

Financial Sector Development Strategy

| Foundations of Financial Sector Development | Immediate Priorities (within 3 years) Target: 2006-2009 | Intermediate and Medium Term Priorities (3 to 5 years) Target: 2009-2012 | Long Term Goals (5 to 10 years) Target: 2012-2015 |
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| <p>Vision: Appropriate legal, institutional and policy foundations to promote market based finance and support good governance and the rule of law:</p> | | | |
| <p>Preconditions for Financial Development and Economic Growth:</p> <ul style="list-style-type: none"> • Effective governance • Property rights and their protection • Enforcement of contracts and resolution of commercial disputes • Human capital development | <p>Completing land and real property registration, focusing on areas which are or are likely to experience increasing numbers of transaction (major urban areas). (Lead agency: MLMUC)</p> <p>Establishing a key legal and regulatory framework for property valuation and real estate transaction services. (Lead agency: MEF)</p> <p>Strengthen the capacity building for valuers, appraisers, and real estate regulator. (Lead agency: MEF/MLMUC)</p> <p>Implementation and enforcement of Cambodia's commercial legal framework, including enactment of the Commercial Contract Law, implementation through appropriate regulations and</p> | <p>Completing the land and real property registration process: significant on-going priority. (Lead agency: MLMUC)</p> <p>Developing appropriate systems relating to real estate valuation and business and strengthening a legal and regulation enforcement. (Lead agency: MEF)</p> <p>Establishing a training institute for valuers, appraisers, and real estate participants. (Lead agency; MEF)</p> <p>Implementation and enforcement of Cambodia's commercial legal framework, continued support for development of commercial arbitration, and implementation of the Commercial Contract Law and commercial court system,</p> | <p>Completing the land and real property registration process. (Lead agency: MLMUC)</p> <p>Reviewing and upgrading as necessary legal and regulatory framework for real estate markets to international standards, as well as continuing capacity building. (Lead agency: MEF)</p> |

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| | <p>administrative systems, dissemination, curriculum development and training activities. (Leading agency: MoC / MoJ)</p> <p>Development of the commercial arbitration system, through appropriate regulations and administrative systems (including a commercial arbitration center), dissemination, curriculum development and training activities. (Leading agency: MoC)</p> <p>Support for development of local dispute resolution techniques at the provincial and other levels will be explored. (Leading agency: MoC/MoJ)</p> <p>Human capital development. This is an immediate and on-going need extending across 2006-15. Priorities include continued government staff development, public education program development, support for private sector training initiatives (including those of KICPAA, ABC, CMA and GAIC), and continued support of curriculum development for universities and other education and training</p> | <p>including appropriate supporting regulations and administrative systems, dissemination, curriculum development and training. (Lead agency: MoC/MoJ)</p> <p>Comprehensive legal and judicial reform process. (Lead agency: MoC/MoJ)</p> | |
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| | institutes. (Lead agency: NBC/MEF/MoC) | | |
| <p>Institutional Underpinnings of Finance:</p> <ul style="list-style-type: none"> • Secured transactions and leasing • Company law • Sustainable fiscal and taxation system • Macroeconomic and monetary policy and related institutional framework • Rule of law | <p>Continuing to support the rule of law in the financial sector through:</p> <ul style="list-style-type: none"> • public consultation relating to all draft laws and regulations relating to the financial sector, and • public availability of all laws and regulation relating to the financial sector through the internet. <p>(Lead agency: NBC/MEF/MoC)</p> <p>Enactment of pending commercial laws / codes and development of related regulation, curriculum development and training, including for the Secured Transactions Law, Leasing Law, Law on Commercial Contracts, Agency Law and Franchise Law.</p> <p>(Lead agency: NBC/MoC)</p> <p>Developing and implementing a progressive company framework, including gradated requirements for small companies, other private companies, public companies and listed companies.</p> <p>(See Financial Markets). (Lead agency: MEF / MoC)</p> <p>Improving monetary policy</p> | <p>Implementation and enforcement of commercial laws/codes, related regulations and administrative system, dissemination, curriculum development and training, including for the Secured Transactions Law, Leasing Law, Law on Commercial Contracts, Agency Law and Franchise Law and establishment of Commercial Law and Document Center.</p> <p>(Lead agency: MoC/MoJ)</p> <p>Development of rule of law system in commercial context through developing a commercial court system and comprehensive legal and judicial reform process.</p> <p>(Lead agency: MoC / MoJ)</p> <p>Development of rule of law system in commercial context through developing a commercial court system and comprehensive legal and judicial reform process.</p> <p>(Lead agency: MoC / MoJ)</p> <p>Implementing progressive company framework.</p> <p>(Lead agency: MEF / MoC)</p> | <p>Implementing rule of law system in commercial context through commercial court system and continued comprehensive legal and judicial reform process.</p> <p>(Lead agency: MoC / MoJ)</p> <p>Depending on demand, issuance of larger denomination riel notes.</p> <p>(Lead agency: NBC)</p> <p>Continuing comprehensive legal and judicial reform process.</p> <p>(Lead agency: MoC / MoJ)</p> |

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| | <p>instrument and develop market based monetary policy framework (including the payment system – see Banking and Microfinance) and money / interbank markets including short term government securities (see Financial Markets). (Lead agency: NBC)</p> | <p>Continued Public Financial Management Reform. (Led agency: MEF)</p> <p>Monetary development: Increasing confidence in the domestic currency and its use, focusing on public financial management reform, national wholesale payment system development, and money / interbank market development including short term government securities. (Lead agency: NBC / MEF)</p> <p>Implement a fiscal incentive framework, including payment of government salaries and other expenditures in riel through bank accounts and the payment system, and requiring tax and other government payments likewise to be made in riel through the payment system. (Lead agency: MEF / NBC)</p> | |
| | <p>Establish key legal and regulatory framework for real estate transactions, and build capacity of real estate market authority (including private sector involvement). (Lead agency: MEF)</p> | <p>Establish key legal and regulatory framework for real estate transactions, and build capacity of real estate market authority (including private sector involvement). (Lead agency: MEF)</p> | |
| <p>Financial Market Infrastructure:</p> <ul style="list-style-type: none"> • Insolvency • Financial information | <p>Enactment of Insolvency Law and development of related regulations and administrative</p> | <p>Implementation and enforcement of pending commercial laws / codes. (Lead</p> | |

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| <ul style="list-style-type: none"> • Corporate governance • Corruption and market integrity | <p>systems, as well as dissemination, curriculum development and training activities. (Lead agency: MoC)</p> <p>Continued development of financial information infrastructure, including accounting, auditing, related administrative systems and organizations (NAC, KICPAA), and human capacity development. (Lead agency: MEF)</p> <p>Launch of inter-bank credit information system. (Lead agency: NBC)</p> <p>Completion and implementation of anti-money laundering framework and development of appropriate regulation for financial crime (see Financial Markets). (Lead agency: NBC/MEF/MOJ/MOI)</p> | <p>agency: MoC)</p> <p>Moving responsibility for the interbank credit information system to the private sector. (Lead agency: NBC)</p> | |
| <p>Banking Vision: A competitive, integrated and efficient banking system that is properly regulated and supervised and effectively mobilizes savings to provide financing to support economic growth and poverty reduction.</p> | | | |

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| | <p>Continuing improvement of supervision, capacity building at NBC and banks, and customer education and awareness activities. (Lead agency: NBC)</p> <p>Automating cheque clearing and settlement. (Lead agency: NBC)</p> <p>Development of national wholesale electronic payment system (including support for interbank market), initially with banks and specialize banks as participants. (Lead agency: NBC)</p> | <p>Expanding payment system and credit information system access to licensed MFIs. (Lead agency: NBC)</p> <p>Providing collateralization of payment system exposure through short term government securities. (Lead agency: NBC)</p> <p>Continued capacity building at NBC and banks. (Lead agency: NBC)</p> <p>Customer education and awareness activities. (Lead agency: NBC)</p> | <p>To commence on completion of the Immediate and Intermediate Objectives are:</p> <p>Comprehensive review of banking law nd regulations to update / improve as necessary. (Lead agency: NBC)</p> <p>Implementation of changes resulting from comprehensive review of banking law and regulations. (Lead agency: NBC)</p> <p>Review of depositor protection system. (Lead agency: NBC)</p> |
| | <p>Bringing money lenders and changers into the formal regulatory framework, initially through registration and filing requirements. (Lead agency: NBC)</p> <p>Comprehensive development of NBC IT / MIS systems to support functions. (Lead agency: NBC)</p> <p>Strengthening NBC and judicial implementation / enforcement. (Lead agency: NBC / MoJ)</p> | <p>Continuing improvement of supervision. (Lead agency: NBC)</p> <p>Supporting development of new financial products / activities in the context of equal treatment of providers and financial stability. (Lead agency: NBC / MEF)</p> <p>This will include regulating money lenders and changers to the extent they are conducting banking business. (Lead agency: NBC)</p> | |
| <p>Microfinance</p> <p>Vision: A viable, pro-poor and</p> | | | |

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| effective microfinance system that will provide affordable financial services to enable the poor to enhance income and reduce poverty | | | |
| | <p>Framework for microfinance:</p> <ul style="list-style-type: none"> • MFIs and CMA – operations • NBC – regulation and supervision • MEF – policy development <p>Improved MFI common reporting standards for sound financial performance analysis and information provision. (Lead agency: NBC)</p> <p>Development of improved NBC supervision visit methodologies for assessing and rating MFIs. (Lead agency: NBC)</p> <p>Review of existing framework for unregistered / informal financial institutions. (Lead agency: NBC)</p> <p>Improvement in MIS in MFIs (short studies followed by development program). (Lead agency: NBC)</p> <p>Short studies to prepare groundwork for further, programmed development. (Lead agency: MEF)</p> | <p>Development of Microfinance Training facilities to cope with off the job training and capacity building support within MFIs. (Lead agency: NBC)</p> <p>Development of MFI Credit Information System and access for licensed MFIs to banking system CIS. (Lead agency: NBC)</p> <p>Introduction of ratings capabilities in Cambodia to undertake MFI ratings regularly. (Lead agency: NBC)</p> <p>CMA to cooperate with CCRD to develop and disseminate improved policy options, to improve dialogue, advocacy, research and information exchange. (Lead agency: MEF / CCRD/ CMA)</p> <p>Development of a private sector wholesale market for loan financing for MFIs, linked to the commercial banking sector. (Lead agency: NBC / MEF)</p> | <p>Creation of support network for retail MFIs, below level of licensed MFIs, for provision of intermittent technical assistance. (Lead agency: MEF)</p> <p>Develop microfinance ratings companies, locally, which can, over the long term, assist MFIs in policy and operations improvement. (Lead agency: NBC)</p> |

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| | Creation of capabilities to support other forms of microfinance institutions (i.e. community-based, non-registered, etc.) to broaden the types of needs being met, and introduce greater variety and flexibility into the system. (Lead agency: NBC / MEF) | Create links between microfinance market participants and organizations dealing with the destitute, to develop programs and methodologies for destitute people to graduate into the microfinance market and become non-destitute. (Lead agency: MEF) | |
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| Non-Bank Finance | Immediate Priorities (within 3 years) Target: 2006-2009 | Intermediate and Medium Term Priorities (3 to 5 years) Target: 2009-2012 | Long Term Goals (5 to 10 years) Target: 2012-2015 |
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| Insurance Vision: An insurance sector that protects businesses and individuals from catastrophic events and a pension system that will support retirement planning, both of which can provide capital for long-term investment | | | |
| | Comprehensive Review of entire regulatory system in light of international standards and best practices, including: <ul style="list-style-type: none"> • Solvency requirements • Controls over investments • Reinsurance requirements: retention limits; accounting for receivables from | Life Insurance: <ul style="list-style-type: none"> • Authorize life insurance contracts as a funding vehicle for pension and retirement saving plans. (Lead agency: MEF) Actuarial Requirements: The introduction of life | Implement social security law and related regulations. (Lead agency: Ministry of Social Affairs, Veteran, and Youth Rehabilitation / MEF) Develop a regulatory system to deal with private pension, including: |

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| | <p>reinsurance companies</p> <ul style="list-style-type: none"> Accounting standards approved for insurance companies in Cambodia Powers of supervisor and remedial tools. Brokers and agents. Clarify and simplify rules for licensing of intermediaries. A clear path for exist from the marketplace, whether exist is voluntary or forced Regulations concerning bankruptcy and liquidation of insurance companies under the Insolvency Law. Clear and transparent policy-making process. Revise regulatory framework so as to enable the licensing and operation of companies that sell life insurance policies. (Lead agency: MEF) Reporting transparency, especially statistics. (Lead agency: MEF) <p>Structural changes:</p> <ul style="list-style-type: none"> Creation of policy unit with sole responsibility for developing regulatory / supervisory policy relating to the insurance sector, shared with other financial sector supervisors. | <p>insurance operations will necessitate the establishment of actuarial rule mandating that each company appoint an actuary qualified through one of the recognized international organizations. (Lead agency: MEF)</p> <p>Training Institute:</p> <p>Consider the creation of a training institute based in Cambodia to contribute to training of sales representatives as well as supervisors and office managers. (Lead agency: MEF)</p> <p>Consumer Protection and Public Awareness:</p> <ul style="list-style-type: none"> Consumer affairs: establish a facility to which consumers can direct any complaints or inquiries regarding their insurance contracts. Government and industry, working together adopt measures to raise public awareness of what insurance | <ul style="list-style-type: none"> vesting rules for employer contribution; funding requirements for guaranteed benefits; actuarial certification for defined benefit plans; investment rules that stress <p>yield without sacrificing safety and necessary liquidity. (Lead agency: Ministry of Social Affairs, Veteran, and Youth Rehabilitation / MEF)</p> <p>Examine the advantages of including a mandatory savings plan for formal sector workers, perhaps as a part of the social security system. (Lead agency: Ministry of Social Affairs, Veteran, and Youth Rehabilitation / MEF)</p> |
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| | <p>(Lead agency: MEF)</p> | <p>is and what services can be expected from an insurance policy.</p> <ul style="list-style-type: none"> • Claims service: Supervisors monitor claims handling practices as part of any inspection. • Training for the legal community. <p>(Lead agency: MEF)</p> <p>Tariff Requirements and Uniform Policy Wordings:</p> | |
| | <p>Financial reporting standards:</p> <ul style="list-style-type: none"> • Review of financial reporting standards for insurance companies and comprehensive standards developed and promulgated: “standards required of insurance companies in Cambodia”. • Establish clear rules regarding the establishment of loss reserves for claims. • Define audit requirements in respect of insurance companies. <p>Matters relating to activities of the supervisor:</p> <ul style="list-style-type: none"> • Capacity building: comprehensive program of | <ul style="list-style-type: none"> • Trade association to develop and propose a schedule of minimum prices to be charged for the most common insurance products. • Tariffs proposed should be supported by independent professional assessment to ensure that they will be adequate to support the claim payments that could arise under the policies. • The Insurance Supervisor would accept the tariffs and prescribe that the rates charged by companies should not be less than those specified in the tariff schedules. • Arrangements must be made for enforcement of tariffs. | |

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| | <p>training for personnel engaged in supervision of insurance companies.</p> <ul style="list-style-type: none"> • Consideration of outsourcing of certain supervisory functions, especially in the regional context. • Increase reliance on professionals: Inspectors should not duplicate the work of auditors. | <p>Feasibility study into the development of a private, voluntary pensions system in Cambodia and Promotion of voluntary savings for retirement through fiscal incentives. (Lead agency: MEF)</p> | |
| | <ul style="list-style-type: none"> • Discontinue policy form approvals and adopt a file-and-use approach. • Develop procedures manuals to guide the work of supervisory staff. • Introduce computer support to supervisory work. • Membership in the International Association of Insurance Supervisors (IAIS). (Lead agency: MEF) <p>Completion of privatization of CAMINCO. (Lead agency: MEF)</p> <p>Inter-Ministerial Collaboration. Inter-Ministerial committee</p> | | |

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| | <p>with representatives of the Ministry of Public Works and Transport, Ministry of Land Management and Urban Planning, Ministry of Tourism and Ministry of Interior to promote greater compliance with the rules calling for mandatory insurance of vehicles and of construction sites. (Lead agency: MEF)</p> <p>Life Insurance: Feasibility study to assess the potential market for life insurance business in Cambodia and</p> <p>support for legal and regulatory development to support development of life insurance in Cambodia. (Lead agency: MEF)</p> <p>Micro-insurance. Introduce a special system for regulating and supervising micro-insurance activities and institutions. (Lead agency: MEF)</p> | | |
| <p>Financial Markets</p> <p>Vision: Financial markets which appropriately address risks,</p> | | | |

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| remove obstacles to financial development and support risk management and financial resource accumulation and allocation. | | | |
| | <p>Money / Interbank Markets:</p> <ul style="list-style-type: none"> • Wholesale national payment system (see Banking and Microfinance and Foundations of Finance). (Lead agency: NBC) • Continued Public Financial Management Reform. (Lead agency: MEF) • Electronic government securities system (linked to the Secured Transactions Registry, capital requirements, payment system) under the supervision of NB. Issuance to begin with short term bills and notes (less than one year in duration, preferably begin with 30 day notes). (Lead agency: NBC / MEF) | <p>Money / Interbank Markets:</p> <ul style="list-style-type: none"> • Continue to enhance Government / NBC fiscal management through Public Financial Management Reform and related activities. (Lead agency: MEF) • Extend maturity range of government securities on the basis of appropriate advice and preparation. (Lead agency: MEF / NBC)] • Consider allowing regulated financial institutions (initially banks, then extending to licensed MFIs) to offer short term paper (one year or less) through government system. (Lead agency: NBC) | <p>Money / Interbank Markets:</p> <ul style="list-style-type: none"> • Continue to enhance Government / NBC fiscal management through Public Financial Management Reform and related activities. (Lead agency: MEF) • Extend maturity range of government securities on the basis of appropriate advice and preparation. (Lead agency: MEF / NBC) |
| | <p>Capital Markets:</p> <ul style="list-style-type: none"> • Enact Insolvency Law. (Lead agency: MoC) | <p>Capital Markets:</p> <ul style="list-style-type: none"> • Implement progressive, graduated framework for | <p>Capital Markets:</p> <p>Consider development of:</p> <ul style="list-style-type: none"> • Investment funds |

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| | <ul style="list-style-type: none"> • Development of progressive company framework with graduated requirements for small companies, other private companies, public companies and listed companies prior to permitting general registration of public companies. (Lead agency: MEF / MoC) • Investor education and human resource development. (Lead agency: MEF) • Develop partnership with foreign securities exchanges and regulatory organizations. (Lead agency: MEF) <p>Enactment of Law on Non-Government Securities which provides at a minimum the following:</p> <ul style="list-style-type: none"> • Money / interbank market – Complete Immediate Steps. (Lead agency: NBC / MEF) • Enforcement framework / authority for fraud etc. | <p>companies addressing small companies, other private companies, public companies and listed companies. (Lead agency: MEF / MoC)</p> <ul style="list-style-type: none"> • Securities depository for all public companies, including real name registration, price data, and both debt and equity securities of public companies. (Lead agency: MEF / MoC) • Implementation of financial enforcement and regulation. (Lead agency: MEF) • Continuing development financial information and company regulation. (Lead agency: MEF / MoC) <p>• Preparation for securities exchange, including feasibility study, technological development, restricting public offerings of securities only through exchange (including funds), appropriate securities intermediaries (including banks, insurance companies and securities firms) and consideration of investor compensation scheme.</p> | <ul style="list-style-type: none"> • Pensions / Provident fund scheme • Securitization framework / institution • Derivatives (Lead agency: MEF) |
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| <p>General and Cross-Sectoral Issue</p> | <ul style="list-style-type: none"> Central electronic securities depository for all public company securities (linked to Secured Transactions registry). (Lead agency: MEF) <p>Continuing improvement of accounting / auditing capacity. (Lead agency: NBC / MEF)</p> <p>Immediate Priorities (within 3 years) Target: 2006-2009</p> | <p>(Lead agency: NBC / MEF)</p> <p>Intermediate and Medium Term Priorities (3 to 5 years) Target: 2009-2012</p> | <p>Long Term Goals (5 to 10 years) Target: 2012-2015</p> |
| <p>Vision: Openness to financial product and institution innovation that creates more balanced financial structure, increases the depth of the</p> | | | |

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| financial sector, and promotes competition in the context of financial stability. | | | |
| Liberalization and Competition | <p>Implementation of WTO and ASEAN financial sector and related commitments. (Lead agency: MEF /NBC /MoC)</p> <p>Development of Competition Law and policy, taking into account the special needs of the financial sector. (Lead agency: MoC / MoJ)</p> | <p>Implementation of Competition Law and policy through appropriate institutional and enforcement framework. (Lead agency: MoC)</p> <p>Participation in ASEAN regional financial market development activities. (Lead agency: MEF / NBC)</p> <p>Enactment and implementation of competition law and policy, including appropriate independent authority to investigate, analyse and take administrative action, dissemination, curriculum</p> | <p>Encourage other ASEAN and WTO members to liberalize by matching Cambodia's financial sector commitments. (Lead agency: MEF /NBC /MoC)</p> <p>Continued development of competition law and policy system. (Lead agency: MoC)</p> |
| Financial Innovation | <p>Allow establishment of new financial institutions which meet relevant licensing, authorization and operational requirements. (Lead agency: NBC / MEF)</p> <p>Support permissive approach to financial products and services in the context of addressing</p> | <p>development and training activities. (Lead agency: MoC)</p> <p>Develop a permissive approach to financial product development based upon the experiences gained in the context of leasing.</p> | <p>Develop legal and regulatory framework as necessary to support financial product and service innovation. (Lead agency: NBC /MEF / MoC / MoJ)</p> |

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| | <p>risks. (Lead agency: NBC /MEF / MoJ)</p> <p>Finalize legal and regulatory framework for leasing. (Lead agency: NBC /MEF /MoC)</p> <p>Clarify approach to financial institution activities, especially in the context of banks and insurance companies and formalize through and MoU. (Lead agency: NBC / MEF)</p> | <p>(Lead agency: NBC /MEF /MoJ)</p> <p>Develop clear approach to financial institution activities and financial institution activities and financial conglomerates, supported by appropriate legal and regulatory framework or MoU(s) as necessary. (Lead agency: NBC / MEF)</p> | |
| Regulatory Structure | <p>Clarify permitted financial institution activities and approach, having special regard to the systemic risks posed by banks and banking activities. (Lead agency: NBC / MEF)</p> <p>Support as necessary through changes to the legal and regulatory framework or MoUs. (Lead agency: NBC / MEF)</p> | <p>Comprehensively evaluate financial regulatory structure in the context of financial institution activities and financial conglomerates and domestic regulatory and supervisory capacity. (Lead agency: NBC / MEF)</p> <p>Implement necessary changes to regulatory structure resulting from the comprehensive evaluation. (Lead agency: NBC / MEF)</p> | <p>Comprehensive review of financial system in the context of international and regional experience and standards. (Lead agency: NBC / MEF)</p> |