market. As the market broadens and deepens, more market players will participate so long as profits can be made. However, the market will likely develop at its own pace. The government may consider offering incentives to attract market players, especially foreign institutions that could help introduce the required technology. Once a broad and deep market for securities develops over time, financial institutions should find it attractive to securitize their loan portfolios.

For borrowers who require large loans that exceed what any individual bank can provide owing to their single-borrower limits, the sale of securities directly to investors would allow borrowers to raise the amount of capital they require. Moreover, such requirements could be syndicated, either on a private placement basis (held by the underwriting syndicate itself and not sold publicly) or through a publicly underwritten issue (sold and distributed to various investors). However, a suitable framework for syndicating loans and issuing securities needs to be established that defines the legal rights and obligations of each participant in a syndication, the terms and conditions of the loan or security to be issued, the yield on the security or offering price, the related fees, how modifications are to be handled, and the procedures to be followed in case of a lawsuit (including who will act as the paying and collecting agent, who will be the legal counsel for the syndicated loan, etc.). This is necessary, as some attempts at syndication have been made but did not succeed since banks are not accustomed to cooperating with each other.

For a capital market in debt instruments to develop (bonds and long-term commercial papers, for example), the money market must be developed first. This is because the money market serves as the secondary market where debt instruments of long duration can be sold, liquidated, and transformed into cash in the same way that a stock exchange provides secondary market support for equity instruments.

Anti-Money Laundering and Combating the Financing of Terrorism

Background

As a member of the Asia Pacific Group on Money Laundering, Cambodia is committed to complying with international standards, and especially relevant international conventions, United Nations Security Council resolutions, and Financial Action Task Force (FATF)⁷ recommendations.

Progress and Achievements

Since Cambodia first underwent a mutual evaluation in February 2007, when no anti-money laundering (AML) and countering the financing of terrorism (CFT) regime existed, it has made great strides in meeting the FATF 40+9 recommendations.

The Law on Anti-Money Laundering and Combating the Financing of Terrorism was passed in 2007 and a *prakas* (rules and implementing regulations) was issued to define its structure, role, and functions.

Subsequently, the *prakas* on AML/CFT was issued for banking institutions and for all other reporting entities not regulated by NBC. The *prakas* requires all reporting entities to report on a regular basis and requires banks and financial institutions to establish

⁷ The FATF currently has 36 members: 34 jurisdictions and 2 regional organizations (the Gulf Cooperation Council and the European Commission). Also, 27 international and regional organizations are associate members or observers of the FATF and participate in its work.

internal control systems for AML/CFT procedures that are fully in accord with the law. A *prakas* on AML/CFT to cover reporting entities not regulated by NBC was issued on 21 December 2010.

The Cambodian Financial Intelligence Unit (CAFIU) was established within NBC in 2008. Since its establishment, a number of *prakas* have been passed to support the operations of the CAFIU. Aside from the Law on Anti-Money Laundering and Combating the Financing of Terrorism, a number of other laws have been approved, such as the Counter-Terrorism Law that criminalizes the financing and provision of material support for terrorist acts, the Criminal Procedure Code, the Criminal Law, and the Anti-Corruption Law. The Law on Drug Control criminalized money laundering related to narcotics trafficking as early as 1996.

The CAFIU has been working with the Ministry of Justice, the Ministry of the Interior, and other relevant ministries in taking coordinated action. For the provision of information regarding AML/CFT, it has reached an arrangement with the national police under the Ministry of the Interior.

The CAFIU has also been gradually developing its capabilities. The United States Treasury Department, in cooperation with the Ministry of the Interior, conducted two training courses on financial investigative techniques under the AML/CFT framework in June and September 2008. Bank Negara Malaysia has also conducted three workshops at separate times to develop a strategy to implement a national program and enable financial sector participants to understand their obligation to report suspicious transactions to the CAFIU and undertake AML/CFT supervision of banking and financial institutions.

Memorandums of understanding on information exchange have been signed with Bank Negara Malaysia, Bangladesh Bank, and the Central Bank of Sri Lanka.

Cambodia has also gained membership in the Asia Pacific Group on Money Laundering and has committed to comply with international standards such as relevant international conventions, United Nations Security Council resolutions, and FATF recommendations.

The UN Counter-Terrorism Committee Executive Directorate also visited Cambodia and commended the government for significant progress in developing its CFT regime.

Constraints, Challenges, and Gaps

While progress in complying with international commitments is being made, Cambodia still has to fully meet its commitments under international agreements and strengthen adjudication and intermediary functions.

Based on the Asia Pacific Group on Money Laundering Annual Meeting 2010, the mutual evaluation progress report shows that Cambodia was still rated as noncompliant on all six core recommendations, partially compliant on three key recommendations, noncompliant on seven of these key recommendations, only partially compliant on 10 more recommendations, and noncompliant on 20 others.

The CAFIU is understaffed.

Future Strategy and Plan

A mutual evaluation progress report was prepared by CAFIU for 2011. Except for a few areas, CAFIU has achieved compliance with most FATF recommendations, however, the actual review still has to take place. Notably, the few areas of non-compliance were development of a national risk assessment framework and completion of a strategic implementation plan, development of the legal framework to adequately criminalize money laundering and terrorist financing, establishment of adequate procedures for the confiscation of funds and assets related to money laundering, and enhancement of cooperation among Cambodian authorities and with international supervisors.

CAFIU has to be properly staffed and strengthen its staff capabilities.

CAFIU has to strengthen coordination with the MEF, NBC, the Ministry of Interior, the Ministry of Justice, and other supervisory authorities.

CAFIU has to extend coverage of inspection to cover all reporting entities and strengthen regional and international cooperation.

Microfinance Sector

Background

Importance of the microfinance sector. The government has recognized the important role that microfinance plays in socioeconomic development, particularly in the area of poverty reduction. As of 2001, Cambodia was one of more than 30 countries⁸ that had developed a national microfinance strategy.⁹ Among these countries, the Cambodian microfinance sector has developed quickly and has been internationally recognized due to an enabling regulatory and supervisory framework that governs microfinance providers. Recently, the number of MFIs has grown and they have expanded their activities to include deposit-taking so they can better serve low-income people.¹⁰

Evolution of the microfinance sector.¹¹ Cambodia's formal microfinance sector emerged from a number of microcredit projects initiated by international donors, nongovernment organizations (NGOs), and other institutions in the early 1990s.¹² By the end of 2011, the 56 MFIs under the supervision of NBC had become an integral part of the formal financial sector.

Composition of the microfinance sector. The sector is composed of two important groups of institutions: (i) formal MFIs that are either licensed MFIs or registered MFIs and (ii) an estimated 60 NGO microfinance providers that are unregistered with NBC.

⁸ E. Dufflos and J. Glisovic-Mezieres. 2008. *Brief: National Microfinance Strategies*. Washington, DC: Consultative Group to Assist the Poor.

⁹ This strategy is included in the Financial Sector Blueprint for 2001–2010 and its updated version called Financial Sector Development Strategy 2006–2015.

¹⁰ International Finance Corporation. 2009. *Microfinance in Cambodia: Taking the Sector to the Next Level*. *Business Issues Bulletin*. No. 17.

¹¹ The sector development is described in Cambodia Microfinance Association. *2009 Annual Report*. pp. 5–6.

¹² Pioneers were GRET (1991), World Relief (1992), and the Association of Cambodian Local Economic Development Agencies (ACLEDA) and Catholic Relief Services (1993).

Favorable factors. Key factors that have contributed to rapid growth of the sector over the last decade include (i) strong demand for credit; (ii) opportunity to provide rural financial services; (iii) strong support from development partners; (iv) commitment of the government, as evidenced by the adoption of a National Microfinance Strategy; and (v) highly committed and capable managers and staff at MFIs.

Recent evolutions. The global financial crisis of 2008–2009 indirectly affected all sectors of Cambodia’s economy, and the microfinance sector was no exception. Client over-indebtedness has become a problem in recent years due to competing MFIs offering loans, clients’ low level of financial literacy, and the lack of a credit information sharing system to alert an MFI when a prospective borrower has other loans.

Pawn businesses. Pawn businesses play an important role in meeting poor peoples’ urgent need for cash. To legalize this subsector, the MEF issued *prakas* No. 028 SHV. PrK, dated 12 January 2010, on Licensing of a Pawn Business and Buying and Selling of Pawned Pledges, and Transfer of Title. It has also enabled the government to issue licenses to 73 companies and pawn businesses so they could legitimately conduct business.

Key issues. The financial sector has faced many challenges over the last decade, many of which have been successfully addressed. However, other challenges remain, which include finding effective ways of transforming traditional credit and savings institutions so they can adapt to the needs of the citizen and are more financially inclusive. This transformation should be accompanied by strengthened regulatory and supervisory capacity and a greater focus on the balance between financial returns and social responsibility as well as consumer protection through transparency regarding fees and interest rates.

Progress and Achievements

Much has been accomplished by the microfinance sector through complying with the vision for the Financial Sector Blueprint 2001–2010. As of December 2011, there were 56 MFIs, of which 28 were licensed and 28 were registered, compared with only 30 MFIs in 2002. Also, NBC has issued licenses to seven MFIs that are fully qualified to take public deposits.

The government has organized a forum for policy coordination and through the Rural Development Bank is offering loans to support the agriculture sector and its subsectors. This policy has also encouraged MFIs to lend to larger micro-, small, and medium-sized enterprises.

Constraints, Challenges, and Gaps

Constraints, challenges, and gaps for development of the sector include (i) strengthening the regulatory and supervisory framework and capacity, (ii) expanding services, (iii) improving outreach, (iv) increasing consumer protection, (v) enhancing operational efficiency and the quality of service providers, and (vi) strengthening sector support.

Strengthening the regulatory and supervisory framework and capacity. While the current framework for microfinance has strongly supported development of the sector, there is still a need to address gaps, including building the capacity of regulators

and supervisors to oversee MFIs, including licensed and deposit-taking financial institutions. The government will further focus on the implementation of international standards for microfinance regulation, supervision, and the licensing criteria for deposit-taking MFIs, and requiring that MFIs meet the same reporting standards as banks. However, with regard to the latter, the cost and benefit for MFIs will have to be considered.

Expanding services. To reach a larger segment of the population as well as to expand the scope of savings mobilization and the provision of credit, MFIs cannot rely solely on deposit and credit. With their national reach and expertise, MFIs have the capacity to reach the unbanked and underbanked with a broad range of financial services, in addition to deposit and credit.

Improving outreach. There is a need to better understand how to extend access to financial services to people, especially poor people in hard-to-reach areas where opportunities may be scarce and who may have limited knowledge of how to access available financial services. Financial literacy should be a critical component of expansion into hard-to-reach areas.

Microfinance services are used by the poor, including low-income earners, people with disabilities, and people living in remote areas. The international standard for measuring the ability to offer microfinance services is 20% of the average credit ratio to GDP. For Cambodia, this ratio is 54%, as the average loan is \$430 and GDP per capita is \$795. These data may suggest that either the poor make little use of microfinance services or that borrowers are overburdened by their debts.

Because MFIs are not able to reach all rural and remote areas, borrowers must rely mainly on informal sources of finance at substantially higher interest rates, estimated to be as high as 10.0% per month compared with the 1.8%–3.0% per month rates charged by formal MFIs (depending upon the maturity and the risk in lending). There are a number of reasons cited for the low level of rural penetration by MFIs: (i) remote locations are difficult to reach, (ii) hard-to-reach areas pose greater security problems for MFIs, (iii) roads are poor in some areas, (iv) economic activity is limited, (v) income-generating activities and vocational training are lacking, (vi) financial literacy and knowledge of how to start or manage a business is lacking, (vii) formal loans are unavailable, and (viii) credit risks are high. These constraints all contribute to a low level of financial inclusion in hard-to-reach rural areas.

Pawn businesses support the expansion of micro lending and face similar challenges as MFIs. Based on variability in size, and the small-scale transactions involved, this sub-sector has been challenging for regulators to supervise. As mentioned above, MEF has been drafting a Law on the Licensing of a Pawn Business and Buying and Selling of Pawned Pledges, and Transfer of Title, as well as other relevant provisions. MEF is also creating other supporting mechanisms to officially promote the development of this sub-sector and its effective management.

Operationally, MFIs need credit information, payment services, and other financial services and to strengthen their management information systems with accounting and loan tracking capabilities. The quality of reporting by MFIs will need to match the reporting quality of commercial banks. In terms of client capacity, there is a need to strengthen the

training infrastructure for micro-entrepreneurs, including support for facilities and venues for training, development of curriculum and materials, and development of trainers.

Increasing consumer protection. There is still a lack of MFI consumer protection, of guidelines for resolving disputes between clients and MFIs, and of basic norms for debt collection. In general, MFI borrowers and staff lack financial literacy. The establishment of a credit bureau to service the entire financial sector, including microfinance, has been achieved. On top of that, for consumer protection, improving transparency in revealing the true cost of financing and improving the professional ethics of MFI staff are critical.

Enhancing operational efficiency and the soundness of service providers. Currently, MFIs in Cambodia have different management information systems that make supervision by regulators time-consuming and expensive. A recent study revealed that there is a need to standardize management information systems, which means additional spending for some MFIs. This problem requires further study to explore appropriate solutions.

Strengthening industry support. Currently, there are four institutions that offer training courses on microfinance in Cambodia—the Cambodia Institute of Banking under the auspices of the Association of Banks in Cambodia, the CMA, the Center for Banking Studies of the NBC, and the ACLEDA-ASEAN Regional Microfinance Training Center. To respond to needs and comply with the rules and regulations in this sector, there is a need to assess the quality of these training facilities.

Strengthening the CMA is a priority to enhance the role of this entity in policy coordination, dialogue between the government and microfinance providers, and research and exchange of information within the sector.

Future Strategy and Plan

The vision for microfinance from 2006–2015 is to develop a strong and effective microfinance system and serve the interests of the poor by providing affordable financial services, increasing income, and alleviating poverty. The vision for the sector remains appropriate for the FS DS 2011–2020 and is based on the guidelines to achieve the objectives of the National Microfinance Strategy.

MFI supervision. To strengthen NBC’s present supervision methodologies, NBC assesses MFI compliance with the requirements of the Basel Committee on Banking Supervision and the Core Principles for Effective Banking Supervision.

These efforts are to be conducted on a continuous basis following best practices suited to the rapidly changing nature of Cambodian MFI operations. The objective is to be able to conduct on-site supervision for all MFIs once every 12 to 24 months.

Common reporting standards. NBC will consider putting in place common reporting standards when the reporting standards of MFIs have been improved and aligned with the financial reporting standards of banks, but taking into account the costs and benefits of having such a system for all MFIs.

Regulatory improvement to support product diversification. The government will further improve rules and regulations to support the expansion of MFI services and

products, including giving permission to licensed deposit-taking MFIs to become members of NBC's clearinghouse and encouraging MFIs to create innovative new services. So far, MFIs in Cambodia primarily offer credit and, to some extent, savings. Other possible activities that MFIs could engage in include microinsurance; microleasing; servicing of payments and remittances;¹³ and providing small- and medium-sized enterprises with financing, educational loans, and housing finance. Mobile banking service is another area for possible MFI expansion once necessary rules, regulations, and supervision are in place. Mobile banking would allow both internal and international transfers and could promote use of the riel.¹⁴

Access to credit information. With approval by NBC, Credit Bureau Cambodia has commenced operation. Access to the credit bureau by MFIs offers several advantages: easier access to credit for creditworthy borrowers, speeding up loan processing and approvals, facilitating the setting of interest rates according to risk levels, setting interest rates based on clients' past history of borrowing, and reducing the costs of borrowing by reducing losses that are due to fraudulent applications and high processing costs.

Establishment of a mechanism for redressing the grievances of microfinance clients will provide a higher level of protection for clients. All relevant government agencies are collaborating with CMA to identify a strategy and agency to implement this mechanism.

Market transparency and disclosures. To protect the interests of the people, the government will put in place the following measures:

- design and implement a program for promoting financial literacy for the clients of MFIs and the general public;
- introduce and implement guidelines for consumer protection based on experience and best practices; and
- conduct a study on over-indebtedness to determine the extent of borrowers with more than one loan.

Cost efficiency. The government will continue to target improving MFI efficiency in order to reduce the cost of borrowing from these institutions by encouraging an expansion of savings mobilization, as well as improvements in MFI management information systems, branchless banking, and wider use of the credit bureau.

The government will consider other funding options, such as (i) providing an untied guarantee facility to banks to lend to qualified, creditworthy MFIs and borrowers in preferred industries; (ii) giving permission to banks to use an appropriate level of MFI securities as reserve requirements in order to encourage banks to lend to MFIs in riel; (iii) continuing to provide wholesale funds in collaboration with other fund providers, including banks, for on-lending to MFIs; (iv) considering a comprehensive approach such as setting up a development finance institution that can play the role of mobilizing and providing wholesale funds to MFIs; and (v) implementing the Microfinance Risk Participation Program that ADB approved. This credit facility has \$250 million and financial institutions that participate in the credit facility can be guaranteed up to 50% repayment if an MFI defaults.

¹³ These financial products are dealt with in other sections of this report.

¹⁴ Meliza H. Agabin. 2007. *Technical Innovation for Expanding Outreach: Mobile Phone Banking in the Philippines*. Presented at the Third African Microfinance Conference, Kampala, Uganda, 20–24 August.

Enhancement of microfinance institutions' management information systems. The objective is to introduce a management information system that is capable of providing the information required by supervisory authorities and at the same time serves effective and efficient management of MFI operations. The cost of this system should be affordable to small MFIs.

Support for and enhancement of the role of CMA. The MEF and NBC, in cooperation with concerned stakeholders, will provide support to CMA in developing necessary training modules and the implementation of CMA's business plan to help improve its capacity. CMA is expected to play a more active role in helping develop and disseminate policy, and improve dialogue with government and within the industry, and advocacy, research, and information exchange with the government and other stakeholders. In terms of CMA's own development, efforts should be made to continually strengthen capacity through improving governance, operations, financial viability, human resources, communications, and service delivery.¹⁵

Promotion of savings mobilization. The government continues to promote using MFIs for mobilizing savings in rural areas to enable MFIs to finance their lending with the lower-cost financing provided through savings.

NBC is preparing a *prakas* on credit cooperatives or financial communities. This would pool various initiatives aimed at licensed and registered MFIs. At the moment, some NGOs are acting as financial cooperatives and are mobilizing savings, but have not registered with NBC.

Study and development of capacity for competition. The government will promote and improve statistical analysis and define markets by geographical area and sector. This will identify alternative financing sources that include moneylenders, families, friends, village banks, communities, etc.

Expansion of access to credit. The government will develop a coordinating mechanism between MFIs and pro-poor organizations in order to develop methods and appropriate programs to assist the poor to access MFI services.

To contribute to the provision of microfinance for the poor, the government will develop a regulatory and supervisory framework as well as a management mechanism in order to develop a formal pawn business sector and provide effective supervision. Also, the government will promote professionalism in pawn businesses through the use of information technology for regulators, operators, and relevant competent authorities.

In the medium term, CMA should support research on product innovation, including the development of specialized products and services and training that could help in connecting the extremely poor with income-generating opportunities. Following this research, replication of successful pilots on how to penetrate hard-to-reach areas should be considered.

Provision of client training. Clients of MFIs need help to develop financial literacy, improve their production and understand their market. The government will develop a sound policy

¹⁵ See the SEEP Network's Network Capacity Assessment Tool. <http://networks.seepnetwork.org/en/node/1256>

to motivate NGOs to offer reasonably-priced business development services, and MFIs to offer financial literacy training.

Leasing

Background

Leasing is quite widespread and popular in Cambodia. However, many people do not understand the terminology used in the leasing industry.¹⁶ They do not understand what a lease is, the benefits of leasing, or the distinction between a lease and a rental.

Even without a clear legal framework, the supplier-oriented leasing market has expanded. Several companies are leasing vehicles to firms in the extraction industry. Several taxi companies use leased vehicles, and there are leased biofuel generation facilities.

Current leases include 50- to 99-year leases to companies that need land to build a factory; the lease of office space for 5 years, with the option to renew; the lease of manufacturing equipment for 5 years, with the lessee having the option to purchase the equipment at the end of the term; the lease of construction equipment, with billing based on running hours; the lease of a vehicle by the day; the “lease” of temporary staff in which the supplier of the staff handles all payroll matters; and the lease of a copy machine, in which the lessor supplies all toner, paper, and maintenance, with the charge based on the number of pages copied.

Progress and Achievements

The Law on Secured Transactions was passed in 2007. The Law on Financial Leasing was enacted in 2009. The Civil law has been enacted and became effective in 2011.

Constraints, Challenges, and Gaps

Leasing operations have not been fully standardized. The Law on Banking and Financial Institutions identifies leasing as a banking operation, but as leasing is not limited to banks, NBC needs to clarify what types of leases are restricted to banks or organizations licensed by it.

A critical advantage of leasing is the lessor’s ability to quickly take back the asset if the client is in default. Existing laws specify different rights for the lessor: for example, the Civil Code and the Law on Secured Transactions require a court order to repossess equipment, which can delay repossession and even lead to damage of the asset or reduce its value. The Law on Financial Leasing gives the lessor the right to repossess and voids other provisions that state otherwise. The Law on Secured Transactions declares that almost all leases are secured transactions. In the case of contradiction between provisions of this law and those of other laws, the Law on Secured Transactions is considered the final authority, except in cases where other laws make specific reference or amendments that contradict

¹⁶ The supplier is the seller of the asset, also referred to as the vendor. The lessor is the landlord or owner of the asset. The lessee is the user of the asset.

it. Any provisions that are not specified under this law must comply with the Civil Code of the Kingdom of Cambodia.

The Law on Financial Leasing states that the lessee has the right to select the equipment and its vendor. However, some interpret this to mean that a lessor has no right to qualify the vendors, review the acquisition price for the equipment, or validate the resale market for the equipment.

The Civil Code requires that the lessor maintain the equipment, which is an area where banks have no expertise. The code is silent on the responsibilities of the vendor and the lessee, but the vendor usually supplies spare parts, provides a warranty, and performs maintenance and repairs.

In many countries, hire-purchase contracts are installment sales contracts. The General Department of Taxation views these as sale-financing instruments for vendors. NBC considers a hire-purchase contract as a form of lease.

The tax treatments for bank loans and equipment leases are not the same, particularly in the area of value-added tax (VAT) and withholding tax. A bank loan is exempt from VAT and withholding tax, yet a lease requires 10% VAT to be added and a 10% withholding tax to be paid by the lessee on behalf of the lessor.

The current application of VAT is not consistent. VAT is to be paid for new imported equipment and passed on to users by collecting VAT on the rental cost of equipment leases, but it is not customary to collect VAT on the lease payments for car rentals or office space.

Withholding tax is another unclear issue. Technically, withholding tax is the prepayment of the lessor's tax on profits. The withholding tax is 10% of the lease payment. The lessee is required to file a tax return and pay 10% withholding tax to the General Department of Taxation. This practice leads to duplication of taxation.

International firms that conduct business in developing countries often lease rather than buy their office equipment. Due to tax policy and budget constraints, these firms are forced to lease used equipment, which is less durable, and the spare parts are not readily available.

A draft *prakas* on tax on financial leasing proposes a single amortization table for each lease transaction, disclosing the cost and gross profit. It is impossible to use only one amortization table for each lease covering both the lessee and lessor. The General Department of Taxation should prepare a *prakas* on leasing taxation to help clarify the meaning of revenue, expense, depreciation, tax on profits, VAT, and withholding tax.

A legal requirement for anyone taking a security interest in a movable asset is the need to make the lien public. This is to protect the lender or lessor from the lessee secretly selling the equipment. This also protects buyers who would not know that they are buying leased equipment and that it could be repossessed. The Ministry of Commerce has developed a world-class registry for secured transactions, but has not developed one for leases.

The government tends to protect consumers through full disclosure of the effective interest rate on loans. Leasing may be conceptually similar but the effective cost of a lease is calculated differently by the lessor and the lessee.

The government has lost much tax revenue from informal leasing. Informal leasing has also created unfair competition for formal leasing companies. Therefore, the government is working to move more of the informal businesses into the formal sector.

The government is rebuilding infrastructure, and some requirements have not yet been put in place. For example, while the Ministry of Commerce has developed a secured transaction registry, the Ministry of Land Management, Urban Planning and Construction has not started to develop the registry to handle fixtures.¹⁷

Future Strategy and Plan

To avoid conflict in regulations, NBC will amend the Law on Banking and Financial Institutions to clarify leasing for banks, license leasing companies, and supervise leasing and leasing companies. The NBC is responsible for licensing leasing businesses. At the same time, the government should make it clear which ministry will license and regulate operating lease businesses.

The government will review the Civil Code, the Law on Secured Transactions, and the Law on Financial Leasing in order to clarify the vague and conflicting provisions that could lead to confusion in the implementation of leasing. It will also align leasing requirements with international accounting standards and practices.

The government will consider developing tax policy on leasing in order to promote the development of the sector. The General Department of Taxation will prepare guidelines for implementing the tax obligations of the sector covering the specific obligations with regard to VAT and withholding tax.

The development of infrastructure necessary to support leasing shall be accompanied by a specific plan of action.

The government will encourage lessors who are large suppliers to take part in leasing to support the development of some industries, such as construction and mineral exploration.

The government will further protect consumers by requiring lessors to disclose information on leasing to lessees. The disclosure shall comply with accepted accounting principles and financial reporting.

¹⁷ A fixture is a movable asset that is attached to an immovable asset (land and buildings).

CHAPTER 3

Nonbanking Financial Sector

Insurance

Background

The Law on Insurance was promulgated in 2000. The Sub-decree on Insurance was adopted in 2001, and a number of regulations were introduced to develop the insurance sector. The strategy for this sector's development was also specified under the Vision and Financial Sector Blueprint 2001–2010.

With the promulgation of the law and regulations mentioned above, many businesses that previously used foreign insurance services now use domestic insurance services instead. Total premiums in 2010 were \$24.8 million, an increase of 24% relative to 2009. However, this amount only represents 0.2% of GDP. Total assets of the insurance industry in 2010 were \$77.2 million, or 0.7% of GDP. Compared with regional and world markets, the insurance market in Cambodia is still small.

The insurance market in Cambodia is limited to a few types of insurance products, and as of 2010 only six insurance companies, plus one reinsurance company, were licensed to operate in Cambodia. At the end of 2010, the total assets of the industry accounted for only 1.2% of the total assets of the financial sector.

With the intention of speeding up development of Cambodia's insurance industry, the government helped expand the insurance market by introducing life insurance services in 2011, which is another new phase of development for the sector, and in turn enhances the role and the importance of the insurance industry. The capital and reserve requirements for life insurance businesses are major sources for investment in the financial market.

The government provided the enabling environment for offering microinsurance services to low-income people in rural areas. This should also help expand the scope of the insurance market in Cambodia.

Despite the global financial turmoil that has threatened Cambodia's financial industry, the insurance sector has remained strong. After prudential regulations were issued by the regulator, the industry has remained stable and is maintaining its development agenda.

Cambodia's regulator is an active member of the Association of Southeast Asian Nations (ASEAN) insurance regulator group. Regular meetings and communications within this framework have proven to be very beneficial to the regulator's development program.

The General Insurance Association of Cambodia (GIAC) was formed in 2005 to represent all general insurance companies who are conducting business in Cambodia. This association has been active and works in close partnership with the regulator for the successful development of Cambodia's insurance sector. The association has set the tariffs for fire and motor vehicle insurance, which is the beginning of self-regulation. GIAC is working with the Malaysian Insurance Institute to organize training courses to develop the capacity of insurance industry staff.

Progress and Achievements

The issuance of insurance-related regulations in 2007 was an important contribution to the development of the insurance sector. The insurance regulator has published annual reports on insurance market development in Cambodia to provide information about the market and updates on regulations. Moreover, a *prakas* on public disclosure of the annual financial reports of insurance companies has also been issued to ensure greater transparency in the market.

Starting from 2007, the insurance regulator has organized a capacity-building program to enhance the capacity of officials in the insurance regulating body, focusing primarily on general insurance.

The Cambodia insurance regulator became a member of the International Association of Insurance Supervisors (IAIS) in 2009. As a member, the insurance regulator can access the new online resources of the association and the advice of prominent experts in addressing challenges in the insurance sector.

The regulators' staff commenced off-site and on-site supervision processes in 2007 and the quality of these processes has been gradually improved with technical assistance provided by ADB.

The government has prepared a new law on insurance to replace the existing one. The new draft law intends to improve the legal framework so it can respond to the rapid pace of development in the insurance market and ensure its smooth integration into the region and the world. The new law is expected to be promulgated in the near future.

The regulator has made efforts to finalize the sub-decree on microinsurance for managing the microinsurance business in Cambodia. At the same time, the insurance regulator has issued a circular on the issuance of a temporary license to allow microinsurance businesses to begin operation.

Constraints, Challenges, and Gaps

Legal and regulatory framework. The legal and regulatory framework for insurance that is currently used in Cambodia has not fulfilled the 28 core principles of IAIS, such as the core principles on liquidation and autonomy of the regulator's power. This gap requires

attention to gradually amend the legal and regulatory framework to achieve effective insurance sector supervision and development.

The existing law and regulations on insurance have strict requirements for granting licenses to insurance agents, brokers, and loss adjusters. As of December 2011, only two insurance agents and one insurance broker were licensed. To motivate participation of insurance agents, brokers, and loss adjusters in the development of the sector, some revisions to regulations were necessary.

The government is making efforts to create life insurance and microinsurance markets to respond to actual needs and speed the development of Cambodia's insurance market. This market faces a number of challenges, such as strengthening the management and supervision capacity of the regulator, the market mechanism, and awareness of the life insurance product. Based on international experience, supervising life insurance companies is more difficult than supervising general insurance companies.

The insurance companies that are operating in Cambodia have limited options for investing their capital and reserves locally. The government has launched a securities market to provide investment options for insurance companies that want to diversify investment of their reserves and capital and thereby contribute to the development of the financial system. In the medium term, setting the threshold on insurance company capital reserves is important to ensure an adequate solvency margin is maintained by insurance companies, but it could be a challenge for insurance companies to meet these requirements.

Institutional framework. Modern insurance market management requires policy and an institutional and legal framework for management and supervision of the insurance sector that is based on the core insurance principles issued by IAIS. For the policy framework, Cambodia requires a specific body dedicated to policy formulation, but the existing insurance regulator has limited capacity and regulatory autonomy.

In the past, the insurance market in Cambodia progressed slowly as some market management mechanisms were not well developed, especially the mechanism for litigation. The process for claim settlement and mediation was very slow. The government is making efforts to develop the dispute resolution mechanism, including establishing a commercial court.

Experience from the 2008–2009 financial crisis showed that the government lacked a clear mechanism for coordinating relevant institutions to manage any risks to the financial sector as a whole.

Insurance market mechanism. Despite the availability of insurance services in Cambodia for more than a decade, the general public's understanding of the value of insurance is limited. Currently, insurance services are bought only by limited numbers of people in urban areas and by foreign companies.

In recent years, the arrival of new insurance companies has increased competition within Cambodia's insurance market, although each company has tried to differentiate itself from the others with different service levels, product innovations, or pricing differentials. The market share of Cambodia's first insurance companies has declined due to strong competition from the new companies.

The implementation of compulsory insurance for construction sites, commercial motor vehicles, and passenger transport, which began in 2002, has not been effective due to lack of enforcement measures and lack of cooperation among relevant ministries and institutions.

The Ministry of Labor and Vocational Training's introduction of compulsory schemes for workers' compensation and health insurance is expected to reduce the business of private insurance companies. Private and public organizations should maintain a coordinated approach with regard to these products to ensure that workers are being effectively covered for all areas of risk and that the private sector can still offer health and workers' compensation products that the market may be interested in buying.

Currently, there is overlap regarding institutions that provide insurance products. For example, a few commercial banks offer insurance products to their clients, leading to a lack of clarity between the jurisdictions of banks and insurance companies.

Capacity building. Although the insurance regulator has made efforts in recent years to increase staffing, the need for competent, experienced, and skilled human resources remains a big challenge for the Cambodian regulator. Retaining qualified staff is an immediate challenge for the regulator because of competition from the private sector.

Specific skills for the insurance sector such as product development, underwriting, claim processing, claim procedure arrangements, loss adjustors or surveyors, actuarial and financial analysis and forecasting expertise, and insurance agency training are not yet available within the local market. These skills will take time to develop in Cambodia and as a result will slow down the development of new products. Cambodia needs a specific training center with proper insurance training programs and will require many years of effort to develop the specialized expertise needed to keep up with developments in the international insurance market.

Development of an "early warning" information technology system. As the insurance market grows, the regulator should have the capacity to operate an "early warning system" that can be used to collect information from insurance companies so that the financial analysis and risk profiling skills of insurance companies can be determined in a timely manner.

Future Strategy and Plan

Maintaining the stability and the development of the insurance sector should contribute to socioeconomic development by using the capital and reserves of insurance companies to invest in securities, real estate, agriculture, and other sectors with growth potential. The development of the insurance sector could also contribute tremendously to Cambodia's social sector through employment creation, development of specialized skills, and specialized training, as well as providing a social safety net for people by offering health insurance and minimizing their spending on traffic accidents.

Legal and regulatory framework. While there are gaps between the core principles of IAIS and the current legislation in Cambodia, the gaps are considered acceptable given the state of insurance industry development. To close the gap, the government will submit a new insurance law to the legislature, and the insurance regulator will review the existing regulations to ensure consistency with the new law. For the long-term strategy, the

insurance regulator will fully implement the core principles of IAIS, a critical standard for prudential management and supervision of the insurance sector.

The regulator must review the legal and regulatory framework relating to insurance agents and brokers in order to promote the development of these intermediary businesses and ensure that clients get accurate information on insurance products. In the medium term, the regulator will encourage the establishment of associations of insurance agents and brokers to help develop the sector.

The sale of life and microinsurance will place more demands on the Cambodian insurance regulator. To manage the pressure, the regulator will establish the necessary regulatory framework and develop the required skills.

Based on the current size and structure of the insurance market, the regulator may not apply risk-based capital yet. However, in the medium term, the regulator will review the *prakas* on the solvency margin for general insurance companies and consider developing the risk-based capital strategy, with the intention of institutionalizing strong prudential measures when the insurance market is more developed.

Institutional framework. In the near future, the government will set up a unit that is responsible for formulating policy for the Cambodian insurance sector in order to ensure that the policy framework supports sustainable development of the industry. This unit shall be responsible for policy, strategy formulation, and conducting insurance industry-related studies in Cambodia.

The present institutional framework for the insurance industry does not adequately cover the fast-growing insurance industry, especially with the expected introduction of life insurance and microinsurance in the near future. Therefore, the government will enhance the capacity of the insurance regulator and give the regulator sufficient autonomy and authority to cover the scope of the expanding insurance market, and in the longer term, may establish an independent commission to supervise the insurance sector.

The regulator of insurance will establish an office to handle disputes over insurance claims. Except in cases that require criminal prosecution, this should help resolve complaints without resorting to arbitration or the courts. The purpose of establishing such an office is to promote confidence of the insured and prevent possible fraud in insurance claims that might damage the insurance market.

In accord with core insurance principles, the insurance industry regulator will cooperate with relevant financial supervisory institutions, including the Ministry of Economy and Finance (MEF), National Bank of Cambodia (NBC), and Securities and Exchange Commission of Cambodia (SECC), in order to prevent or mitigate potential financial sector crises that might affect the economy as a whole.

Insurance market mechanism. To improve and expand the insurance market, the regulator will prepare an action plan for promoting the benefits of insurance to the public. This public awareness program will cover at least a 3-year period.

The government will encourage the implementation of compulsory insurance for construction sites, commercial motor vehicles, and passenger transport. Concurrently, the

regulator will prepare a work schedule and coordinate with concerned ministries and institutions to better promote the implementation of compulsory insurance and consider expanding compulsory insurance for all types of vehicles.

The regulator will cooperate with concerned institutions to develop a coordinated approach regarding insurance products for workers' compensation and health insurance in order to ensure that workers and employees can efficiently obtain insurance to cover all risks. However, insurance companies will still be able to underwrite health insurance and workers' compensation products to meet market needs.

Since some commercial banks have been offering insurance products, in the medium term, the regulator will formulate policy and guidelines on insurance operations by other institutions in the financial sector.

The government has established the Cambodia Life Insurance Company, a joint venture with international insurance partners in an effort to encourage the development of a life insurance market. In the medium term, the regulator will promote the establishment of an association of life insurance providers.

Capacity building. The regulator will develop a policy to retain and develop its officers. To achieve this goal as soon as possible, the regulator will develop and deliver training to build insurance expertise and motivate insurance officers so they can successfully fulfill their defined roles.

In the short term, the regulator will cooperate with GIAC in order to organize training programs for officers in the regulator's office and staff in insurance companies. This will build general skills in the insurance sector. The regulator will also cooperate with the Ministry of Education, Youth and Sports to develop a curriculum that tertiary education institutions can deliver to build Cambodian students' basic insurance knowledge before they enter insurance industry jobs.

In the medium term, the government will establish an insurance institute for offering specialized insurance training, with the goal of transforming the institute into a regionally and globally accredited insurance research and development center.

Life insurance will largely be sold on a face-to-face basis, which could result in agents deceiving their clients. Hence, to protect clients, the regulator will cooperate with GIAC in organizing courses on the industry's code of ethics for all life insurance agents.

Development of an "early warning" information technology system. The regulator will create an early warning information technology (IT) system within the next 3 years to help prevent unforeseen crises in the industry. In 5 to 7 years, the insurance sector is expected to be large enough to justify spending on such a system.

Pensions

The government has created the National Social Security Fund for Civil Servants (NSSFC), the National Fund for Veterans (NFV), the Persons with Disability Foundation (PWDF), and the National Social Security Fund (NSSF). These pension funds have been created

for social protection and development of the economy through provision of funds for long-term investment.

The Ministry of Labor and Vocational Training is responsible for implementing the Law on the Social Safety Scheme for those who are subject to the provisions of the Labor Law. The Ministry of Social Affairs, Veterans and Youth Rehabilitation (MoSVY) is responsible for implementing the social safety scheme for the public sector employees, and the ministry is also drafting a law on the social security scheme for all Cambodian citizens. The MEF, however, is preparing a new draft law on insurance that will create voluntary pension schemes for private sector workers or employees.

In preparing policies and the legal framework for implementing each pension scheme, Cambodia faces challenges due to the limited capacity of both institutions and individuals. To achieve institutional agreement, the government needs to develop an institutional coordinating mechanism covering operation of these pension funds. It also needs to define how to implement sustainable pension schemes in Cambodia to ensure that the responsible ministries provide an effective enabling environment for implementing each scheme.

The priorities for the development of each pension scheme include (i) in the short term, development of legal frameworks pertaining to institutions, infrastructure, and expertise; (ii) in the medium term, interagency coordination in order to centralize both infrastructure and service delivery so that work is carried out efficiently and operational costs are minimized; and (iii) in the longer term, development of IT for centralized data management and service delivery, and a strong e-communication system that will ensure efficient and transparent administration of pension schemes.

The National Social Security Fund for Civil Servants

Background

In compliance with the Rectangular Strategy of the government to improve the social security scheme for civil servants, including those who have retired, become disabled, or are the dependents of deceased civil servants, MoSVY is making development of a civil service social protection system a priority.

MoSVY is establishing the NSSFC, which is the public institution responsible for providing social security benefits to all civil servants, including those who have retired, become disabled, or are the dependents of deceased civil servants.

The NSSFC was established by Sub-decree No. 14 ANKR.BK dated 5 February 2008 on the Establishment of National Social Security Fund for Civil Servants and conforms to Royal Decree No. NS/RKT/0108/039 dated 18 January 2008 on Social Security Benefits for Civil Servants. The NSSFC is a public establishment that is technically and financially supervised by MoSVY and MEF, respectively. The NSSFC is responsible for providing six benefits to civil servants: a retirement pension, a disability pension, benefits following a work injury, and maternity, death, and dependents' benefits,

in accordance with the principles of good governance, transparency, efficiency, and responsiveness.

Progress and Achievements

To date, social security benefits for civil servants have been provided through MoSVY and other ministries or institutions subsidized by the government. However, the government is now preparing to introduce the NSSFC, which will manage the benefits process and use the banking system to ensure efficiency, transparency, accountability, and compliance with the Law on the Public Financial System.

A sub-decree on determination of the rates of contribution to the NSSFC was adopted on 29 April 2011. Also, a draft sub-decree on social health insurance for civil servants is being prepared with the objective of improving the welfare of civil servants.

Constraints, Challenges, and Gaps

As a newly established institution, the NSSFC faces many challenges, including limited human resources, lack of a data management system, and inadequate workspace. The NSSFC needs to expand its operations in the capital as well as the provinces, cities, districts, and *khans* (urban districts), and requires more staff and workspace for this. The current system of data management, which does not use IT, is difficult to use for analysis, planning, and policy formulation.

Future Strategy and Plan

In order to promote the development of the NSSFC, it is necessary to build its capacity and expand its staff and workspace.

The NSSFC will offer new social health insurance to improve the welfare of civil servants.

The funds of the NSSFC will be invested under the direction of the government in order to contribute to financial sector development.

The NSSFC will consider becoming a member of the ASEAN Social Security Association and cooperate with concerned ministries and government institutions as well as development partners in order to establish networks with experts and obtain quality information and training.

The NSSFC will equip itself with an IT system for managing data and providing benefits.

The National Fund for Veterans

Background

According to the Rectangular Strategy of the government, the NFV is one of many priorities intended to improve the welfare of veterans and their dependents.

MoSVY has been providing a social security scheme to veterans using funds provided through the government budget.

The NFV was established by Royal Decree No. NS/RKT/0710/595 dated 15 July 2010 and Sub-decree No. 79 ANKr.BK dated 23 July 2010 on the Establishment of a National Fund for Veterans. The NFV provides benefits for veterans who are retirees or become disabled and these include maternity, first marriage, illness, death, and disability benefits, as well as benefits while recovering from an injury. Veterans' dependents also receive benefits.

Progress and Achievements

The NFV is preparing to introduce a social security scheme for veterans that will operate through the banking system and follow the principles of good governance, transparency, efficiency, and responsiveness.

The NFV is preparing a strategic plan and budget, and developing the human resources required for effective functioning.

Constraints, Challenges, and Gaps

As the NFV has been recently established, it has yet to develop the required regulatory framework, or adequate human or financial resources and office space, and these deficiencies must be addressed to ensure efficiency in administering the social security scheme.

The NFV does not have an IT system yet for efficiently managing data on veterans and their dependents. The current management information system is challenging to use for analyzing and monitoring data for policy development and forecasting of veterans' social welfare needs.

Future Strategy and Plan

The NFV will prepare a prioritized plan for institutional development that focuses on the preparation of a legal framework; staff capacity building; and acquisition of workspace, an IT system, and support from development partners.

The NFV will establish offices in the capital and the provinces, cities, districts, and *khans* in order to facilitate delivery of services to veterans and their dependents.

The NFV will draft a sub-decree on determining contribution rates for the NFV.

The funds of the NFV will be invested under the direction of the government in order to contribute to financial sector development.

The NFV will consider becoming a member of the ASEAN Social Security Association in order to share lessons learned and gain knowledge for the NFV's institutional development.

The Persons with Disability Foundation

Background

Cambodia has experienced decades of war and a genocidal regime that had many negative consequences, including a high number of people with disabilities. In addition, there are land mines and other explosives that continue to kill and injure, traffic accidents, work accidents, malnutrition, disease, and other causes for the high number of people with disabilities. According to the 2008 National Census Report, 1.4% of the Cambodian population is disabled in some form, and persons with disabilities are usually poor and vulnerable.

The government is working hard to promote the welfare of people with disabilities by following the Constitution of the Kingdom of Cambodia, the policies and the Rectangular Strategy of the government's 4th mandate, and the Cambodian Millennium Development Goals.

Progress and Achievements

The government, and especially MoSVY, has introduced policies and regulations to extend the basic rights of people with disabilities. The Law on the Protection and Promotion of the Rights of People with Disabilities has been adopted, and Cambodia has signed the United Nations Convention on the Rights of Persons with Disabilities and adopted a National Plan of Action for Persons with Disabilities, including land mine survivors. Cambodia has also passed sub-decrees on establishing the Disability Action Council, recruiting people with disabilities, the organization and functioning of the PWDF, and a subsidy scheme for disabled veterans living in the community.

The PWDF has been established as a public institution to implement relevant laws, national plans, and policies, and, in particular, to offer a social safety net to persons with disabilities.

Constraints, Challenges, and Gaps

As a newly established institution, the PWDF faces many constraints and challenges such as a lack of technical staff, budget, office equipment, a data management system, and offices in the capital, provinces, cities, districts, and *khans*.

Future Strategy and Plan

In order to promote and improve the welfare of people with disabilities, a prioritized plan for the PWDF will focus mainly on the following: (i) developing institutions and building staff capacity, (ii) reviewing and improving the role of staff at the central level and in PWDF branch offices across the country, (iii) developing an action plan and regulations regarding financial management of the PWDF, (iv) implementing policies on the provision of allowances, (v) allocating budget, and (vi) developing IT and database systems in consultation with relevant ministries or institutions and nongovernment organizations.

The National Social Security Fund

Background

A pension scheme is specified under the Law on Social Security Schemes for persons who are subject to the provisions of the Labor Law. This law was passed and promulgated in September 2002 in order to create a social security system that includes pensions, workers' or employees' injury insurance, and other benefits to be defined by sub-decree as economic conditions permit.

The pension scheme shall be administered by the NSSF, established by Sub-decree No. 16 ANKr.BK dated 2 March 2007. The NSSF is a public administration entity with a mission to deliver social security schemes. It is under the technical and financial guardianship of the Ministry of Labor and Vocational Training and MEF, respectively. The NSSF started operations at the end of 2008 and is introducing, in sequence, three benefits schemes: the Employment Injury Insurance Scheme, a health insurance scheme, and a pension scheme.

The NSSF will offer social security services to all workers or employees who are covered by the Law on Social Security Schemes for persons defined by the provisions of the Labor Law, for which the NSSF is required to register members, collect contributions, manage funds, and process and pay out benefits to members or their dependents.

Progress and Achievements

The Employment Injury Insurance Scheme has been implemented since November 2008. As of December 2011, the total number of enterprises registered with the NSSF was approximately 1,964, with about 530,000 workers (garment and shoe enterprises comprise more than 400,000 workers), and the NSSF has paid out occupational risk benefits to 11,000 workers.

By the end of 2011, the NSSF had released around 3.5 billion riels to provide benefits for workers affected by occupational injury, equal to 10.9% of total contributions.

In addition to implementing technical work, the NSSF is concerned with forming policy and regulations to improve implementation of the Employment Injury Insurance Scheme and prepare for launching the two other schemes under its responsibility (the health care scheme and pension scheme).

Constraints, Challenges, and Gaps

Through running the Employment Injury Insurance Scheme, the NSSF has identified a number of problems that need to be addressed. The main challenges and constraints include employers who fail to report how many workers or employees they have, what they pay their workers or employees, and how many branches their company has. Some employers also fail to complete monthly reports on staff numbers, fail to pay their NSSF contributions on time and fail to submit accurate and timely reports on occupational injuries. In addition, some workers or employees do not have Cambodian identity cards and most married persons do not have marriage certificates, and thus are not eligible for

survivors' benefits. In future, problems like these could adversely affect the introduction of a pension scheme.

The current NSSF building has capacity only for the staff who are working on the Employment Injury Insurance Scheme.

Future Plan and Strategy

The NSSF plans to introduce a health care scheme in 2012 and a pension scheme by 2015. The main components of the plan for implementing the pension scheme over 2011–2020 include the following:

- Conducting a feasibility study for setting up the pension scheme based on analysis of data from the Cambodian Socio-Economic Survey, the results of which are important for preparing pension schemes, and setting up a task force for considering the role and responsibilities of the scheme and preparing the required legislative framework.
- Building the capacity for implementing the pension scheme through participation in and organization of conferences, study tours, and domestic and overseas training.
- Setting up legal instruments for implementing the pension scheme, such as defining formalities and procedures for registration, contribution rates, and pension scheme benefits.
- Analyzing or assessing social security benefit packages and contribution rates to pension schemes and reviewing available data from the Cambodian Socio-Economic Survey and other sources, in cooperation with an international actuary review of available survey data.
- Developing an IT system, including designing the database system and setting up the IT network that is necessary for efficient operations and reducing administrative costs. This IT system will be installed in each NSSF provincial office to provide the central office in the capital with easy access to data. In the context of an upgraded IT system, the development of a pension scheme management system will be designed in such a way that it will link to banks' management information systems.
- Introducing various mechanisms such as fingerprinting and short message service systems that identify NSSF members, and seeking cooperation from development partner(s) and other countries that have experience with successful pension schemes.
- Expanding or constructing a new central office for the NSSF in order to accommodate the additional staff needed to operate health insurance and pension schemes.

Private Voluntary Pensions

Background

The government has been targeting the provision of social security services to Cambodian citizens and is preparing to grant pension benefits to civil servants, employees of private companies, and Cambodian citizens, in general. It is also preparing a legal and regulatory framework for developing private voluntary pensions for individuals as well as private companies. This private voluntary pension is a product of a life insurance company.

Constraints, Challenges, and Gaps

Regulatory framework. The MoSVY has prepared a draft revised law on social security for Cambodian citizens and it only covers the pensions offered by the government. For private voluntary pensions, there is no legal framework or regulations in place to cover it yet.

Institutional framework. At present, Cambodia does not have any institution to manage and supervise activities associated with the provision of private voluntary pensions.

Market development and mechanism. In Cambodia, the need to save through different financial products such as a bank deposit, purchase of insurance, and use of pension services is limited. At the same time, the market for private voluntary pensions does not exist in Cambodia.

Capacity building. Some of the skills needed for developing a private voluntary pension include, but are not limited to, financial analysis, risk analysis, product development, product sales promotion, investment, and data management.

Future Strategy and Plan

Regulatory framework. The government has been preparing a strategy for private voluntary pension development. When this strategy is adopted, the insurance regulator will prepare the necessary policies for establishing a private voluntary pension and also prepare the legal and regulatory framework for supervision.

Institutional framework. In the short term, the MEF, as the insurance regulator, will establish an office to administer pension funds so that the financial status, and in particular the private voluntary pension, can be monitored and controlled.

In the medium term, the government will promote the development of specialized companies for managing private voluntary pension funds.

Market development and mechanism. The government will promote the concept of operating a private voluntary pension in Cambodia through the international community, and especially within ASEAN, in order to attract interest from specialized companies that manage such funds.

Capacity building. The government will recruit additional officials for the insurance regulator and organize specialized training for them so that they can respond to the needs of the private voluntary pension market in Cambodia.

Capital Market

Background

The development of a securities market, which includes a capital market and a money market, were envisioned in the Financial Sector Blueprint for 2001–2010 and the Financial Sector Development Strategy 2006–2015. Now the government is putting

a securities market into operation, but it will take years for the market to develop and mature.

Cambodia's financial sector development plan can benefit from the ASEAN long-term goal through cross-border cooperation among capital markets in the region.

Progress and Achievements

Through the implementation of the Financial Sector Development Strategy 2006–2015, in July 2008, the government established the SECC.

The SECC is mandated to supervise the operation of the securities market. Also in 2008, the Sub-decree on the Organization and the Conduct of the SECC was issued and became effective on 23 July 2008. This sub-decree defines the composition of the SECC (eight members led by the Minister of Economy and Finance) as well as the functions of the SECC director general and six departments, including the Internal Audit Unit.

Development of the legal and regulatory framework. In 2007, the government adopted securities-related laws that provide a foundation for developing Cambodia's securities market. These include the Law on Government Securities, the Law on the Issuance and Trading of Non-Government Securities, and the Law on Insolvency.

The Law on Government Securities was promulgated on 10 January 2007. This law permits the government, represented by MEF, to issue government securities to the public in order to finance the budget deficit or to fund long-term infrastructure projects. In 2005, MEF issued short-term (91-day) government securities worth 49.9 billion riels, which were mostly bought by banks.

The Law on the Issuance and Trading of Non-Government Securities was promulgated on 19 October 2007, to regulate securities market operators, clearance and settlement facility operators, securities depository operators, and other participants in the securities markets who trade and provide securities services, as well as public limited companies or permitted entities who issue securities to the public.

The Law on Insolvency was promulgated in December 2007, and is intended to establish the rules, conditions, procedures, and proceedings governing insolvency. This legislation applies to all business owners and legal entities that own assets in Cambodia, and is designed to assure creditors of their right to demand repayment from debtors in a transparent and fair manner.

The Sub-decree on Implementation of the Law on Issuance and Trading of Non-Government Securities was signed on 8 April 2009. The purpose of the sub-decree is to prescribe requirements with respect to (i) conditions for public offerings and issuance of securities; (ii) disclosure of the documents submitted for approval and registration with the SECC; (iii) the conditions to be met by persons applying to operate a securities market, a clearance and settlement facility, or a securities depository; (iv) granting a license to securities firms and securities representatives; (v) the operation of a collective investment scheme; and (vi) corporate governance for directors and senior staff of public limited companies or permitted entities.

Development of a government securities market. A government securities market would help facilitate the development of the interbank market and provide the foundation for money markets to develop. It would also provide a useful instrument for the government to mobilize resources domestically to fund its fiscal deficits.

Government securities could be a major tool for promoting monetary policy to increase use of the riel. A broad-based government securities market would be essential for the conduct of open market operations. Government securities denominated in riel may be issued and put as reserve eligible, up to a suitable level, in order to lower the cost of non-interest bearing cash reserves and to promote use of the riel for securities trading. Government securities would provide a risk-free investment alternative and limit bank exposure to nonbank investors, such as insurance companies. Insurance companies may also invest in government securities under repurchase agreements to limit their unsecured exposure to banks. Government securities would enable an insurer to avoid putting all of their proceeds into a bank that could pose a risk if the bank failed. With the issuance of government securities, there will be costs, but the government would receive the benefit from increasing additional financing sources that would not exert pressure on inflation.

Issuance of government securities should appropriately link to the government's borrowing scheme to meet borrowing conditions. The bidding procedure and system should be in place to promote sales and distribution.

Operation. On 20 November 2006, MEF signed a memorandum of understanding with the Korea Exchange to develop a Cambodia Securities Exchange. The Government of the Republic of Korea, through the Korea Exchange, provided their support to train and educate future participants in the Cambodian market, with a sum of \$1.8 million for a 3-year program (2007 to 2009).

On 23 March 2009, MEF signed an agreement with the Korea Exchange to establish the Cambodia Securities Exchange. MEF holds a 55% share while the Korea Exchange holds 45%. The Cambodia Securities Exchange has been authorized by the SECC to be a securities market operator, a clearance and settlement facility operator, and a securities depository operator.

Market participants. On 20 October 2010, the SECC granted licenses to 15 securities firms, of which 7 are licensed as underwriters, 2 as dealers, 4 as brokers, and 2 as investment advisors. The SECC also granted accreditation to securities-related cash settlement agents, securities registrars, securities transfer agents, paying agents, professional accounting firms, and independent auditors and valuation companies providing services in the securities sector.

In January 2011, the SECC signed a memorandum of understanding with the Financial Institute of Cambodia to offer education and training to the public.

Constraints, Challenges, and Gaps

A linkage between securities market operations and the national payment system needs to be created in order to promote a smooth and efficient securities market. Implementation of the recommended securities settlement procedures using "delivery vs. payment" will

require that an automated system is in place. An automated system will remove the risk associated with delays in the physical transfer of securities. Gradual introduction of a complete payment system by NBC at the end of 2011 should ensure that an electronic system for settlement and instant transfer of securities is in place, and meets market needs and the requirements of the SECC.

Market transparency. After conducting a joint study with the SECC, the National Accounting Council has adopted the interim accounting standards for listed companies prior to the implementation of the Cambodian International Financial Reporting Standards in 2012.

Development of other segments of the securities market. When an equity market has moved one step forward in the entire market development, other segments of the securities market will also have to develop over time to meet the needs of the emerging market, especially the long-term debt market.

Diversification of financial instruments and investment mechanisms. The market has not yet developed because of the absence of tradable instruments and intermediaries that will create the market. Also, there is a lack of investment mechanisms to pool funds from small investors and professional fund managers.

Investor education and protection. In the operation of a securities market, illegal activities could occur and this requires adequate protection for investors. At the same time, many investors are not aware of the sophistication required for the trading of financial instruments; they need to be properly educated about the processes of a securities market.

Future Strategy and Plan

Operations. Gaps in the current legal and regulatory framework will need to be filled, such as issues related to possible bankruptcies in the securities market. Other supporting structures will have to be established that include a depository/depositories, a clearing and settlement facility, and a cash settlement system that will allow “delivery vs. payment.” To facilitate market transactions, the mechanism and procedures for securities borrowing and lending need to be developed as well. Capacity to undertake asset valuation for securities market transactions that meet international standards will have to be developed, in particular to align with ASEAN standards. Moreover, as the market broadens and gains in sophistication, the SECC will enhance its IT systems to improve information disclosures and market monitoring and surveillance.

Following the approach taken in other countries, it will be important for the SECC to conduct an in-depth self-assessment to confirm whether the system being developed conforms to the core principles of the International Organization of Securities Commissions (IOSCO) and the Committee on Payment and Settlement Systems as well as the IOSCO recommendations on securities settlement systems. After undergoing such a self-assessment, the SECC should consider gaining full membership with IOSCO so that it can network with other securities commissions globally and keep abreast of best practices.

Corporate governance. The practice of good corporate governance will have to be instilled among both listed and unlisted companies. Initially, the SECC will introduce the

prakas on corporate governance to listed companies for their implementation and then extend the *prakas* to unlisted companies. An educational campaign will be carried out to assist this process, with emphasis on the responsibilities of the board of directors, corporate secretaries, independent directors, and the management team.

Investor protection and education. To avoid and minimize the incidence of market abuse, the SECC will further organize education for investors and open the way for investors to lodge their complaints to the SECC. Also, a mechanism and center for dispute resolution will be established for addressing disputes in the market.

Promote education and awareness through the news media. With recognition of the key role of news media in the securities industry as a result of their reporting and analysis, the SECC will organize training for financial and other journalists and establish a liaison office for coordinating with journalists. This should enhance professional ethics in the journalism profession.

Develop other segments of the securities market. After an equity market has been introduced, the government will develop debt markets in Cambodia, particularly the corporate bond market. To facilitate the development of this market, a regulatory framework and a credit rating agency will need to be established to support issuance of debt securities. Apart from this, a feasibility study on commodity futures exchange is needed for scaling up the development of agricultural and industrial production. Along with this, the introduction of derivatives and hedging instruments must be given due consideration to respond to market risks over the medium term.

Diversify investment vehicles and investment mechanisms. To allow a broad-based market to develop, the SECC could promote the operation of nonbank financial institutions under the proposed financial trust law that is expected to be passed in the future, as well as collective investment schemes for pooling investment funds and other forms of investment mechanisms.

Financial instruments and market mechanisms. The government will consider the possibility of developing other mechanisms, such as the facilities to allow borrowing and lending of securities and the setting up of a securities financing company to provide financial support to market players in the securities market. Also, there is a need to study the possibility of setting up a sovereign wealth fund to manage surpluses or excess liquidity that can be channeled to productive investments.

Financial development district. The government will establish a financial development district with the objective of contributing to sustainable financial sector development. The district will offer tax incentives to financial services businesses within the country in order to attract more broad-based investment in the sector and to provide additional support for securities market development.

CHAPTER 4

Governance and Infrastructure

Managing the Reform Process: Legal and Regulatory Framework

Background

The Financial Sector Blueprint 2001–2010, and the update in 2006 (Financial Sector Development Strategy 2006–2015), outlined preconditions for Cambodia developing a sound market-based financial system. These preconditions include policy, law, and institutions that support the implementation of effective finance market mechanisms and governance.

Policy, law, and institutions constitute the foundation for financial market operations. This foundation lays out policies to set goals and give directions, provides a legal framework to give effect to the policies and create the enabling environment, and establishes institutions equipped with systems, mechanisms, and processes for efficient and sound financial market operations.

This strategic document outlined the legal and regulatory framework for commercial and financial transactions, including the Law on Commercial Enterprises, the Law on Insolvency or Bankruptcy, the Law on Secured Transactions, the Civil Code, the Code of Civil Procedure, and the Law on Commercial Arbitration. Activities to support law enforcement include the enhancement of public confidence, consultation, transparency, and public dissemination of laws and regulations.

Progress and Achievements

The government has made significant progress against the goals of the Financial Sector Development Strategy in developing the legal and regulatory framework for commercial and financial transactions in Cambodia. Some laws and regulations have been enacted while others are in the process of adoption.

Constraints, Challenges, and Gaps

Harmonization of financial laws and regulations. As a result of the rapid pace of reforms, there are a number of challenges in implementing the laws, rules, and regulations that lead to differences in interpretation. Challenges include (i) legislation and regulation development that is dependent on donors' program deadlines, (ii) differences in understanding on the part of concerned implementing agencies that must cooperate to

implement the laws, (iii) reliance on foreign legal experts due to Cambodia's limited legal expertise, and (iv) experts that propose competing methodologies. In line with the state of Cambodia's financial sector development, the government will harmonize the mechanism for implementing financial law and regulations by taking into consideration the impact on financial sector development.

Challenges in developing laws and regulations. Major gaps include (i) absence of a central law registry, as the existing laws and regulations have not been officially translated and compiled, and it is therefore difficult for government officials and the public to get to know those laws; and (ii) absence of a specialized central body for drafting law that is staffed with legal experts who are capable of comprehensively reviewing financial laws and regulations.

Commercial legal framework development. The challenges include (i) lack of regulations for implementing the law on commercial contracts; (ii) the delay in introducing the law on the commercial court which requires the establishment of a specialized court (a commitment Cambodia made on accession to the World Trade Organization to meet the private sector's need for strengthened implementation of commercial laws); (iii) the slow pace of establishing the commercial court, which is pending the government's decision; and (iv) delays in establishing the National Center for Commercial Arbitration and in appointing an independent, ongoing executive board.

Future Strategy and Plan

The government will develop a coordinating mechanism for policy formulation; drafting of laws, regulations, and rules; and their implementation. Important measures to improve the efficiency of the law-making process and harmonization of laws and regulations include consultation and transparency in the process of drafting legislation; appropriate use of international practices; centralization of the drafting of laws; and facilitating easy access to, and application of, laws and regulations. Over the long term, ministries and institutions responsible for making and approving laws, rules, and regulations should undertake impact assessments before doing so.

Commercial legal framework development. The government will (i) formulate regulations for implementing the law on the commercial contracts; (ii) introduce the law on commercial court; (iii) establish a commercial court; and (iv) establish a national center for commercial arbitration with an independent, ongoing executive board.

In the longer term, the government will develop a financial sector competition policy to prevent anticompetitive practices. This will include a competition law and a consumer protection law. Also over the longer term, the government will establish authorities for enforcing the Competition Law and the Consumer Protection Law. Over the medium term, the government will develop a law on agency, together with its implementing regulations.

Draft law on financial trust. A law on financial trust to cover banks and nonbank financial institutions is to be introduced, together with its implementing regulations. The law will support the establishment of general trusts and investment fund vehicles.

Market Infrastructure: Accounting and Auditing

Background

Accounting and auditing together provide the framework necessary to produce the financial information needed across all sectors of the economy. All relevant business entities should be required to produce financial statements in accordance with a single designated financial reporting framework. This enables comparison of financial information across all sectors, as well as internationally.

Such an accounting framework has been in place in Cambodia since the earlier part of 2000. The Law on Corporate Accounts, Their Audit and the Accounting Profession was adopted in June 2002. The laws and regulations of the Ministry of Economy and Finance (MEF) require all enterprises to prepare their annual financial statements in compliance with Cambodian accounting standards based on international accounting standards. This law also established and defined the requirement for auditing enterprises in Cambodia as well. In May 2010, the MEF promulgated the Cambodian International Standards on Auditing and Assurance.

Progress and Achievements

The MEF has introduced law and regulations governing accounting, auditing, and the accounting professions in Cambodia. These include the Law on Corporate Accounts, Their Audit and the Accounting Profession; the establishment of the National Accounting Council and the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA); and other regulations.

Constraints, Challenges, and Gaps

Standards compliance. Despite Cambodia having adopted and implemented the full version of the International Financial Reporting Standards (IFRS), a number of challenges need to be addressed to match the reality of Cambodia. These are

- (i) compliance and review,
- (ii) adjustment to business realities,
- (iii) contradiction in implementation of regulations by relevant agencies, and
- (iv) capacity of the regulator and operators.

Implementing the IFRS may affect the financial statements of banks and microfinance institutions, especially to define provisions for substandard loans.

Human resource development. The major challenges regarding improvement of the qualifications of national public certified accountants include

- inconsistency and lack of an appropriate curriculum at universities,
- unfamiliarity with accounting and auditing terminology, and
- lack of a training program for certified public accountants at the national level.

Future Strategy and Plan

Transition to the IFRS. Relevant regulatory agencies will develop their action plans to move toward full implementation of the IFRS in all sectors.

Monitoring compliance with laws and regulations. The government will strengthen statutory compliance by requiring all enterprises to register (with the possible exception of small enterprises) and to update their details annually. When the new registration system is combined with the existing one, it must be capable of transferring data from the current to the new system.

There is a need to review and amend the Law on Corporate Accounts, Their Audit and the Accounting Profession or to develop new accounting and auditing laws and relevant regulations to

- remove inconsistencies based upon the size of the enterprises that are required to produce IFRS-based financial statements;
- develop a mechanism for monitoring, reviewing, and assessing compliance with accounting law and standards; and
- empower the National Accounting Council and KICPAA to perform their required roles.

Capacity development. The government is considering the feasibility of

- requiring all universities to provide accounting and auditing syllabi that follow IFRS and the core principles of relevant international standards,
- training of trainers and lecturers in accounting and auditing, and
- producing an accounting and auditing lexicon in Khmer.

The government supports the effort to expand the membership of KICPAA by pooling qualified accountants from companies, business enterprises, and entities to promote more effective implementation of international accounting and auditing standards.

The Payment System

Background

The economy is still mainly cash-based with limited checks in use and no negotiable instruments. The risks of holding and carrying cash are ever present. In recent years, however, noncash payment has picked up. To support the government regulation that payment for taxes and duties must be made in riel, the National Bank of Cambodia (NBC) has issued regulations requiring all tax payments equivalent to or exceeding 4 million riels to be paid by check. This has contributed to the increasing use of checks in business transactions.

Safe and efficient payment, clearance, and settlement systems are crucial for financial sector operations. The government is developing its national payment system to support the development of new innovative payment instruments and payment services. Debit and credit cards have been introduced, and more than 500 ATMs were installed

throughout the country by December 2011. Five commercial banks have set up a clearing arrangement for their ATM transactions called Easy Cash.

By the end of 2011, NBC had authorized three establishments to offer mobile phone banking (m-banking) services. These are WING, operated by ANZ Royal Bank; ACLEDA Unity, operated by ACLEDA Bank; and Cell Card, which is operated by Union Commercial Bank. Mobile phone banking has extended funds transfer services to rural and remote areas where formal services are not available. NBC has also issued a *prakas* on third-party processors that defines the duties and responsibilities of these service providers, their scope of operations, and their reporting requirements, including efforts to combat money laundering and the financing of terrorism.

Progress and Achievements

Following the NBC policy requiring banks to use standardized checks in September 2008, NBC developed and introduced an interim solution for check clearance in May 2009. All checks issued by banks' head offices are cleared through the NBC clearinghouse much faster now than was the case a few years ago. However, checks issued by bank branches have to be cleared through the nearest clearinghouse of NBC's branches.

NBC has subsequently updated the road map for national payment system development. A draft law on the national payment system has been prepared with the help of the International Finance Corporation. NBC has cooperated with the Association of Banks in Cambodia through its Payment System Subcommittee, which has formed three working groups to cover the technical, operational, management, and legal aspects for the development of a full payment and clearance solution. This system will be officially launched in 2012.

Future Strategy and Plan

In 2012,¹⁸ NBC will officially launch the full centralized national clearing and settlement system, referred to as the "Full Solution," which will provide both local check clearing and same-day electronic payments between provinces and Phnom Penh, the capital.

The clearinghouse rules and procedures have been updated in line with the rollout of the "Full Solution." The draft law on the national payment system needs to be adopted to support the effective implementation of the system.

The development of the domestic capital market requires support from the national payment system: "delivery vs. payment" in securities transactions, the introduction of money market operations such as the trading of government securities where clearing and settlements are processed at NBC, and the enhancement of m-banking services and regulating new areas of third-party processors' operations.

NBC will in the medium term introduce the Real Time Gross Settlement System after putting the "Full Solution" into operation to respond more effectively to the increased operations and settlements of high-value transactions in the market.

¹⁸ This has been supported under ADB TA 4999 and TA 7472.

Over the medium to long term, Cambodia will need to consider connecting its payment system with the countries in the region and the rest of the world. Connectivity with the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network has offered one possibility for high-value transactions. In Indonesia, the Philippines, Singapore, and Thailand, the use of SWIFT is currently the backbone for communicating or sending their international financial messages.

NBC is considering carrying out a self-assessment of the payment system against compliance with the Bank for International Settlement Core Principles for Systemically Important Payment Systems. This can be done after implementing the “Full Solution” and enacting the law on the national payment system.

NBC continues to strengthen regulation and supervision of m-banking, which provides benefits to micro entities and those who do not have access to banking services. However, it also carries considerable risks and needs to be regulated. Future measures need to include (i) the legal framework with provisions for electronic transfer and risk management; (ii) guidelines on a standard for mobile phone messages; (iii) ensuring service providers are consistently delivering on time and reliable; and (iv) addressing challenges in determining whether an e-banking transaction constitutes a deposit, a simple money transfer, or a cross-border transaction.

As a member of the Association of Southeast Asian Nations (ASEAN), Cambodia will need to integrate with other members and prepare to join the ASEAN Payment Network (APN or ASEANPay).

Credit Bureau

NBC has set up a reliable and on-time credit information-sharing system among banks to allow them access to information on repayments with respect to the lending activities of each bank. This should enable banks to avoid lending to delinquent borrowers.

NBC has created a credit bureau but allows the private sector to operate it. The credit bureau is owned 51% by the Cambodia Holding Co. and 49% by the equipment provider. The Cambodia Holding Co. is jointly owned by banking institutions and the Cambodia Microfinance Association.

NBC issued a *prakas* in 2011 to regulate the operation of the credit bureau.

Property Valuation, Estate Services, and Housing Development

Background

Property valuation, estate services, and housing development is another sector that needs to conform with a code of professional ethics and international standards. The government is preparing regulations to strengthen the regulation and supervision of estate development businesses and the valuation profession to increase confidence, protect the interests of customers, and minimize unauthorized business operators.

Progress and Achievements

Since 2007, the government has granted professional certificates and licenses for property valuation and estate services to 87 companies. Since 2009, it has granted business licenses to 20 property developers, and in 2008, the Cambodian Valuers and Estate Agents Association was established and became the eighth full member of the ASEAN Valuers Association in 2009.

Constraints, Challenges, and Gaps

The property market is an industry that contributes to the development of the national economy; however, Cambodia does not have an adequate legal framework to regulate the sector, and this, in turn, could lead to a number of challenges. These include (i) money laundering via real estate business activity; (ii) inaccurate property valuation that does not reflect market prices; (iii) loss of customer and investor confidence in the market; (iv) limited skills and experience on the part of the regulator, business professionals, and market participants at all levels of the sector; (v) inability to fully compete with foreign competitors; and (vi) lack of a professional institute to offer training to property valuers and service providers.

Future Strategy and Plan

The government will develop the legal and regulatory framework to support property valuation, estate services, and housing development businesses, including (i) the law on property valuation and estate services, (ii) the law on housing development, (iii) valuation standards, (iv) estate service standards, (v) a code of professional ethics for property valuers and service providers, (vi) a table of commission fees for property valuers and service providers, and (vii) development of a syllabus and provision of training in property valuation and services at local universities.

CHAPTER 5

Capacity Building

Background

Human capacity development is a priority area for financial sector development in Cambodia. The weaknesses that stifle financial sector development in Cambodia, as well as in other developing countries, include underdevelopment of institutional and commercial frameworks, lack of technical expertise, and limited human capacity. Finding adequately trained and skilled people to meet the needs of a growing financial sector is an ongoing challenge for Cambodia. Rapid sector growth puts pressure on service delivery, customers, and regulatory aspects, which make ongoing capacity building an urgent priority.

In the early stage of financial sector development, the government's proactive open market policy enabled Cambodia to attract many experienced foreign bankers. As a result, most of the senior managers are experienced and competent bankers. However, at the middle management level and below, most banks continue to have difficulty in finding qualified staff. Thus, most staff at these levels need substantial professional training in basic banking operations. Most banks have established in-house training courses to deal with this issue and training is also offered by the Cambodia Institute of Banking, the National Bank of Cambodia's (NBC) Center for Banking Studies, and other local institutions.

NBC's capacity for supervision of banks and microfinance institutions has been upgraded and strengthened through technical support from ADB and the International Monetary Fund. In the same vein, the General Department of Supervision of NBC has made efforts to train and develop additional capacity of supervisory officers through moving toward full and effective implementation of the Basel I Core Principles and the International Financial Reporting Standards.

The insurance regulator and individual companies have trained insurance staff locally with some senior staff having received their training overseas. Some foreign institutes come to Cambodia periodically to offer specialized training courses. Starting in 2007, with technical support from ADB, the insurance regulator's office offered a capacity-building program to improve its technical competence. As a result of the latter, the insurance regulator's office was in a better position to commence on-site supervision.

Constraints, Challenges, and Gaps

In the next stage of financial sector development, Cambodia must continue to provide ongoing support for capacity building. So far, great strides have been made in improving capacity in different areas such as regulation and supervision, the payment

system, establishing a database, disseminating statistical data and information, the use of information technology, anti-money laundering and counter financing of terrorist activities.

Updating and upgrading skills is a priority area for deepening the financial system and for tackling new emerging risks. Financial sector regulators must continue to strengthen and upgrade the capacity of their own supervision staff in order to be able to effectively manage these developments.

Three factors that require further capacity development include

- the rapid increase in the size and number of banks and other financial institutions regulated and supervised by NBC, the Ministry of Economy and Finance, and the Securities and Exchange Commission of Cambodia;
- the introduction of new systems, products, and instruments as the financial market grows and diversifies; and
- the loss of trained staff (brain drain) from the government to the private sector due to better incentive packages.

This means that policy makers and regulators need to have up-to-date knowledge and skills. Consequently, technical assistance must be available to support the following activities:

- Lay down the legal and regulatory framework, raise supervisory capacity, and create the enabling environment for the introduction of new financial products and institutions. These include nonbank financial institutions that will engage in leasing, life insurance, microinsurance, m-banking, money market and capital market securities, a real-time gross settlement system for securities market transactions, trust and investment operations, and foreign exchange dealings when the riel comes into greater use.
- Upgrade existing systems to conform to ever-changing international standards and best practices that require technical assistance and training.
- Enhance capacity with regard to information technology, economic research, and security and administration, among others, to accommodate the growth in volume and the types of transactions.

Future Strategy and Plan

There is a need for the government to develop capacity in all areas of the financial sector by undertaking the following tasks:

- Assess training needs through a gap analysis for the entire financial sector, from entry level to advanced levels of expertise, and from functional areas to specialized areas, such as actuarial science. This should identify the type of expertise needed in line with this financial sector strategy and the pace of market development.
- Outsource highly specialized training or provide in-house training programs, on-the-job training, and exchange programs with other overseas regulators.
- Prioritize training needs, determine resource requirements, and coordinate efforts in building capacity to ensure optimal use of available resources.
- Conduct an institutional cost and benefit analysis to ensure that training efforts will be sustainable.

- Raise awareness in each organization of the importance of training and obtain feedback on training programs to guide future training efforts.

The case must be made effectively to those in government who have control over budgets so they provide the financing needed to support ongoing capacity development. For reform actions that are supported by external funding, ministries and institutions must study the operational plans of development partners in order to determine an appropriate strategy for getting their support for financial sector capacity development.

In view of the critical role of regulators and supervisors, line ministries and institutions should consider setting the salaries of supervising staff in line with those of the countries in the region. In other countries, funding mechanisms have been developed to provide salaries for regulators and supervisors from independent sources so regulators maintain their autonomy and independence. Regulators and supervisors also receive incentives based on performance, which helps to raise professional standards and strengthen governance, and thereby contribute to maintaining financial sector efficiency and stability.

Action Plan Matrix

CHAPTER 6

Action Plan for Financial Sector Development 2011–2020

Banking Sector

Key Accomplishments:

- The banking system is privately owned with the majority of the licensed commercial banks having foreign equity interest.
- The National Bank of Cambodia trebled the capital requirement for banks in effect from December 2010.
- Strengthened regulation and supervision of banks that includes an overhaul of reserve requirements, the conduct of corporate governance, fit and proper tests and appropriate regulatory requirements to apply for new licenses, and norm setting for asset classification and loan provisioning.
- NBC issued regulations in 2010 to strengthen registration and regulation of money changers.
- NBC established infrastructure and negotiable instruments for interbank operations.
- NBC strengthened off-site and on-site banking supervision capability.
- NBC installed an integrated accounting system (Flexcube) in 2010, and rolled out to all branches.
- NBC increased monetary and financial cooperation arrangements with Malaysia, Viet Nam and various other countries, and participated in ASEAN forums.
- NBC was restructured in 2011 to strengthen its supervisory and operational roles, and upgrade its IT system.

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Strengthening of the institutional framework	<ul style="list-style-type: none"> • Establish a joint working group to conduct a comprehensive assessment of the institutional framework and identify areas for further improvement and strengthen cooperation to maintain the stability and development of the financial sector, with the goals of <ol style="list-style-type: none"> (i) ensuring adequate coverage and effectiveness of assessment, (ii) identifying the areas for improvement through revision of the applicable legal framework, and (iii) supporting the development of cooperation frameworks among the authorities in charge of the financial sector. • With the approval of the government, organize coordinating mechanisms and cooperation among the regulatory authorities. • Pay attention to the following important areas: <ol style="list-style-type: none"> (i) financial stability and preparedness to manage crisis situations; (ii) cooperate in supervision of financial conglomerates related to banking, securities, and insurance activities, and also achieve convergence with international 	<ul style="list-style-type: none"> • Reassess adequacy and effectiveness of the institutional framework in line with the legal framework. • Identify areas where inefficiencies are observed. • Identify and address issues and problems arising from the implementation of action plans required toward financial integration into the ASEAN region. 	<ul style="list-style-type: none"> • Periodically reassess effectiveness of the institutional framework and of the conditions of cooperation among authorities in charge of the financial sector. • Where inefficiencies or loopholes are identified, take necessary steps for addressing by appropriate means. 	NBC, MEF, SECC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	standards and the objective of regional financial integration (ASEAN); (iii) supervision of conglomerates and required cooperation for the implementation of supervision over the group of banks and financial conglomerates operating in Cambodia; and (iv) promote consumer protection for banking operations and other financial products and services.			
Establishment of Financial Sector Regulators Committee	<ul style="list-style-type: none"> • Create an interministerial task force to consider establishing a Financial Sector Regulators Committee (bank, securities market, and insurance) aimed at supporting effective supervision and convergence with regional and international standards. 	<ul style="list-style-type: none"> • If feasible, establish the Financial Sector Regulators Committee. • Ensure the Financial Sector Regulators Committee has reviewed and addressed risks, such as operational risks, with the aim of moving toward adoption of the Basel II solvency framework. • Consider implementing the revised capital accord based on market risks. 	<ul style="list-style-type: none"> • Periodically reassess the effectiveness of the Financial Sector Regulators Committee in light of market developments and convergence with international standards. • Ensure the agenda of the Financial Sector Regulators Committee is aligned with the agenda of the ASEAN regional financial integration. 	NBC, MEF, SECC
Review of all finance sector risks in the context of a highly dollarized economy	<ul style="list-style-type: none"> • Identify the legal aspects, policies, procedures, cooperation arrangements, fiscal implications, etc. for formulating a national crisis management framework based 	<ul style="list-style-type: none"> • Effectively implement and monitor the National Crisis Management Framework based on market developments and new risks. 		NBC, MEF, SECC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<p>on experiences of other countries.</p> <ul style="list-style-type: none"> • Formulate a national crisis management framework that is primarily focused on <ul style="list-style-type: none"> (i) lender of last resort facility and securing fiscal support in the context of a high level of dollarization of the economy and capital movements, (ii) strengthening prompt corrective action frameworks, (iii) designing and establishing an early warning system among authorities involved, and (iv) preparing contingency plans and communication strategies. 			
Organization of a framework for cooperation, early identification, and crisis management	<ul style="list-style-type: none"> • Set up interministerial working group to formulate internal cooperation, take measures to implement an early warning system, and coordinate crisis management including the possibility for fiscal support and other sources of non-inflationary finance for dealing with crises. • Establish formal crisis cooperation framework among authorities. • Organize information sharing and early identification signals of potential crisis situations. 	<ul style="list-style-type: none"> • Establish crisis management framework and procedures based on lessons learned from the past crisis situations and assessment of effectiveness of cooperation. • Continuously enhance cooperation and preparedness among the authorities involved. • Start implementing stress-testing exercises with the aim of assessing effectiveness of cooperation. 	<ul style="list-style-type: none"> • Design and perform stress-testing exercises based on increasingly complex crisis scenarios (the collapse of an individual establishment, group of establishments, and systemic multisector establishments). • Develop capacity, preparedness, and responsiveness systems. 	NBC, MEF, SECC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Crisis prevention and management framework for banks and financial institutions	<ul style="list-style-type: none"> Identify legal and regulatory issues that require improvement to support the financial sector regulators' crisis prevention and management framework. Document the profile of licensed banks and financial institutions for database development. Finalize the manual for managing delinquent and problem banks and financial institutions. 	<ul style="list-style-type: none"> Focus attention on banks and financial institutions with high systemic risks to the financial sector. Update database on profile of licensed banks and financial institutions. Consider the feasibility of establishing a deposit insurance system. 	<ul style="list-style-type: none"> Review the crisis management framework for improvement in line with legal changes and developments. If feasible, identify a strategic partner to support the establishment of the deposit insurance system. 	NBC, MEF, SECC
Maintenance of regular surveillance of banks and enforcement of prudential norms	<ul style="list-style-type: none"> Maintain regular surveillance of banks and financial institutions and enforcement of prudential norms against noncompliant establishments. Introduce risk-based supervision and improve the quality of data received from licensed banks and financial institutions through supervision. Make the credit bureau operational under an adequate legal and regulatory framework. 	<ul style="list-style-type: none"> Increase the number of supervision staff to match the increasing number of licensed banks and financial institutions. Complete fulfillment of Basel I Core Principles for Effective Bank Supervision. Establish supervisory cooperation memorandums of understanding with each country that has banks licensed in Cambodia. Enhance supervisory practices to keep pace with the development of deposit-taking MFIs. Maintain regular surveillance of banks and financial institutions and enforce prudential norms for noncompliant establishments. 	<ul style="list-style-type: none"> Update the profiles of individual banks and financial institutions. Maintain regular surveillance of banks and financial institutions and enforce prudential norms for noncompliant establishments. 	NBC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Consistent promotion of the use of the Cambodian riel with the aim of achieving the long-term objective of the government on de-dollarization and more independence in monetary policy formulation	<p>Promote the use of the riel in economic and financial transactions:</p> <ul style="list-style-type: none"> • Establish a joint working group to study the strategy for promoting the use of the riel. • Provide the means to review the legal and regulatory framework on areas to support the role of the riel as legal tender. • Establish a joint working group aimed at assessing new markets, new transactions, and new instruments with regard to risks involved concerning the achievement of the long-term objective. • Identify and assess policy-making decisions and measures to further promote the use of the riel. • Ensure that the volume of the riel in circulation meets the requirements of consumers. • Develop the capacity of technical staff and strengthen the capability to monitor the economy with the establishment of an appropriate and accurate statistical dashboard to conduct monetary policy effectively. 	<p>Strengthen further use of the riel:</p> <ul style="list-style-type: none"> • Enhance the capacity to monitor market development to ensure that new transactions, new instruments, or development of over-the-counter transactions are not jeopardizing efforts to intensify use of the riel for large financial transactions. • Design and implement an action plan aimed at issuing measures and requirements related to the use of the riel for financial and economic transactions. • Periodically reassess appropriateness and accuracy of statistical dashboard necessary to support NBC's decisions on the formulation of monetary policy and foreign exchange. • Perform periodic analytical studies on the economy and consider policy-making decisions (within the range of available tools) or the effectiveness of policy-making decisions set forth by the monetary authority. 	<p>Review preparedness for conducting more independent monetary policy:</p> <ul style="list-style-type: none"> • Perform a comprehensive assessment on tools, market developments, accomplishments, and progress vs. the overall long-term objective for de-dollarization in order to <ul style="list-style-type: none"> (i) assess the readiness of NBC (notably in terms of capacity, statistical dashboard, and available policy-making tools) to carry out more independent monetary policy; and (ii) determine and pursue further implementation of short- and medium-term policy targets with existing tools. 	NBC, MEF, SECC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Operations of a domestic money market	<p>Establish a money market based on collateral:</p> <ul style="list-style-type: none"> • Launch NCDs together with support infrastructure to develop an interbank market. • Organize public workshops to explain and encourage the commencement of an interbank market using the NCDs. • Set up a joint working group to study the establishment of a money market. • Ensure an appropriate legal and regulatory framework is in place to facilitate the operation of eligible institutions (including nonbank financial institutions) to undertake money market operations and issue other types of investment securities denominated in riel in the money market (commercial papers, bills of exchange, etc.) as the use of the riel in domestic transactions increases. • Prescribe forms and documentation to be used. Specify penalties for violations, including the revocation of licenses, sanctions, and cease actions. • Establish an accounting system, standards, and procedures covering money market transactions, including the definition of a standard chart of accounts and treatment of money market transactions, including off-balance sheet items. 	<p>Monitor and strengthen money market operations:</p> <ul style="list-style-type: none"> • Strengthen monitoring and surveillance mechanisms to effectively regulate and supervise operations of financial institutions engaged in money market operations. 		NBC, MEF, SECC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<ul style="list-style-type: none"> Set up reporting requirements for money market operators on capital adequacy, volume of operations, risk exposures on securities trading (repurchase agreements, promissory notes, etc.), level of contingent liabilities, off-balance sheet transactions, and liquidity ratios, among others. Set up a unit within NBC to oversee money market operations of eligible financial institutions. 			
Financial stability	<ul style="list-style-type: none"> Establish a financial stability monitoring unit within NBC, identify major risks embedded in the banking system itself, and potential shocks that could arise from adverse developments in the economy. Intensify training and capacity-building efforts for the unit. Organize periodic studies on financial stability, risk vectors identification, and potential impact. Issue alerts to relevant authorities and act as an early warning system to complement and support risk-based supervision by the banking supervision authority. Set up a joint working group to study the establishment of a national financial stability committee. 	<ul style="list-style-type: none"> Assess the accuracy and effectiveness of financial stability indicators used for the monitoring processes. Where required, define and implement an action plan to enhance the effectiveness of monitoring financial stability and early warning systems. 	<ul style="list-style-type: none"> Reassess the effectiveness of the monitoring of financial stability and cooperation among authorities in charge of the supervision of banks, markets, and the financial sector. 	MEF, NBC, SECC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Establishment of an effective wholesale foreign exchange (FX) market (excluding derivative trading) and modalities of NBC intervention	<ul style="list-style-type: none"> Conduct an assessment of the organization and operations of the FX market aimed at an appropriate action plan for organizing and establishing an effective electronic FX wholesale market. Establish a road map or action plan to support the establishment of effective operations of the FX wholesale market over a 3-year transitional period; thereafter, transaction payments in the Cambodian securities market will be settled in riel. 			NBC
Development of a strategic plan to help achieve full compliance with the Basel Core Principles (BCP) for Effective Banking Supervision and appropriate regulations	<ul style="list-style-type: none"> Establish a 5-year action plan needed to achieve compliance with BCP 25 and to keep pace with market developments. Actions required should be organized into projects with project managers and management teams established to implement the plan. 	<ul style="list-style-type: none"> Update achievements annually, develop related regulations, and assess resource and capacity-building needs. 	<ul style="list-style-type: none"> Conduct comprehensive assessment of the progress on application of the BCP to banks and MFIs. Review and update further actions required. 	NBC
Effective implementation of risk-based supervision	<ul style="list-style-type: none"> Effective implementation of existing regulations aimed at supporting risk-based supervision. Formulate supervisory core knowledge files to provide the information or data needed to support the new approach. Establish an effective framework for cooperation with the financial stability unit to complement and support risk-based assessments and identify vulnerabilities. 	<ul style="list-style-type: none"> Enhance capacity building to exercise professional judgment and to perform comprehensive risk-profile assessments (for each of the risks addressed under the BCP 25 principles). 		NBC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Upgrading of regulatory framework		<ul style="list-style-type: none"> Assess the existing regulatory framework and identify necessary amendments or revisions and new regulations to ensure compliance with international principles or to improve overall effectiveness of banking supervision. 		NBC
Cooperation framework with domestic regulatory authorities	<ul style="list-style-type: none"> Finalize the cooperation framework with domestic regulatory authorities. Work toward finalizing an MOU with the SECC and the insurance regulator, including the cooperation to monitor financial stability processes for crisis preparedness. 	<ul style="list-style-type: none"> Ensure the cooperation framework is implemented effectively. 		NBC, MEF, SECC
International cooperation framework	<ul style="list-style-type: none"> Continue efforts to finalize cooperation frameworks with foreign supervisory authorities involved in home and host supervision over operational activities of banks operating in Cambodia. Consider the possibility of increasing cooperation with ASEAN banking supervisors for technical assistance. 	<ul style="list-style-type: none"> Design and finalize an internal policy for implementing the cooperation between home and host supervisors (e.g., joint supervision, regular formal information exchange, informal data exchanges, establishing and updating the core supervisory knowledge files etc.) Consistently implement the home and host cooperation policy among supervisors and periodically reassess its effectiveness. 		NBC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Early warning system (EWS), prompt corrective actions, and measures for tackling weak banks	<ul style="list-style-type: none"> • Supplement and establish a more comprehensive and effective EWS (liquidity, market, management, operational risks, etc.) with forward-looking risk indicators such as standardized stress-testing measures or indicators. • Consider alerts to be issued by the financial stability monitoring unit with regard to risk concentrations. • Prompt corrective actions (PCA): <ul style="list-style-type: none"> (i) Revise and upgrade the PCA policies in light of the risks identified through the EWS. • Measures for tackling weak or problem banks: <ul style="list-style-type: none"> (i) Define weak and problem banks based on fit and proper criteria. Ensure consistency of criteria and definitions when drafting the rules and policy. (ii) Determine the steps to be taken when identifying or coping with potential or actual crisis situations (triggers for activating the crisis management framework). (iii) Draft and adopt problem banks policy within the relevant legal framework. 			NBC

ASEAN = Association of Southeast Asian Nations, MEF = Ministry of Economy and Finance, MFI = microfinance institution, MOU = memorandum of understanding, NBC = National Bank of Cambodia, NCD = negotiable certificates of deposit, SECC = Securities and Exchange Commission of Cambodia.

Anti–Money Laundering and Combating the Financing of Terrorism

Key Accomplishments:

- The Law on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) was passed in 2007 and supported the passage of various laws critical to AML and CFT operations, including the Law on Counter-Terrorism, the Criminal Procedure Code, and the Law on Anti-Corruption.
- The Cambodian Financial Intelligence Unit was established in 2008.
- The *prakas* on AML/CFT was introduced for banks' implementation.
- The *prakas* on AML/CFT was introduced to reporting entities not regulated by the National Bank of Cambodia for implementation.
- Cambodia gained membership in the Asia/Pacific Group on Money Laundering.

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Compliance with Financial Action Task Force (FATF) recommendations and AML and CFT supervision	<ul style="list-style-type: none"> • Based on the mutual evaluation report, continue to meet compliance with applicable FATF 40+9 recommendations. • Undertake risk assessment of NBC-supervised institutions and of securities firms on activities related to AML and CFT. • Conduct awareness raising on AML and CFT among casinos, nonprofit organizations, and realtors. • Apply for membership in Egmont Group. • Consider amending the law on AML and CFT to include SECC in the Board of CAFIU. 	<ul style="list-style-type: none"> • Conduct risk-based supervision of reporting entities on AML and CFT. • Undertake mutual evaluation on AML and CFT to fully comply with FATF recommendations. • Monitor compliance of all reporting entities. • Strengthen coordination with other national regulators. 	<ul style="list-style-type: none"> • Continue institutional oversight on risk-related AML and CFT. • Strengthen regional and international cooperation. 	NBC, MEF, SECC

AML = anti–money laundering, CAFIU = Cambodian Financial Intelligence Unit, CFT = combating the financing of terrorism, MEF = Ministry of Economy and Finance, NBC = National Bank of Cambodia, SECC = Securities and Exchange Commission of Cambodia.

Microfinance

Key Accomplishments:

- Created a forum for policy coordination.
- Established a supervision system for licensed microfinance institutions (L-MFIs) consistent with the overall framework for the banking industry.
- Introduced appropriate prudential norms for L-MFIs.
- Facilitated the transformation of a number of nongovernment organizations into L-MFIs.
- Promoted deposits and microcredit through L-MFIs.
- Strengthened the capacity of the National Bank of Cambodia's (NBC) Microfinance Supervision Division to supervise the rural finance and microfinance industry.
- Provided support for the establishment of licensed microfinance deposit institutions (L-MDIs).
- Extended protection to the savings of the poor (prudential measures for L-MFIs and L-MDIs).
- Helped establish and extended support to the Cambodia Microfinance Association.
- Conducted a study on informal credit service providers.
- Conducted a study on savings habits and expectations.
- Upgraded the quality of courses on microfinance at the Center for Banking Studies.
- NBC started the development of a credit information system and helped establish a credit bureau.
- Issued 21 prudential regulations on MFI operations (from 2001 to 2009).
- MEF issued *prakas* No. 028 SHV.PrK on 12 January 2010 on Licensing of a Pawn Business, Buying and Selling of Pledged Pledges, and Transfer of Titles, and promoted public awareness of the licensing of pawn businesses.

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
<p>Strong regulatory and supervisory framework</p> <p>Self-assessment of the effectiveness of MFIs' regulatory framework and supervisory processes</p>	<ul style="list-style-type: none"> • Conduct assessment of compliance with the Bank for International Settlements-Basel Committee on Banking Supervision (BIS-BCBS) on Microfinance Activities and Core Principles for Effective Banking Supervision. • Define action plan to achieve compliance with the BIS-BCBS Core Principles for Effective Supervision of Microfinance Activities. 	<ul style="list-style-type: none"> • Continue to develop NBC's strategy for on-site and off-site supervision over MFIs. • Implement action plan aimed at achieving compliance with BIS-BCBS Core Principles for Effective Supervision of Microfinance Activities. • Review the progress toward the adoption of a risk-based supervisory approach. 	<ul style="list-style-type: none"> • Conduct supervisory review to cover all MFIs. Target for on-site supervision is one visit every 12–24 months, depending on MFIs' risk profiles. • Priority should be given to deposit-taking MFIs with the aim of promoting international best practices (corporate governance, disclosure, risk management, monitoring, and internal audit). 	NBC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Assessment of appropriateness of applicable regulatory framework and licensing criteria	<ul style="list-style-type: none"> Self-assess compliance with the BIS-BCBS on Microfinance Activities and Core Principles for Effective Banking Supervision. Assess appropriateness of applicable framework and licensing criteria as follows: <ol style="list-style-type: none"> bring the informal sector into the formal sector, reassess financial conditions and operations of deposit-taking MFIs with the aim of identifying possible weaknesses for improvement, and scale up products and services offered by MFIs to their customers. 	<ul style="list-style-type: none"> Implement a plan for bringing unregistered or informal financial institutions into the formal system. Undertake public awareness programs to enhance the implementation of the <i>prakas</i> on financial communities. Based on assessments performed, identify areas that need to be addressed and improve the applicable licensing criteria and regulatory framework. Present the means for promoting the development and growth of products and services being offered by MFIs. Amend and expand MFI authority under the legal and regulatory framework to allow MFIs to offer additional services and products. 	<ul style="list-style-type: none"> Improve services (registration, training, extension services, etc.) and provide other incentives that will attract those operating in the informal sector to join the formal sector. Expand array of MFI services under an appropriate legal and regulatory framework. Ensure that new products and services offered are adequately supervised by authorities and, where and when necessary, take appropriate measures to adjust supervisory processes. 	NBC, MEF
Common reporting standard	<ul style="list-style-type: none"> Review the present reporting system of MFIs and standardize it by using a risk-based approach, when appropriate. 	<ul style="list-style-type: none"> Study the feasibility of providing MFIs with the same reporting standards as banks. Give priority to deposit-taking MFIs for convergence with bank reporting requirements. 	<ul style="list-style-type: none"> Study the feasibility of MFI common reporting standards to follow IFRS where applicable. 	NBC
Training for financial policy makers	<ul style="list-style-type: none"> Conduct training needs assessment of MEF officials focusing on understanding of MFIs. Develop a plan for improving capacity building of MFI division staff. 	<ul style="list-style-type: none"> Continue capacity building of MFI division staff of MEF based on training needs assessment. 	<ul style="list-style-type: none"> MEF to work with regional and international organizations for policy support and capacity building for the MFI sector. 	MEF

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Increase in efficiency and lowering of costs of MFI management information systems (MIS)	<ul style="list-style-type: none"> Identify funding to support the procurement of an appropriate MFI MIS that integrates the programs for loan and accounting tracking. Provide technical assistance to small MFIs to provide solutions to their MIS needs. 	<ul style="list-style-type: none"> Continue to introduce MFI MIS that integrate the programs for loan and accounting tracking system to all MFIs. 	<ul style="list-style-type: none"> Continue standardization of MIS of MFIs. 	MEF, NBC, CMA Lead agency: MEF
Provision of access to wholesale funds for MFIs	<p>Review the status of the present initiatives to provide wholesale loan funds for MFI operations and explore ways to provide wholesale funds to MFIs:</p> <ul style="list-style-type: none"> Report the status of the role of RDB in financing MFIs and make recommendations based on findings. Report the status of ongoing schemes with commercial banks and make recommendations on how to move forward. Present the means to facilitate MFI access to local currency to better meet the needs of their customers. 	<p>Develop schemes to improve access by MFIs to commercial bank local currency funds and extend policy support:</p> <ul style="list-style-type: none"> Develop approaches and mechanisms to assist MFI access to riel funds for loan financing from the commercial banking sector, such as through credit guarantee schemes. Establish policies that will facilitate local currency lending. 	<p>Develop policies for providing access to wholesale funds for MFIs:</p> <ul style="list-style-type: none"> Consider policies that will facilitate support by the financial sector to provide funds for the increasing activities of MFIs. 	MEF, NBC Lead agency: MEF
Permission for MFIs to expand direct access to savings	<p>Enhance savings mobilization by MDIs:</p> <ul style="list-style-type: none"> Review barriers to savings mobilization. Study how to accelerate the establishment of more MDIs consistent with supervisory capacity. 	<p>Present the means for promoting savings:</p> <ul style="list-style-type: none"> MDIs should be assisted to promote innovative schemes that will enhance savings generation from the general public. Study ways by which savings-led NGOs can be made strong, safe savings generators. 	<p>Extend support to MDIs and other savings organizations:</p> <ul style="list-style-type: none"> Continue assisting MDIs and savings-led NGOs. 	MEF, NBC, CMA Lead agency: NBC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
<p>Increase in financial inclusion</p> <p>Deepening of financial services</p> <p>Expansion of access to financial products and services to individuals in hard-to-reach-areas (particularly the poor and the most poor)</p>	<p>Consider ways to encourage people living in hard-to-reach areas to access bank services:</p> <ul style="list-style-type: none"> • Study the needs for supply and demand of microfinance among the most poor and people in hard-to-reach areas. • Based on the above study, identify constraints to reaching these clients and provide recommendations to address these issues through both financial and nonfinancial services. • Link the strategy to financial education and business development training strategies set forth in the strategy. 	<p>Develop programs or provide incentives that help the poor and individuals in hard-to-reach areas access financial services:</p> <ul style="list-style-type: none"> • Consider fiscal or regulatory incentives for MFIs to expand operations to the most poor and people in hard-to-reach areas. • Design and implement programs that will promote access to a range of financial services (microleasing, microcredit, and microsavings) by the most poor to enable them to improve their welfare. • Encourage linkage of microfinance operations of MFIs to NGOs and local governments in a prudent manner. • Replicate successful pilots in other hard-to-reach areas. 	<p>Expand financial services to the rural poor and individuals in hard-to-reach areas:</p> <ul style="list-style-type: none"> • Track the progress of and scale up services to the poor, people in hard-to-reach areas, and individuals who were formerly excluded from microfinance services. 	<p>NBC, CMA</p> <p>Lead agency: NBC</p>
<p>Strengthening of competitiveness in the MFI sector</p>	<p>Review the development of the microfinance sector, map the microfinance sector in the country, fill knowledge gaps, and review lessons learned:</p> <ul style="list-style-type: none"> • Conduct a sector-wide study of microfinance in Cambodia focusing on impact assessment and disseminate the results of the study to various stakeholders. 	<p>Develop a policy framework and package of assistance to enhance operations of the MFI sector:</p> <ul style="list-style-type: none"> • Based on the results of the study, review the development of policies for the microfinance sector and expand the development of assistance. Determine effectiveness of past policies and assistance extended to the sector. 	<p>Establish government policies and development assistance designed to enhance the operations of the sector:</p> <ul style="list-style-type: none"> • Develop MFI policies to accelerate sector development and improve efficiency of sector operations based on the results of the study. • Promote public and private interest to support microfinance development. 	<p>MEF, NBC, CMA</p> <p>Lead agency: MEF</p>

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Strong consumer protection MFI consumer protection and financial literacy	<ul style="list-style-type: none"> Design a common framework to guide disclosures of loan terms and conditions and other relevant matters that will protect consumers. Design a program for promoting financial literacy not only for the present clients of MFIs, but also for the most poor in both urban and rural areas. Study the issue of over-indebtedness. Disseminate the results of the study to various stakeholders and map a strategy and a plan to further address the study's findings. 	<ul style="list-style-type: none"> Implement the guidelines for MFI consumer protection. Implement the program for promoting financial literacy. 	<ul style="list-style-type: none"> Improve the guidelines for consumer protection based on experience and best practices. Promote offering financial literacy to other sectors. 	MEF, NBC, CMA Lead agency: NBC
Reliable and accurate information	<ul style="list-style-type: none"> Establish a credit bureau. With the implementation of risk-based supervision, ensure that data accuracy becomes a key concern of the supervisory processes and that the reports accurately reflect the MFIs' operations and their risk profiles. 	<ul style="list-style-type: none"> Monitor or control the process of assessing customers' solvency and creditworthiness for decision-making purposes. Steadily promote the adoption of best accounting and financial disclosure practices with the aim of converging with the standards applicable to the banking sector. 	<ul style="list-style-type: none"> Assess the progress achieved and the gaps to be filled and, where applicable, define an appropriate action plan to enhance reliability and accuracy of information and data disclosed and of supervisory reports. 	MEF, NBC Lead agency: NBC
Redress of grievances	<ul style="list-style-type: none"> Establish a mechanism for redress of grievances for MFIs. Consider establishment of a consumer protection agency to receive, follow up, and act on complaints. 	<ul style="list-style-type: none"> Monitor effectiveness and make necessary improvements in the mechanism for addressing client grievances. 	<ul style="list-style-type: none"> Strengthen the mechanism for addressing client grievances. 	MEF, NBC, CMA Lead agency: MEF

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Support for CMA development	<ul style="list-style-type: none"> CMA to get guidance from NBC and MEF in terms of training on relevant topics (taxation, compliance with anti-money laundering, etc.) to develop its capacity to be an effective partner in microfinance development. 	<ul style="list-style-type: none"> CMA to play a more active role in microfinance development. CMA to expand membership until it covers the entire MFI sector. 	<ul style="list-style-type: none"> CMA to act as an umbrella organization for the MFI sector including associated organizations. 	MEF, NBC, CMA Lead agency: CMA
Training for MFIs	<ul style="list-style-type: none"> CMA to conduct a training needs assessment to determine actual training needs in the microfinance sector, in coordination and support of key government agencies. Develop a plan for developing the capacity of the MFI sector and of policy or regulatory agencies. 	<ul style="list-style-type: none"> Expand training by the Center for Banking Studies and CMA and expand the coverage to MFI staff based on the results of training needs assessment. Make decision on the establishment of MFI training facilities (whether the existing stand-alone training facilities are appropriate or there is need for a centralized MFI training facility). 	<ul style="list-style-type: none"> Implement the decision on the establishment of microfinance training facilities. Cambodia's microfinance training facilities to network with regional/ international training/learning resource centers. 	MEF, NBC, CMA Lead agency: MEF
Licensing of a Pawn Business, Buying and Selling of Pawned Pledges, and Transfer of Title	<p>Bring pawn businesses into the formal sector:</p> <ul style="list-style-type: none"> To be consistent with other laws and regulations, issue guidelines to implement the <i>prakas</i> on Licensing of a Pawn Business, Buying and Selling of Pawned Pledges, and Transfer of Title. Strengthen the enforcement of the <i>prakas</i> on Licensing of a Pawn Business, Buying and Selling of Pawned Pledges, and Transfer of Title. Strengthen the enforcement of the <i>prakas</i> by taking 	<p>Strengthen the regulations and supervision of pawn businesses:</p> <ul style="list-style-type: none"> Issue other regulations to implement the Law on Licensing of a Pawn Business, Buying and Selling of Pawned Pledges, and Transfer of Title. Increase public awareness by organizing workshops and training courses. Introduce computer-based operation for the pawn industry. Strengthen and enforce the law and related regulations on 	<p>Introduce and implement an IT system for pawn business operation.</p> <ul style="list-style-type: none"> Full implementation of the proposed IT system through a training program for the regulator, market operators, and concerned authorities. Improve the efficiency of market control over the pawn industry through the use of an IT network for monitoring market operations. Increase pawn market transparency and the level of consumer protection 	MEF

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<p>into account market reactions and developments.</p> <ul style="list-style-type: none"> • Establish interministerial working group to bring pawn businesses from the informal sector to the formal sector. • Adopt the law on licensing of a pawn business and the buying and selling of pawned pledges, and transfer of title. • Establish an association of pawn businesses. • Develop a 3-year capacity building plan for the regulator and market operators. 	<p>licensing of a pawn business and buying and selling of pawned pledges, and transfer of title to ensure the effectiveness of operations.</p>	<p>by eliminating suspicious pawned items.</p>	

CMA = Cambodia Microfinance Association, IFRS = International Financial Reporting Standards, IT = information technology, MDI = microfinance deposit institution, MFI = microfinance institution, NBC = National Bank of Cambodia, NGO = nongovernment organization, RDB = Rural Development Bank.

Leasing

Key Accomplishments:

- The Civil Code, which includes leasing, was passed in 2007 and is awaiting implementation.
- The law to implement the Civil Code has been submitted to the Council of Ministers and is in the discussion stage.
- The Law on Secured Transactions was passed in 2007 with provisions covering leasing.
- The Secured Transaction Registry at the Ministry of Commerce is fully operational.
- The Law on Financial Leasing was passed in 2009.

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Financial leasing	<ul style="list-style-type: none"> • Review the Law on Financial Leasing, clarify and resolve conflicts with other existing laws. • Coordinate proposed amendments to leasing and related laws. 	<ul style="list-style-type: none"> • Introduce regulations and conduct supervision of leasing operations. 	<ul style="list-style-type: none"> • Utilizing the oversight of an inter ministerial policy committee, review legal and regulatory framework to fill remaining gaps and ensure best practices in place. 	NBC
Implementation of regulations Prudential regulations	<ul style="list-style-type: none"> • Finalize the <i>prakas</i> concerning licensing and regulating leasing companies, tax treatment of leases, and accounting treatments for lessee and lessor, among others. • Establish prudential regulations for leasing operations. 			MEF, MOC, MOJ, MLMUPC, NBC Lead agency: NBC
Expansion of secured transaction registry	<ul style="list-style-type: none"> • Expand the secured transaction registry to include lease transactions. 	<ul style="list-style-type: none"> • Consider expanding the secured transaction registry to include additional services, such as fixtures. 		MOC, MOJ, MLMUPC, NBC Lead agency: MOC

MEF = Ministry of Economy and Finance; MLMUPC = Ministry of Land Management, Urban Planning and Construction; MOC = Ministry of Commerce; MOJ = Ministry of Justice; NBC = National Bank of Cambodia.

Insurance and Pensions

Insurance

Key Accomplishments:

- Improved supervision skills of the insurance regulator (off-site and on-site supervision).
- Engaged in regional cooperation to share resources for insurance development.
- Issued and introduced some regulations on insurance such as the *prakas* on Accounting Guidelines for General Insurance Companies.
- Prepared the new Law on Insurance.
- Became a member of the International Association of Insurance Supervisors.
- Established the General Insurance Association of Cambodia.
- Established an insurance pool for selling cross-border vehicle insurance policy in compliance with Protocol 5 on the Implementation of the Association of Southeast Asian Nations (ASEAN) Scheme for Compulsory Motor Vehicle Insurance under the ASEAN framework.
- Published an annual report on insurance industry development in Cambodia.

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Legal and regulatory framework	<ul style="list-style-type: none"> • Adopt the new Law on Insurance. • Review the existing insurance regulations and develop new ones related to life insurance and microinsurance after the adoption of the law. • Establish the procedure for licensing life insurance and microinsurance businesses. • Conduct studies and analyze risk associated with life insurance to determine the ability, the process, and solvency margin, and help develop a mortality table for Cambodia. 	<ul style="list-style-type: none"> • Review the strategy for insurance sector development to align with the level of market developments. • Review insurance regulations to align with the level of market developments and to comply with the IAIS Core Principles. • Review the solvency framework by taking into consideration risk-based capital. • Review the mortality table and its appropriateness for the market. 	<ul style="list-style-type: none"> • Review the strategy for insurance sector development to respond to the level of market developments. • Review insurance regulations to respond to the level of market developments and the core insurance principles of IAIS. 	MEF, NBC, SECC Lead agency: MEF

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<ul style="list-style-type: none"> • Develop accounting guidelines for life insurance. • Establish a supervisory framework for life insurance and microinsurance. • Set up investment guidelines for insurance companies. • Develop qualification criteria for insurance agents and brokers. 			
IAIS Core Principles	<ul style="list-style-type: none"> • Continue to assess and determine the gaps in the current practice of IAIS Core Principles in the Cambodian insurance market. 	<ul style="list-style-type: none"> • Review the current practice of IAIS Core Principles in the insurance market in Cambodia through consultation with IAIS experts and commence implementation. 	<ul style="list-style-type: none"> • Fully comply with the Insurance Core Principles of IAIS. 	MEF
Institutional framework	<ul style="list-style-type: none"> • Set up policy unit for preparing an insurance development policy, strategy, and research. • Set up dispute resolution office. • Form an interministerial working group on planning and coordination to ensure consistency between policy and actions, achieve joint efforts, and minimize risk of insurance sector operations. 	<ul style="list-style-type: none"> • Upgrade the Insurance Division to the level of Department of Insurance within MEF with autonomy and larger authority to comply with the Insurance Core Principles of IAIS. • Consider setting up a life insurance association. • Consider setting up an insurance brokers association. • Consider setting up an insurance agents association. • Strengthen the roles of the interministerial working group on planning and coordination. 	<ul style="list-style-type: none"> • Establish an independent insurance commission. 	MEF

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Insurance market mechanism	<ul style="list-style-type: none"> Plan and implement the campaign for awareness raising on insurance to help expand market penetration. Review the interministerial working group to strengthen the implementation of compulsory insurance for commercial motor vehicles, construction sites, and passenger transport. Cooperate with GIAC to review the insurance premium for compulsory insurance to ensure market efficiency by comparing with the countries in the region. Consider the possibility of expanding compulsory insurance to all types of vehicles. Cooperate with the MLVT and MoSVY to develop a coordinated approach to workers compensation insurance and health insurance. 	<ul style="list-style-type: none"> Continue to promote insurance. Review the progress of life insurance companies and examine their operations and introduce new products. Prepare audit report on the implementation of compulsory insurance. Enforce compulsory insurance for all types of vehicles. Cooperate with NBC to formulate the policy and guidelines on cross-sector insurance operations. 	<ul style="list-style-type: none"> Review the effectiveness of the program for promoting insurance, and revise if necessary. Assess planning needs for insurance promotion. 	MEF, MLVT, MoSVY, NBC, GIAC Lead agency: MEF

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Capacity building	<ul style="list-style-type: none"> • Develop a performance-based incentive system for regulator staff to ensure work productivity and efficiency. • Develop and implement a capacity-building plan for regulator staff focusing on specialized skills, including risk assessment and actuarial expertise for life insurance. • Cooperate with GIAC to assess training needs for insurance operators and regulator staff, and from this assessment develop training courses. • Cooperate with MoEYS to examine the possibility of developing a syllabus on insurance at the tertiary education level. • Cooperate with GIAC in organizing a separate training for insurance agents to ensure insurance services are offered in compliance with the required code of professional ethics and improve consumer protection. 	<ul style="list-style-type: none"> • Review the capacity-building program for insurance regulator staff and operators at all levels. • Review the capacity building plan for regulator staff. • Cooperate with MoEYS to develop a syllabus on insurance at the tertiary education level. • Establish an insurance institute to offer specialized training in insurance. 	<ul style="list-style-type: none"> • Conduct train-the-trainer sessions on insurance to ensure the sustainability and development of the insurance industry. • Extend the capacity of the insurance institute to include an insurance research and development center that is recognized regionally. • Cooperate with MoEYS to review the tertiary education syllabus on insurance. 	MEF, MoEYS, GIAC Lead agency: MEF

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Development of an early warning system and IT system	<ul style="list-style-type: none"> Develop an IT system to support the monitoring and supervision of the insurance market. 	<ul style="list-style-type: none"> Develop the business data for an IT system to support the monitoring and management of the risks of insurance companies. Set up an early warning system in the initial stage of implementation of the IT system. Organize training on the IT system for insurance regulator staff and operators in order to move toward a full implementation of the new IT system. 	<ul style="list-style-type: none"> Complete installation of a modernized IT system to respond to the need for monitoring the insurance market. 	MEF

GIAC = General Insurance Association of Cambodia; IAIS = International Association of Insurance Supervisors; IT = information technology; MEF = Ministry of Economy and Finance; MLVT = Ministry of Labor and Vocational Training; MoEYS = Ministry of Education, Youth and Sports; MoSVY = Ministry of Social Affairs, Veterans and Youth Rehabilitation; NBC = National Bank of Cambodia; SECC = Securities and Exchange Commission of Cambodia.

Pensions

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Common areas for each fund	<ul style="list-style-type: none"> Recruit staff and set up workplaces in the capital, provincial cities, districts, and <i>khans</i>. Start to build capacity by organizing in-house training courses and external programs for acquiring specific skills such as trustee skills, accounting, and administration for investment and businesses. Organize consultative workshops to discuss the structure and feasibility of establishing the pension scheme for the private sector. Design IT systems required for all funds. 	<ul style="list-style-type: none"> Implement the second phase of the capacity-building plan to improve skills required to run pension schemes. Establish databases for all funds including IT security. Implement IT systems for all funds as required. 	<ul style="list-style-type: none"> Continue to implement capacity building to develop market and requirements for pension fund schemes. Consider new data center for system security. Update IT systems to meet the requirements of the funds. 	MEF, MoSVY, NSSF, NSSF, NFV, PWDF
Feasibility study for setting up pension funds	<ul style="list-style-type: none"> Prepare a questionnaire for a survey on the daily expenditures of 2,000 workers. Organize a consultative workshop to discuss the structure and the feasibility of setting up a pension scheme. Form a team to conduct pension scheme research. 	<ul style="list-style-type: none"> Review and evaluate the implementation of the pension scheme. 	<ul style="list-style-type: none"> Conduct financial analysis. Extend the coverage to the whole country. 	NSSF
Capacity building	<ul style="list-style-type: none"> Engage and organize training courses, workshops, and study tours to exchange experiences domestically and externally. Dispatch NSSF's officers to study data analyses on social security. 	<ul style="list-style-type: none"> Prepare capacity-building plan. Conduct internal training on social security scheme for improving the capacity of NSSF's officers and staff. Recruit additional staff. 	<ul style="list-style-type: none"> Implement capacity-building plan for officers and staff. 	NSSF

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Preparation of legal framework	<ul style="list-style-type: none"> • Collaborate with relevant ministries and development partner(s) to prepare working procedure. • Conduct actuarial study to determine benefits package and contribution rate for pension schemes. • Organize consultative workshops to prepare legal framework. 	<ul style="list-style-type: none"> • Set up initial investment rules for the funds. 	<ul style="list-style-type: none"> • Set up legal framework and investment strategies. • Set up investment committee. • Collaborate with three institutions (NSSFC, NFV, PWDF) to set up long-term plan for pension schemes. 	NSSF
IT system development and management	<ul style="list-style-type: none"> • Develop IT system for possible interface with banking system. • Set up fingerprint and short messaging service systems for identifying members. • Design and install the system for pension schemes. • Setup IT networking to link NSSF offices with banks. 	<ul style="list-style-type: none"> • Regular update of IT system and website. 	<ul style="list-style-type: none"> • Research and fine-tune IT system. 	NSSF
Public information campaign		<ul style="list-style-type: none"> • Conduct informational seminars on pension scheme for employers, employees, and others. • Create commercial spots, leaflets, radio, and TV promotions. 		NSSF
Institutional development and capacity building	<ul style="list-style-type: none"> • Formulate strategic plan and recruit staff. • Set up workplaces in the capital, provinces, cities, districts, and <i>khans</i>. • Prepare an organization structure. • Develop internal rules and personnel statute. • Create personnel cadre at the central, capital, and provincial, city, district, and <i>khan</i> levels. 	<ul style="list-style-type: none"> • Conduct appraisal of staff and review 3-year capacity-building plan. • Continue to set up workplaces in the capital, provinces, cities, districts, and <i>khans</i>. • Recruit additional required staff. • Continue to organize workshops for legal and policy dissemination on the social security scheme. • Assess staff performance. 	<ul style="list-style-type: none"> • Continue to develop staff capacity and review performance effectiveness. • Develop strategic plan and action plan in Stage 3. • Recruit additional staff. • Continue to organize consultative workshops for legal and policy dissemination. 	NSSFC, NFV, PWDF

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<ul style="list-style-type: none"> Develop staff capacity on management, accounting, computer, planning, preparing budget proposals, etc. Organize consultative workshop on legal and policy dissemination on social security scheme. 			
Strengthening and development of social security scheme	<ul style="list-style-type: none"> Update beneficiaries' data. Prepare legal framework and regulations. Prepare and develop social health insurance for civil servants' benefit. Undertake actuarial study and estimate the viability of the social security scheme. Provide social security scheme through the banking system. 	<ul style="list-style-type: none"> Continue to update beneficiaries' data. Implement and disseminate legal documents. Improve social health insurance for civil servants. Prepare sub-decree regarding contribution rate for active members of NFV and PWDF. Review the 3-year planning activity. 	<ul style="list-style-type: none"> Review performance effectiveness. 	NSSFC, NFV, PWDF
Enhanced cooperation with local and international development partners and promote regional and global integrations	<ul style="list-style-type: none"> Strengthen cooperation with relevant ministries and institutions. Cooperate with private companies and banks. Join as a member of ASEAN Social Security Association. Develop partnership with local and international NGOs to seek technical and financial support. 	<ul style="list-style-type: none"> Continue cooperation with strategic partners. Strengthen and expand partnership with local and international NGOs and donors to seek technical and financial support. 		NSSFC, NFV, PWDF
Setting up of IT system	<ul style="list-style-type: none"> Develop IT system and database. Install IT equipment. Establish a central database. Establish website. 	<ul style="list-style-type: none"> Review the installation of IT equipment. Control and improve maintenance. 	<ul style="list-style-type: none"> Build a new data center. 	NSSFC, NFV, PWDF

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Fund investment	<ul style="list-style-type: none"> Formulate policy and guidelines on fund investment. 	<ul style="list-style-type: none"> Undertake investment activities. 	<ul style="list-style-type: none"> Undertake investment monitoring and evaluation. Conduct feasibility study on credit initiation. 	NSSFC, NFV, PWDF
Development of private voluntary pension	<ul style="list-style-type: none"> Develop a legal and regulatory framework for private voluntary pensions. Establish a pension fund administrative office. Recruit staff and build capacity. Organize internal and external training courses on required technical skills for managing and controlling private voluntary pension funds. 	<ul style="list-style-type: none"> Incorporate specialized companies for managing private voluntary pension funds. Continue to build the capacity of technical staff for managing pension funds. Initiate training programs in public and private academic institutions. Set up the necessary IT system for private voluntary pension. Create a web page for disseminating information on the benefits of private voluntary pensions and the benefits of regular savings. 	<ul style="list-style-type: none"> Review the lessons learned from implementing private voluntary pension development and institute changes to respond to the level of market developments. Continue to develop the capacity of technical staff for managing pension funds. Carry out training programs in public and through private academic institutions. Modernize IT system. 	MEF, MoSVY, MLVT Lead agency: MEF

ASEAN = Association of Southeast Asian Nations; IT = information technology; MEF = Ministry of Economy and Finance; MoSVY = Ministry of Social Affairs, Veterans and Youth Rehabilitation; NFV = National Fund for Veterans; NGO = nongovernment organization; NSSF = National Social Security Fund; NSSFC = National Social Security Fund for Civil Servants; PWDF = Persons with Disability Foundation.

Capital Market

Key Accomplishments:

- The Law on Government Securities was passed in 2007.
- The Law on the Issuance and Trading of Non-Government Securities was passed in 2007.
- The Law on Insolvency was passed in 2007.
- The Law on Finance for 2010 Management allows the Government of Cambodia to establish a Center for Financial Development.
- The Sub-decree on the Conduct and Organization of the Securities and Exchange Commission of Cambodia (SECC) was signed into effect on 28 July 2008.
- The SECC was established in July 2008.
- The Cambodia Securities Exchange, a joint venture company, was established by the Ministry of Economy and Finance and the Korea Exchange in September 2009.
- The Sub-decree on Tax Incentives in the Securities Sector was signed on 22 April 2011.
- The core *prakas* to enable the establishment and operation of the securities market were formally introduced by the SECC in 2010.
- A total of 15 companies were granted licenses (7 underwriters, 4 brokers, 2 dealers, and 2 investment advisors) on 20 October 2010.
- Approvals were granted to an operator of the securities market, an operator of a clearing and settlement facility, and an operator of a securities depository.
- Accreditation was given to cash settlement agents related to securities, securities registrars, securities transfer agents, paying agents, professional accounting firms, independent auditors, and asset valuers.
- The government has identified three state-owned enterprises to be listed.
- In January 2011, the SECC signed a memorandum of understanding with the Financial Institute of Cambodia to provide training related to the securities sector.

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Development of the government bond market Operation of a government securities market	Develop the government securities market: <ul style="list-style-type: none"> • Develop the legal and regulatory framework to support the issuance and trading of government securities. • Consider issuing short-term treasury bills denominated 	Monitor and strengthen government securities market performance: <ul style="list-style-type: none"> • Review performance of primary market dealers and develop performance-based accreditation procedures on the basis of incentives and penalties. 	Deepen the development of government securities market: <ul style="list-style-type: none"> • Consider issuing government bonds. 	MEF, NBC, SECC Lead agency: MEF

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<p>in riel based on a predetermined borrowing program with NBC to determine the timing of market distribution for investment and reserve purposes.</p> <ul style="list-style-type: none"> • Develop bidding procedures and an auction system for issuance of government securities. • Establish a system for accreditation of primary market dealers in government securities. 	<ul style="list-style-type: none"> • Consider issuing treasury securities of duration of more than 1 year. 		
Support for infrastructure	<ul style="list-style-type: none"> • Establish support infrastructure for securities market: depositories and securities clearing and settlements facilities, and payment system link-up with the national payment system. 	<ul style="list-style-type: none"> • Conduct due diligence on operating systems to ensure they are operating smoothly and safely. 	<ul style="list-style-type: none"> • Review and upgrade as needed depending upon market developments. 	MEF, NBC, SECC Lead agency: SECC
Compliance with core principles	<ul style="list-style-type: none"> • Conduct a self-assessment to confirm if the current system conforms to the IOSCO Core Principles and the Committee on Payment and Settlement Systems, as well as IOSCO recommendations on securities settlement systems. 	<ul style="list-style-type: none"> • Include review system in the next financial sector assessment program. 	<ul style="list-style-type: none"> • Review regulatory framework and SECC structure to ensure they remain relevant to market conditions. 	MEF, NBC, SECC Lead agency: SECC
Secondary market regulation	<ul style="list-style-type: none"> • Cambodia Securities Exchange listing rules approved in May 2011. • Introduce rules used for licensing/authorizing/accrediting 	<ul style="list-style-type: none"> • Oversee renewal of licenses to all securities market participants. 		SECC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	examinations for all securities market participants including fit and proper testing.			
Insolvency	<ul style="list-style-type: none"> Draft sub-decree on bankruptcy related to the operation of the securities market. Adopt and promulgate the sub-decree on insolvency. 	<ul style="list-style-type: none"> Enforce the application of the sub-decree on insolvency. 		SECC
Credit rating agency	<ul style="list-style-type: none"> Research and develop regulation on credit rating agency. 	<ul style="list-style-type: none"> Implement credit ratings of publicly listed securities. 		SECC
Market mechanism and instruments	<ul style="list-style-type: none"> Consider the procedures to allow securities borrowing and lending. Conduct feasibility study for setting up a securities financing mechanism. Conduct feasibility study for setting up a sovereign wealth fund. 	<ul style="list-style-type: none"> If feasible, develop securities borrowing and lending mechanism. If feasible, set up a securities finance corporation. If feasible, set up a sovereign wealth fund. 	<ul style="list-style-type: none"> Implement securities borrowing and lending mechanism. 	MEF, NBC, SECC Lead agencies: MEF and SECC
Asset valuers	<ul style="list-style-type: none"> Develop professional asset valuers and valuation standards for securities market operation. 	<ul style="list-style-type: none"> Align standards with international norms. 	<ul style="list-style-type: none"> Establish cooperation to enhance the knowledge of asset valuers with regional and international valuers and appraisers. 	MEF, SECC Lead agency: SECC
Corporate governance	<ul style="list-style-type: none"> Implement the <i>prakas</i> on corporate governance for listed companies. Promote the application of corporate governance among unlisted companies and conduct an educational campaign on corporate 	<ul style="list-style-type: none"> Review the implementation of the <i>prakas</i> on corporate governance both for listed and unlisted companies. Develop and conduct training programs if needed to strengthen adherence with principles 	<ul style="list-style-type: none"> Continue to develop and enhance the code of corporate governance based on urgent needs and best practices. 	MEF, SECC, NBC Lead agency: SECC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	governance for both listed and unlisted companies, with emphasis on responsibilities of boards of directors, corporate secretaries, and management.	of corporate governance by operating companies.		
Investor education and protection	<ul style="list-style-type: none"> • Prepare the plan to educate domestic investors, including necessary educational materials, identifying and assigning staff, and setting up feedback mechanisms. • Conduct investor education across the country. • Consider the establishment of an investor compensation fund. • Establish a customer dispute resolution center within the framework of SECC to address public complaints and related cases that may arise. 	<ul style="list-style-type: none"> • Continue investor education programs and refine them based on feedback and market developments. • If feasible, establish an investor compensation fund with the requisite regulations and operational guidelines. 	<ul style="list-style-type: none"> • Continue to enhance investor education programs. • Implement investor compensation fund. 	SECC
Promotion of media education and awareness	<ul style="list-style-type: none"> • Conduct training for financial and other journalists concerning the securities business. • Support the development of a code of professional ethics for financial and other journalists, particularly with respect to the reporting of sensitive market information. 	<ul style="list-style-type: none"> • Develop capability to deal with issues of information disclosure at all levels to the press. 	<ul style="list-style-type: none"> • Disclose all levels of information to the press. 	SECC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<ul style="list-style-type: none"> Establish a liaison office within the framework of the SECC for coordinating with financial and other journalists, especially those that report on information related to the securities market. 			
Information technology	<ul style="list-style-type: none"> Consider IT systems for information disclosure. 	<ul style="list-style-type: none"> Consider IT systems for surveillance of securities market operation. 	<ul style="list-style-type: none"> Develop IT systems for information disclosure and surveillance of securities market operation. 	SECC
Improvement of capacity building for SECC and market participants	<ul style="list-style-type: none"> SECC to prepare capacity-building plan for its staff in all facets of operation. SECC to update and implement its capacity-building plan for market participants and the public. 	<ul style="list-style-type: none"> SECC to consider training needs and determine if this can be provided by the government or other training establishments, depending on the increasing needs that require external training. 	<ul style="list-style-type: none"> Review the level of skills attained within a specific period, determine if it is appropriate for market requirements, and modify and update it as needed. 	SECC
Financial market cooperation	<ul style="list-style-type: none"> Continue to develop partnerships and mutual cooperation arrangements with foreign regulatory organizations and securities exchanges. 	<ul style="list-style-type: none"> Consider gaining membership in IOSCO after self-assessment completion. 		MEF, SECC Lead agency: SECC
Corporate bond market development	<ul style="list-style-type: none"> Establish legal and regulatory framework for the development of a corporate bond market. 	<ul style="list-style-type: none"> Implement regulations for the development of a corporate bond market. 	<ul style="list-style-type: none"> Review the impact of the regulations on market development and develop a broad corporate bond market. 	SECC
Commodities futures exchange	<ul style="list-style-type: none"> Undertake a feasibility study for setting up a commodities futures exchange. Undertake studies on the legal and regulatory framework for a commodities futures exchange. 	<ul style="list-style-type: none"> Develop the legal and regulatory framework for a commodities futures exchange. 	<ul style="list-style-type: none"> Establish a commodities futures exchange, if feasible. 	MEF, SECC

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Table continued

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Trust and investment operations of nonbank financial institutions (NBFIs) under the Law on Financial Trusts	<ul style="list-style-type: none"> Develop knowledge and capacity related to trust and investment operations. 	<ul style="list-style-type: none"> Establish regulations concerning the operation of investment funds managed under trust by NBFIs relating to the securities business. Ensure that trust and investment operations of NBFIs are based on a prudent risk management framework and appropriate guidelines and procedures. Establish criteria and procedures for authorizing trust and investment products based on risk assessment and consumer/market benefit. 	<ul style="list-style-type: none"> Review and strengthen the supervisory system and legal documents related to investment trusts operated by NBFIs. Review risk management systems and practices of NBFIs related to their investment operations under trust. 	SECC
Collective investment schemes		<ul style="list-style-type: none"> Develop regulations for collective investment schemes. Implement regulations for collective investment schemes. 	<ul style="list-style-type: none"> Enforce legal documents related to collective investment schemes. 	SECC
Other long-term financial market players	<ul style="list-style-type: none"> Encourage the development of other market players that suit emerging market needs by establishing the legal and regulatory framework for them to operate, including securities companies, investment operation managers, securities underwriters, market dealers and brokers, venture capital funds/companies, mutual funds, other collective investment scheme operators, etc. 	<ul style="list-style-type: none"> Ensure that the operations of new market players are subject to licensing. 	<ul style="list-style-type: none"> Continue to develop the capacity for oversight and surveillance over the operations of the money market and capital market. 	MEF, SECC Lead agency: SECC

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Table *continued*

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Financial development district	<ul style="list-style-type: none"> Study models of the establishment of financial development districts. 	<ul style="list-style-type: none"> Develop the regulatory framework to support the development of a financial development district. 	<ul style="list-style-type: none"> Establish a financial development district that is based on available capability. 	MEF

IT = information technology, IOSCO = International Organization of Securities Commissions, MEF = Ministry of Economy and Finance, NBC = National Bank of Cambodia, SECC = Securities and Exchange Commission of Cambodia.

Governance and Infrastructure

Legal and Regulatory Framework

Key Accomplishments:

- The Law on Corporate Accounts, Their Audit and the Accounting Profession was enacted on 8 July 2002.
- The Law on the Amendments of Articles 2 and 15 of the Law on the Commercial Chamber was passed on 23 August 2006.
- The Law on the Amendment of Article 18 of the Law on Auditing was passed on 30 August 2006.
- The Law on Secured Transactions was passed on 22 May 2007.
- The Law on Concessions was passed 19 October 2007.
- The Law on Insolvency was passed 8 December 2007.
- The Law on Financial Leasing was passed 20 June 2009.

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Comprehensive revision of the Law on the Organization and the Conduct of the National Bank of Cambodia (LNBC) and of the Law on Banking and Financial Institutions (LBFI)	<ul style="list-style-type: none"> A parallel revision of the LNBC and the LBFI should be undertaken as soon as possible due to conflicts, loopholes, and need to improve the overall legal framework. Such revision is required with the aim of clarifying and enhancing the institutional framework; clarifying the roles and responsibilities of the authorities in charge to support 	<ul style="list-style-type: none"> Submit the revised laws to the Council of Ministers and the National Assembly. Arrange for effective implementation of the approved laws. 		NBC

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Table continued

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<p>and promote effective cooperation as well as clear accountability principles; the joint efforts to maintain financial stability, liquidity condition support, consumer protection, immunity, etc.</p> <ul style="list-style-type: none"> • Revise the laws to be submitted to the Council of Ministers and the National Assembly. 			
Finalization of the commercial legal framework	<ul style="list-style-type: none"> • Submit the draft law on commercial contracts to the National Assembly, including the chapter on franchise contracts. • Review draft law on the commercial court. • Agree on the common approach to set up a specialized court for handling commercial cases. • Issue implementing regulations after the enactment of the law. 	<ul style="list-style-type: none"> • Submit the draft law on the commercial court to the Council of Ministers and the National Assembly. • Draft the law on commercial agents. 	<ul style="list-style-type: none"> • Set up budget, structure, and administrative system for specialized court and commence operation. • Organize training for court personnel on the handling of commercial disputes, including securities market issues and cases. • Submit the law on commercial agents to the Council of Ministers and the National Assembly. 	MOC, MOJ Lead agency: MOC
Law on financial trust	<ul style="list-style-type: none"> • Draft financial trust law and submit to Council of Ministers and the National Assembly. 	<ul style="list-style-type: none"> • Issue implementing regulations concerning trusts and promotion of their use. 	<ul style="list-style-type: none"> • Deepen the knowledge on the application of trusts on various investment products in the market. 	MEF, NBC, SECC Lead Agency: MEF
Accounting and Audit Law	<ul style="list-style-type: none"> • Revise the Accounting and Auditing Law and related regulations to <ol style="list-style-type: none"> (i) remove inconsistencies with respect to the size of organizations that are required 	<ul style="list-style-type: none"> • Issue additional regulations to implement the Accounting and Auditing Law. 		MEF, NAC, KICPAA Lead Agency: NAC

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Table *continued*

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<p>to produce IFRS-based financial statements;</p> <p>(ii) create monitoring, examining, and evaluating mechanisms of law enforcement and accounting standards compliance; and</p> <p>(iii) improve the institutional capacity of NAC and KICPAA.</p> <ul style="list-style-type: none"> • Submit the revised Accounting and Auditing Law to the Council of Ministers and the National Assembly. • Enactment of the revised Accounting and Auditing Law by the National Assembly. 			
E-commerce law	<ul style="list-style-type: none"> • Revise the proposed law on electronic payments and transfers or incorporate provisions for electronic payments under the e-commerce law. 	<ul style="list-style-type: none"> • Enact the law on electronic payments and transfers or the e-commerce law with provisions on electronic transfers. 		<p>MOC, NBC, SECC</p> <p>Lead agencies: NBC and MOC</p>
Commercial dispute resolution	<ul style="list-style-type: none"> • Complete the examinations for the founding arbitration members. Elect an executive board from the successful arbitrators and officially establish the National Arbitration Center. 	<ul style="list-style-type: none"> • Develop commercial arbitration networks. • Support the development of dispute resolution techniques at the provincial and district levels. 		<p>MOC, MOJ</p> <p>Lead agency: MOC</p>

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Table continued

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<ul style="list-style-type: none"> Support the development of dispute resolution techniques at the national dispute resolution center. Continue to recruit and train new arbitrators. 			
Competition and consumer protection policies	<ul style="list-style-type: none"> Adopt competition policy and draft competition law by taking into account the special needs of the financial sector. Adopt the consumer protection policy and draft consumer protection law. 	<ul style="list-style-type: none"> Submit competition law to the Council of Ministers and the National Assembly. Submit consumer protection law to the Council of Ministers and the National Assembly. 	<ul style="list-style-type: none"> Issue implementing regulations and set up a competition commission to enforce the law and regulations. Issue implementing regulations and set up a consumer protection commission to enforce the law and regulations. 	MEF, MOC, MOJ Lead agency: MOC
Rule of law and law-making process	<ul style="list-style-type: none"> Continue to support the rule of law in the financial sector through public consultations on all draft laws and regulations pertaining to the financial sector. Online display of all laws and regulations relating to the financial sector for public access. Enhance the capacity of the Council of Jurists by providing necessary resources for screening all proposed laws for accuracy and to ensure any conflict with any other law is properly addressed prior to their submission to the Council of Ministers and the National Assembly. 	<ul style="list-style-type: none"> Centralize draft laws with official English translations. Develop local legal drafting capacity. 	<ul style="list-style-type: none"> Assess regulatory impact of drafting new laws, regulations, and rules. 	Council of Jurists, MEF, MOJ, MOC, NBC, SECC Lead agency: Council of Ministers

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Table continued

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<ul style="list-style-type: none"> Set up a central depository office at MOC that will be responsible for online dissemination of all commercial laws, regulations, and rules in Cambodia with accurate and officially approved English translations to provide easy access to investors. 			

IFRS = International Financial Reporting Standards, KICPAA = Kampuchea Institute of Certified Public Accountants and Auditors, MEF = Ministry of Economy and Finance, MOC = Ministry of Commerce, MOJ = Ministry of Justice, NAC = National Accounting Council, NBC = National Bank of Cambodia, SECC = Securities and Exchange Commission of Cambodia.

Accounting and Auditing

Key Accomplishments:

- In April 1999, the International Accounting Standards Research Committee was formed.
- In March 2003, a Sub-decree on the Composition and the Functioning of the National Accounting Council was issued.
- In March 2003, a Sub-decree on the Composition and the Functioning of the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA) was issued.
- In October 2003, 15 accounting standards and 10 auditing standards were introduced.
- In June 2006, a simplified reporting template for small- and medium-sized enterprises (SMEs) was introduced.
- In July 2007, a regulation was issued (*prakas* No. 643) requiring enterprises to submit their financial statements for audit.
- In January 2009, the International Financial Reporting Standards (IFRS) for all entities operating in Cambodia, including any interpretation and modernization of those standards issued by the International Accounting Standards Board, were fully introduced for implementation.
- In August 2009, further regulation was introduced, stipulating that the above financial reporting standards were to be called Cambodia International Financial Reporting Standards (CIFRS) and that application would start from 1 January 2012 for public liability entities, except the CIFRS for SMEs, introduced 1 January 2010.
- In November 2009, KICPAA was admitted as an associate of the International Federation of Accountants (IFAC).
- In May 2010, the Cambodian International Standards on Auditing and Assurance was promulgated.

- KICPAA's code of ethics has been replaced by the Code of Ethics for Professional Accountants issued by IFAC. At the same time, KICPAA's bylaws are being revised as well.
- A review has recently been made of the current state of education of accountants and auditors in Cambodia, including an appraisal against the education requirements of IFAC.

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Monitoring of legal and regulatory compliance	<ul style="list-style-type: none"> • Develop a new system to register all commercial enterprises and annually update key data related to the private sector to provide information to regulatory authorities and the general public. 	<ul style="list-style-type: none"> • Use the new registration system to monitor compliance with regulations and the Law on Taxation, and to provide statistical information on private sector activity to the government. • Strengthen the technical capacity of NAC staff to monitor, examine, and assess the compliance with financial reporting requirements. 	<ul style="list-style-type: none"> • Maintain and further develop the registration system. 	MEF, MOC, NAC Lead agencies: MEF and MOC
Resolutions to address the challenges that occur in the transitional period	<ul style="list-style-type: none"> • Compare the technical differences between Cambodia IFRS and the prudential regulations of NBC for banks and MFIs, and with other financial sector regulators. • Issue appropriate measures to introduce IFRS in a phased manner to banks, MFIs, and other subsectors in the transitional period. 			NAC, NBC Lead agencies: NAC and NBC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Institutional strengthening and capacity building	<ul style="list-style-type: none"> Strengthen NAC's organizational structure, KICPAA, and their authorities. Develop practical mechanisms for monitoring and enforcing compliance with laws, standards, and relevant rules based on the new Law on Accounting and Auditing. Enhance the capacity of NAC staff for monitoring and enforcing relevant laws, standards, and rules. Develop a Cambodian CPA training program. Develop the rules and standards to expand KICPAA's membership. Study and prepare accounting and auditing lexicon to ensure consistent use of technical terminologies in the sector. 	<ul style="list-style-type: none"> Further enhance and strengthen the capacity of NAC to monitor and enforce implementation of relevant laws, standards, and rules. Implement the mechanism to monitor and enforce application of relevant laws, standards, and rules. Launch the Cambodian CPA program. Train core trainers and lecturers on accounting and auditing. Launch accounting and auditing lexicon. 		NAC, KICPAA

CPA = certified public accountant, IFRS = International Financial Reporting Standards, 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.

Payment System

Key Accomplishments

- Updated the national payment system road map.
- Introduced an interim solution for check clearing.
- Established electronic clearing arrangements between five commercial banks.
- Introduced a *prakas* to regulate the operation of third-party operators under the mobile phone payment system.

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Payment system	<ul style="list-style-type: none"> • Commission “full solution” phase of the national payment system, including electronic transfers to effect “delivery vs. payment”, ACH implementation, centralized settlement, defining settlement cash, introduction of direct credit operation, development of money market operations for US dollar/riel traders cash settlement, shared switch implementation, intraday settlement, and introduction of direct debit operation. • Enact the law on the national payment system. • Harmonize payment system arrangements with the SECC and sign the MOU. 	<ul style="list-style-type: none"> • Consider the establishment of a real time gross settlement system (RTGS) depending on market developments. • Adopt the sub-decree and accompanying regulations for implementing the law on the national payment system. • Prepare the oversight principles, policies, and guidelines based on the BIS Core Principles for Systematically Important Payment Systems (SIPS). • Conduct self-assessment against BIS Core Principles of SIPS. • Consider SWIFT connectivity for high-value transactions 	<ul style="list-style-type: none"> • Establish RTGS if the market demands. • Extend payment services to all parts of the country and encourage greater use of electronic payments to replace cash, including the use of network of third-party service providers, mobile phone banking services, prepaid cards, SMS billing arrangements, etc. • Arrange to join the ASEAN Payment System Network. 	NBC, SECC Lead agency: NBC
M-banking	<ul style="list-style-type: none"> • Conduct assessment of licensed third-party processors using the BIS recommended Risk Management Principles. • Install shared switch services. • Issue <i>prakas</i> on standards for mobile phone messages, on eCash, and on eWallet. 	<ul style="list-style-type: none"> • Continuously update knowledge on developments and innovations regarding m-banking and related services. 	<ul style="list-style-type: none"> • Develop financial cooperation arrangements on m-banking and other services. 	NBC

ACH = Automated Clearing House, ASEAN = Association of Southeast Asian Nations, BIS = Bank for International Settlements, MOU = memorandum of understanding, NBC = National Bank of Cambodia, SECC = Securities and Exchange Commission of Cambodia, SMS = short message service, SWIFT = Society for Worldwide Interbank Financial Telecommunication.

Property Valuation, Estate Services, and Housing Development

Key Accomplishments:

- From 2007 to 2011, 87 companies were licensed as property valuers and estate agents.
- In 2008, the Cambodian Valuers and Estate Agents Association was established.
- In 2009, the association became the 8th member of the Association of Southeast Asian Nations Valuers Association (AVA).
- From 2009 to 2011, 20 housing developers were licensed as housing development businesses.
- Participated in AVA congresses and hosted the 17th Pre-Congress.
- Organized several training courses on valuation to improve the capacity of license holders.
- Attended many training sessions on valuation organized by countries in the region.

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Development of the legal framework for property valuation, estate services, and housing development	<ul style="list-style-type: none"> • Develop legal and regulatory framework for property valuation, estate services, and housing development. • Develop appropriate standards for Cambodia, such as valuation standards, estate agency standards, code of professional ethics, rules for execution, and table of commission fees for valuers and estate agents. • Prepare the draft law on housing development and submit to the Council of Ministers and the National Assembly. • Draft the law on property valuation and estate services. 	<ul style="list-style-type: none"> • Adopt the law on housing development and the law on property valuation and estate services. • Develop accommodating regulations to implement the law on housing development and the law on property valuation and estate services. 	<ul style="list-style-type: none"> • Review and upgrade as necessary the legal and regulatory framework pertaining to property valuation and estate markets to meet international standards. • Strengthen law enforcement. 	MEF, MLMUPC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Capacity building for property valuers, estate service providers, and housing developers	<ul style="list-style-type: none"> Develop a training program and establish a professional training institute for valuers, appraisers, and real estate participants within existing training facilities. Strengthen the capacity of regulators, valuers, appraisers, real estate agents, housing developers, and other market participants through national and international programs. 	<ul style="list-style-type: none"> Train staff and provide services for external users. Continue human resource capacity building. 	<ul style="list-style-type: none"> Improve the professional skills of valuers to meet international standards. 	MEF, MLMUPC

MEF = Ministry of Economy and Finance; MLMUPC = Ministry of Land Management, Urban Planning and Construction.

Capacity Building

Future Reforms:

Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
Comprehensive needs assessment for capacity building of financial sector regulatory agencies	<ul style="list-style-type: none"> Designate focal points for capacity building within each agency to undertake training needs assessment. Conduct training needs assessment or survey of all sectors at ministries and institutions to identify the training needs of the financial sector. Prioritize training needs and draw up comprehensive training programs, determine training needs that are common and those that need specialized expertise, and determine how these can be delivered in the most cost-effective manner, the facilities to be used, and funding requirements for the financial sector over a 5-year period. Identify areas where training and capacity building can be organized together in one training center and formulate a capacity-building road map. 	<ul style="list-style-type: none"> Increase cooperation among authorities to share training and capacity-building efforts. Develop training cross-postings and on-the-job training for ministry and agency staff who are selected on the basis of their performance and potential, in order to enhance cross-fertilization of knowledge to broaden civil service skills and to provide job enrichment according to projected career paths of the staff. Ensure close coordination and planning of training delivered by various development partners to ensure wider coverage and applicability to the domestic situation. Provide training and capacity building on international accounting and reporting standards (IAS/IFRS) Include training and capacity building on IFRS, IAS, and other international standards on their application to banks and financial institutions. 	<ul style="list-style-type: none"> Develop long-term capacity-building programs for staff at all levels. Develop regional and international cooperation arrangements on capacity building, such as employee exchange, cross-postings, etc. Adequacy of capacity building shall be periodically reassessed in light of achievements or progress and professional and technical challenges arising from new developments of any type. 	MEF, MOC, NBC, SECC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
		<ul style="list-style-type: none"> • Trained staff to be required to transfer knowledge to other staff through lecturing and on-the-job training. • Develop “train the trainers” programs to improve in-house skills for training and development. 		
Implementation of effective “train the trainers” policies within competent institutions	<ul style="list-style-type: none"> • Each agency to identify potential candidates with adequate experience and background and designate key trainers who are willing to take training responsibilities. • Commence training of trainers covering core training courses designed for newly recruited staff and for staff promoted or taking new positions within an institution (authorities). • Take advantage of technical training delivered by technical assistance providers to “trained specialists” who, in turn, could become key trainers. 	<ul style="list-style-type: none"> • Increasingly disseminate knowledge and capacity among officers and staff based on internal trainers’ performances and personal experience. • Develop watch functions on international standards, regulatory framework, and market developments; make use of the internal trainers to disseminate the information about the changes; and maintain up-to-date knowledge on a broader sector level. 	<ul style="list-style-type: none"> • Pursue the long-term goal of gaining increasing independence with regard to training needs and available resources for capacity building (by putting the emphasis on training and practical application of experience). 	MEF, NBC, SECC
Accounting and auditing	<ul style="list-style-type: none"> • Require all universities that provide accounting and auditing degrees to adopt a standard IFRS-based syllabus. • Continue scholarship program for students undertaking certified accounting technician (CAT) and CPA programs. 	<ul style="list-style-type: none"> • Continue scholarship program for students undertaking CAT and CPA course. • Continue “train the trainer” courses for accounting and auditing 		NAC, NBC, SECC, KICPAA Lead agency: NAC

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Development Policy Area	SHORT-TERM Target 2011–2014	MEDIUM-TERM Target 2014–2017	LONG-TERM Target 2017–2020	Agencies Concerned
	<ul style="list-style-type: none"> • “Train the trainer” courses for accounting and auditing lecturers need to be introduced to develop the capabilities of trainers at both universities and those engaged in the CPA course. • Develop the capacity of MEF, NBC, and SECC to understand financial statements prepared under the modern accounting framework and enhance their ability to monitor compliance with prudential requirements through both formal technical (classroom) training and mentoring or on-the-job training by experienced accountants. 	<p>lecturers to develop the capabilities of trainers at universities and those engaged in the CPA course.</p> <ul style="list-style-type: none"> • Continue developing capacity of officers and staff of MEF, NBC, and SECC to understand financial statements prepared under the modern accounting framework and enhance their ability to monitor compliance with prudential requirements through both formal technical (classroom) training and mentoring or on-the-job-training by experienced accountants. 		

CPA = certified public accountant, KICPAA = Kampuchea Institute of Certified Public Accountants and Auditors, MEF = Ministry of Economy and Finance, MOC = Ministry of Commerce, NAC = National Accounting Council, NBC = National Bank of Cambodia, SECC = Securities and Exchange Commission of Cambodia.

Appendix 1

Key Financial Data

Indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Money supply/ GDP (%)	13.0	15.6	16.3	18.4	18.4	20.5	25.8	29.3	32.4	38.3
Number of registered banks	33	32	17	17	18	20	24	30	33	36
Average CAR (%)	58.5	49.3	40.6	34.5	32.0	26.0	24.0	27.6	32.3	31.4
Average liquidity ratio of banks (%)	–	–	–	–	118.0	108.0	104.2	81.3	91.0	90.6
Private sector credit/ GDP (%)	6.0	6.3	7.2	8.5	9.3	12.2	18.3	23.6	24.5	28.0
Number of loan accounts ('000)	68.2	86.8	105.3	123.9	145.2	164.9	197.3	230.1	263.0	286.0
Total deposits/GDP (%)	10.4	12.7	13.1	15.0	14.5	17.9	26.6	22.8	30.7	34.4
Number of bank depositors ('000)	62	84	113	149	206	285	456	699	927	1,067
Number of bank branches	–	–	–	35	47	106	155	311	347	360
Number of bank employees ('000)	–	–	–	–	3	4	6	9	10	11
NPLs/total loans (%)	8.1	14.6	12.7	9.6	7.3	9.8	3.4	3.7	4.37	3.05
Average return on assets of banks (%)	0.6	1.1	0.9	1.2	1.8	2.8	2.8	2.8	1.3	1.4
Average interest spread of banks (%)	12.5	14.0	13.3	15.3	12.2	11.8	11.1	9.5	11.1	12.7
Total assets of five largest banks/total assets (%)	62.7	70.3	68.6	66.6	63.3	66.3	70.0	71.0	68.0	65.7
Total deposits of five largest banks/ total deposits (%)	80.8	83.6	80.9	78.3	71.0	70.0	73.0	73.0	75.6	74.8
Number of checks cleared daily	362	558	640	797	923	1,173	1,486	1,880	1,986	2,195
Number of ATMs	–	–	–	–	–	64	118	338	406	501
Number of EFTPOS	–	–	–	–	–	–	–	3,295	3,305	3,529

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Indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of debit cards ('000)	–	–	–	–	–	–	–	322	453	592
Number of licensed and registered MFIs	0	30	34	38	39	40	42	44	46	53
Average CAR of MFIs (%)	–	–	–	–	55	44	20	20	24	22
Total number of MFI borrowers ('000)	410.0	328.0	265.0	322.0	368.0	471.0	624.1	852.1	904.3	1,020.7
Total amount of MFI loans (\$ million)	35.9	51.3	32.6	40.9	49.2	92.2	160.1	284.7	308.3	439.2
NPLs/total loans (%)	–	–	–	–	0.8	0.3	0.2	0.4	2.8	1.2
Total amount of MFI deposits (\$ million)	3.8	7.1	2.5	2.0	1.9	2.9	6.1	6.4	10.8	42.5
Total number of MFI depositors ('000)	158.6	107.2	88.5	123.0	137.6	113.3	148.0	155.3	171.2	240.1
Number of MFI branches (including head office)	–	79	163	382	488	727	882	1,105	1,315	1,538
Number of MFI employees	–	384	568	1,437	1,817	2,503	3,511	5,148	6,707	7,715
Number of insurance firms (including Cambodia Re)	1	2	5	4	4	4	6	6	7	7
Total insurance premium (\$ million)	3.6	5.5	8.8	10.1	10.8	13.0	17.5	20.7	20.1	24.8
Total number of insurance policies	–	–	28,297	22,344	18,407	24,277	29,124	33,183	39,831	48,024

CAR = capital adequacy ratio, EFTPOS = electronic funds transfer at point of sale, GDP = gross domestic product, MFI = microfinance institution, NPL = nonperforming loan.

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

Appendix 2

Composition of the Committee on Economic and Financial Policy, the Steering Committee and the Technical Working Group for Implementing the Financial Sector Development Strategy 2011–2020

Committee on Economic and Financial Policy

1	Minister of Economy and Finance	Chair
2	Governor of the National Bank of Cambodia	Vice Chair
3	Chairman of the Supreme National Economic Council	Permanent Vice Chair
4	Minister of Planning	Member
5	Minister of Land Management, Urban Planning and Construction	Member
6	Minister of Commerce	Member
7	Minister of Agriculture, Forestry and Fisheries	Member
8	Minister of Industry, Mine and Energy	Member
9	Minister of Tourism	Member
10	Minister of Labor and Vocational Training	Member
11	Minister of Social Affairs, Veterans and Youth Rehabilitation	Member
12	Minister of Water Resource Management and Meteorology	Member
13	Minister of Public Works and Transport	Member
14	Secretary of State of the Office of the Council of Ministers	Member
15	Secretary General of the Council for the Development of Cambodia	Member

Committee on Economic and Financial Policy (Members attending the Inter-Ministerial Meeting on 24 August 2011 in preparation for the Plenary Session of the Council of Ministers)

1	Keat Chhon	Minister of Economy and Finance	Chair
2	Chea Chanto	Governor of the National Bank of Cambodia	Vice Chair
3	Aun Porn Moniroth	Chairman of the Supreme National Economic Council	Permanent Vice Chair
4	Chhay Than	Minister of Planning	Member
5	Thong Khon	Minister of Tourism	Member
6	Ith Sam Heng	Minister of Social Affairs, Veterans and Youth Rehabilitation	Member
7	Tram Iv Tek	Minister of Public Works and Transport	Member
8	Pan Sorasak	Representative of Minister of Commerce	Member
9	Orm Kimsea	Representative of Minister of Agriculture, Forestry and Fisheries	Member
10	Khann Morn	Representative of Minister of Labor and Vocational Training	Member

11	Bun Hean	Representative of Minister of Water Resources and Meteorology	Member
12	Hing Thoraxy	Representative of Council of Ministers	Member
13	Rath Sarin	Representative of Minister of Land Management, Urban Planning and Construction	Member
14	Ith Prang	Representative of Minister of Industry, Mine and Energy	Member
15	Sok Chenda Sophea	Secretary General of the Council for the Development of Cambodia	Member
16	Vonsej Vissoth	Secretary General, Ministry of Economy and Finance	Secretary

Steering Committee for Implementing the Financial Sector Development Strategy 2011–2020

1	Chea Chanto	Governor, National Bank of Cambodia (NBC)	Chair
2	Chea Peng Chheang	Secretary of State, Ministry of Economy and Finance (MEF)	Vice Chair
3	Hang Chuon Naron	Secretary of State, MEF	Vice Chair
4	Mut Khiev	Secretary of State, Ministry of Social Affairs, Veterans and Youth Rehabilitation (MoSVY)	Member
5	Mao Thora	Secretary of State, Ministry of Commerce (MOC)	Member
6	Khuon Ranine	Under Secretary of State, MoSVY	Member
7	Sum Sannisith	Secretary General, NBC	Member
8	Ros Seilava	Deputy Secretary General, MEF	Member
9	Chea Vuthy	Deputy Secretary General of the Cambodian Special Economic Zone Board/Cambodia Institute of Banking, Council for the Development of Cambodia (CDC)	Member
10	Heng Sour	Director General of Administration and Finance, Ministry of Labor and Vocational Training (MLVT)	Member
11	Ming Bankosal	Director General, Securities and Exchange Commission of Cambodia (SECC)	Member
12	Chan Mono	Director General of Administration and Finance, Ministry of Justice (MOJ)	Member
13	Kao Thach	Deputy Director General, SECC	Member

Technical Working Group for Implementing the Financial Sector Development Strategy 2011–2020

1	Ros Seilava	Deputy Secretary General, MEF	Chair
2	Phan Ho	Secretary General, Financial Intelligence Unit, NBC	Vice Chair
3	Kao Thach	Deputy Director General, SECC	Vice Chair
4	Mey Vann	Director of Financial Industry Department (FID), MEF	Vice Chair
5	Nguon Sokha	Technical Director General, NBC	Member
6	Chea Serey	Deputy Director General of Supervision Department, NBC	Member
7	Saneth Vathna	Deputy Director General, Directorate of Technical Affairs, MoSVY	Member
8	Thai Saphear	Director of Economic Research Department, NBC	Member
9	Pen Thirong	Director of Investment and Cooperation Department, MEF	Member
10	Om Dararith	Director of Legal Affairs Department, MOC	Member
11	Kaing Socheat	Director of Accounting and Finance Department, MOC	Member
12	Sok Dara	Director of Securities Intermediaries Supervision Department, SECC	Member
13	Chhun Sambath	Director of Securities Issuance Department, SECC	Member
14	Haing Tola	Director of Department of Finance and State Properties, MLVT	Member
15	Chhan Sina	Director of Department of Financial Affairs, MOJ	Member
16	Nong Piseth	Deputy Director of FID, MEF	Member
17	Bou Chanphirou	Deputy Director of FID, MEF	Member
18	Ros Phirun	Deputy Director of FID, MEF	Member
19	Chou Vannak	Deputy Director of FID, MEF	Member
20	So Polen	Director of Securities Market Supervision Department, SECC	Member
21	Sok Soken	Deputy Director of Investment Project Evaluation and Incentives Department, CDC	Member
22	Chuor Rattanak	Director of National Social Security Fund for Civil Servants (NSSFC), MoSVY	Member
23	Hem Bora	Director of National Fund for Veterans, MoSVY	Member
24	Cheng Kim Heang	Chief of Accounting Bureau, MOJ	Member
25	Cheng Sokmean	Deputy Director Department of Financial Affairs, MOJ	Member
26	Chhoeng Chantha	Head of Financial Market Division, MEF	Member
27	Ney Sakal	Head of Micro-Finance and SMEs Division, MEF	Member
28	Mao Pao	Acting Head of Real Estate Division, MEF	Member
29	Ngor Dalene	Acting Head of Pawn Business Supervision Division, MEF	Member
30	Chhorn Dalis	Deputy Head of Insurance Division, MEF	Member
31	Hak Ponnarin	Deputy Head of ADB Division, MEF	Member
32	Bou Tharin	Deputy Secretary General of National Accounting Council, MEF	Member

Appendix 3

ADB Financial Sector Development Strategy 2011–2020 Team

ADB Mission Team

1	Samiuela Tukuafu	Mission Leader/Principal Financial Sector Specialist
2	Hiroyuki Aoki	Senior Financial Sector Specialist
3	Kelly Hattel	Financial Sector Specialist (Rural and Microfinance)
4	Poullang Doung	Economics and Finance Officer
5	Florissa V. Barot	Operations Assistant

ADB TA7520 Consultant Team

1	Renato M. Limjoco	Team Leader / International Banking Expert
2	Desmond Robert Crane	International Accounting Expert
3	Russell Ivan Leith	International Insurance and Pension Fund Expert
4	Rodolfo M. Matienzo	International Microfinance Expert
5	Frederika P. Santos	International Capital Market Expert
6	Shaan W. Stevens	International Commercial Law Expert
7	James E. Swander	International Leasing Expert
8	Dy Davuth	National Financial Sector Expert
9	Norng Makara	National Insurance Expert
10	Sam Sokhom	National Capital Market Expert
11	Suon Visal	National Legal Expert

Financial Sector Development Strategy 2011–2020

With a rapidly growing commercial economy that requires a sound financial system to sustain growth, Cambodia is committed to the long-term development of the financial sector, channeling financial resources to productive investments, and managing the inherent risks to achieve sustainable economic growth over the long term and contribute to poverty reduction. Financial Sector Development Strategy 2011–2020 reflects Cambodia’s achievements to date, provides an assessment of current challenges and constraints to financial sector development, the long-term goals, and a prioritized set of action plans for the next decade. Said strategy will enable Cambodia’s financial sector to integrate into the regional financial system and support her long-term economic development agenda.

About the Asian Development Bank

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to two-thirds of the world’s poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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