FINANCE, COMPETITIVENESS & INNOVATION GLOBAL PRACTICE

SEOUL CENTER
for
FINANCIAL SECTOR DEVELOPMENT
Annual Report 2018
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The Seoul Center 2018 Annual Report has been prepared by Youjin Choi (Financial Sector Specialist) and Sameer Goyal (Program Manager, Seoul Center) with inputs from FCI EAP task teams for the projects support by the Korean trust fund. The report also benefited from support from Ryo Sun Jang (Consultant) and was prepared under the overall guidance of Irina Astrakhan, Practice Manager for FCI EAP.
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AML/CFT</td>
<td>Anti-Money Laundering and Combating the Financing of Terrorism</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>BOK</td>
<td>Bank of Korea</td>
</tr>
<tr>
<td>BOL</td>
<td>Bank of the Lao PDR</td>
</tr>
<tr>
<td>BOM</td>
<td>Bank of Mongolia</td>
</tr>
<tr>
<td>BSP</td>
<td>Bangko Sentral ng Pilipinas (Central Bank of Philippines)</td>
</tr>
<tr>
<td>CBM</td>
<td>Central Bank of Myanmar</td>
</tr>
<tr>
<td>CIFC</td>
<td>Center for International Financial Cooperation (Korea)</td>
</tr>
<tr>
<td>CLMV</td>
<td>Cambodia, Laos, Myanmar, and Vietnam</td>
</tr>
<tr>
<td>DICOM</td>
<td>Deposit Insurance Corporation of Mongolia</td>
</tr>
<tr>
<td>DPO</td>
<td>Development Policy Operation</td>
</tr>
<tr>
<td>EAP</td>
<td>East Asia and the Pacific</td>
</tr>
<tr>
<td>EFI</td>
<td>Equitable Growth, Finance and Institutions Vice Presidency</td>
</tr>
<tr>
<td>FCI</td>
<td>Finance, Competitiveness &amp; Innovation Global Practice</td>
</tr>
<tr>
<td>FinSAC</td>
<td>Financial Sector Advisory Center</td>
</tr>
<tr>
<td>FIU</td>
<td>Financial Intelligence Unit</td>
</tr>
<tr>
<td>FRC</td>
<td>Financial Regulatory Commission (Mongolia)</td>
</tr>
<tr>
<td>FRD</td>
<td>Financial Regulatory Department (Myanmar)</td>
</tr>
<tr>
<td>FSAP</td>
<td>Financial Sector Assessment Program</td>
</tr>
<tr>
<td>FSC</td>
<td>Financial Services Commission (Korea)</td>
</tr>
<tr>
<td>FSS</td>
<td>Financial Supervisory Service (Korea)</td>
</tr>
<tr>
<td>GP</td>
<td>Global Practice</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>KAMCO</td>
<td>Korea Asset Management Corporation</td>
</tr>
<tr>
<td>KDIC</td>
<td>Korea Deposit Insurance Corporation</td>
</tr>
<tr>
<td>KoDIT</td>
<td>Korea Credit Guarantee Fund</td>
</tr>
<tr>
<td>KoFIU</td>
<td>Korea Financial Intelligence Unit</td>
</tr>
<tr>
<td>KSD</td>
<td>Korea Securities Depository</td>
</tr>
<tr>
<td>KTF</td>
<td>Poverty Reduction &amp; Socio-Economic Development Trust Fund II</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
</tr>
<tr>
<td>MEF</td>
<td>Ministry of Economy and Finance (Cambodia)</td>
</tr>
<tr>
<td>MOEF</td>
<td>Ministry of Economy and Finance (Korea)</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance (Vietnam)</td>
</tr>
<tr>
<td>MOJ</td>
<td>Ministry of Justice (Lao PDR)</td>
</tr>
<tr>
<td>MOJHA</td>
<td>Ministry of Justice and Home Affairs (Mongolia)</td>
</tr>
<tr>
<td>MOLISA</td>
<td>Ministry of Labor - Invalids and Social Affairs (Vietnam)</td>
</tr>
<tr>
<td>MOPF</td>
<td>Ministry of Planning and Finance (Myanmar)</td>
</tr>
<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, Small, and Medium Enterprises</td>
</tr>
<tr>
<td>NBC</td>
<td>National Bank of Cambodia</td>
</tr>
<tr>
<td>NBFI</td>
<td>Non-Bank Financial Institution</td>
</tr>
<tr>
<td>NPS</td>
<td>National Payments Strategy/System</td>
</tr>
<tr>
<td>PA</td>
<td>Programmatic Approach</td>
</tr>
<tr>
<td>PDIC</td>
<td>Philippine Deposit Insurance Corporation</td>
</tr>
<tr>
<td>PNG</td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td>RBS</td>
<td>Risk-Based Supervision</td>
</tr>
<tr>
<td>SFI</td>
<td>State-Owned Financial Institution</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
</tr>
<tr>
<td>SOB</td>
<td>State-Owned Bank</td>
</tr>
<tr>
<td>SOE</td>
<td>State-Owned Enterprise</td>
</tr>
<tr>
<td>SSC</td>
<td>State Securities Commission (Vietnam)</td>
</tr>
<tr>
<td>TA</td>
<td>Technical Assistance</td>
</tr>
<tr>
<td>VSS</td>
<td>Vietnam Social Security Fund</td>
</tr>
</tbody>
</table>
Highlights of 2018

Country and region-specific operational work support through KTF

- Seven country/regional programs that had started in Seoul Center 1.0 (SC1.0) were completed and the remaining two programs (Cambodia and Philippines) are scheduled to be completed by mid-2019.
- Grants funds totaling $3,042,296 delivered financial sector development related work in 10 EAP countries to support diagnostics/reports/notes, upgrade of laws/regulation, strategic TA and capacity building.
- FSAP work (dialogue for initiation, follow-up work, etc.) was supported by the grants in Philippines, Mongolia, and Vietnam, and background work for a lending operation ($20 million) was supported in Lao.
- International standards upgrading in Lao and Vietnam relating to conduct of National Risk Assessment.
- Two high-profile publications were launched bringing attention to Basel II implementation and de-risking in banking services (the latter was launched on sidelines of WBG-IMF Spring Meetings 2018).
- Capacity building/knowledge exchange workshops conducted in Cambodia, Lao, Mongolia and Myanmar
- 2018 was the first full year of operation in Seoul Center 2.0 (SC2.0) and three new KTF proposals were approved for Mongolia, Lao PDR, and Myanmar to build on the ongoing work delivered through grants.

Leveraging Korean expertise and institutional capacity through partnerships

- Seoul Center (SC) team continued to strengthen the partnership network which at the end of 2018 totaled over 30 Korean financial sector related institutions. Together the teams have completed over 40 knowledge exchanges as of the end of 2018.
- Formal MOU with partners reached 10, a new MOU being signed with the Korea Asset Management Corporation (KAMCO) this year.
• New Korea-based secondment initiative was launched in 2018 to better leverage Korean partner expertise, strengthen knowledge transfer and build bilateral capacity. The KAMCO secondee in the World Bank Korea Office joined in January 2019 and is focusing on client and thematic support on NPL resolution.

• Three knowledge exchanges to learn about Korea’s development experience were organized for Government delegations from Lao PDR (guided insolvency and debt enforcement reform), Vietnam (bond markets regulations upgraded), and Cambodia (supported strategy on Early Warning Systems). The study tours were organized by SC team in partnership with country teams and Korean partner institutions.

Operations of Seoul Center for Financial Sector Development

• Seoul Center team continued integration into country operations in the Philippines as team lead or team members preparing reports and technical notes for the clients on agriculture finance and SME finance.

• The Seoul Center team also continued to provide technical inputs for country program design as well as implementation support by identifying and connecting appropriate Korean partner institutions for several of our client countries. SC team led/supported related knowledge exchanges mentioned above.

• Dedicated website for the Seoul Center was launched, which introduces the partnership with MOEF and provides information on country programs, profiles of key Korean partners, and showcases results.

• EAP macro-financial monitoring work continues to be supported to assist management with a high-level perspective and provide teams better ability to dialogue with clients bringing in the regional context.

• Preliminary work for knowledge generation has been initiated in consultation with FCI and WBG Korea CMU and teams (especially focusing on financial technology/fintech, innovative products of Korean development banks for SME finance, etc.).

• Seoul Center team continued to manage the partnerships and reporting, and also participated in several partner technical workshops and events (provided resource speakers).
### Key Outputs of KTF-Funded Operations in 2018

The table below highlights the key outputs of the KTF-funded operations that were delivered in 2018. Please refer to the main text of the report for details.

<table>
<thead>
<tr>
<th>Country</th>
<th>Key Outputs</th>
</tr>
</thead>
</table>
| Cambodia   | • Technical Note on Deposit Protection Framework prepared to guide reforms  
             • TA initiated on developing a 5-year Cambodia National Payment System (NPS) Strategy  
             • MEF Early Warning System study tour to Korea – informed country strategy |
| Lao PDR    | • Laotian authorities officially requested $20 million IDA financing to strengthen the Deposit Protection Fund based on KTF grant supported work  
             • BOL Law approved in June 2018; the Commercial Banking Law in the final stages of drafting – KTF funding allowed technical assistance  
             • Insolvency and Debt Enforcement related study tour to Korea, headed by MOJ Vice Minister – informed related reforms and built technical capacity  
             • AML/CFT National Risk Assessment successfully completed |
| Mongolia   | • Amendments to Deposit Insurance Law and Banking Law ratified by the Parliament in February 2018 (TA provided with KTF)  
             • BOM issued a regulation on electronic money in April 2018 (background work/TA supported with KTF)  
             • Ongoing support to revise the Bankruptcy Law |
| Myanmar    | • Ongoing support to modernize banking sector laws and regulations  
             • National Payment System Strategy (NPSS) drafted and provided to CBM  
             • Workshop on Enhancing Financial Capability and Inclusion in Myanmar launched  
             • In the first week of 2019 the MOPF announced to open the insurance market |
| Philippines| • Technical notes on agriculture finance and SME finance preparation work and missions  
             • Dialogue and workshop delivered on financial sector assessment followed by government’s request for an FSAP in 2019  
             • Just-in-time assistance on (i) payment systems regulatory and oversight frameworks, and (ii) consolidation of credit guarantee schemes |

(continued on next page)
<table>
<thead>
<tr>
<th>Country</th>
<th>Key Outputs</th>
</tr>
</thead>
</table>
| Vietnam      | • Resolution 28/2018 on pension reform approved  
• New Decree 95/2018 on government debt instruments was issued; two circulars implementing the new Decree were issued  
• New Decree 163/2018 was issued to provide a new framework for the development of corporate bond market  
• MOF bond market study tour to Korea – supported further regulation reform and guided implementing rules  
• AML/CFT National Risk Assessment completed: related capacity strengthened bringing Vietnam closer to international best practices and standards |
| Seoul Center | • 2-year staff secondment from KAMCO to Seoul Center agreed, to start in Jan 2019  
• Three study tours to learn from Korean institutions organized primarily by the Seoul Center team  
  • Lao PDR MOJ insolvency study tour (July 2018)  
  • Vietnam MOF bond market study tour (Aug 2018)  
  • Cambodia MEF Early Warning System study tour (Dec 2018)  
• Seoul Center website launched  
• EAP financial monitoring work outputs included  
  • East Asia and Pacific Financial Sector Monitor (Q1-Q4, 2018) with special focus on issues such as ‘banking sector vulnerabilities’ and ‘risks arising from private sector credit growth’  
  • EFI Macro-Financial Review (Spring and Annual meetings) – EAP financial sector issues section  
  • EAP Economic Update (Spring and Annual meetings) – Financial sector issues section and related special focus write-up  
• Seoul Center partnership and KTF management, administration and reporting  
• As part of WBG-MOEF working group, Seoul Center team successfully supported WBG Korea Office phase 2 discussions and finalization |
About Seoul Center and the Partnership

Overview of the Partnership

The Ministry of Economy and Finance (MOEF)\(^1\) of the Republic of Korea and the World Bank Group’s then Financial and Private Sector Development (FPD) Department\(^2\) agreed on October 11, 2011 to establish the Seoul Center for Financial Sector Development (Seoul Center) partnership. To support the partnership MOEF provided a trust fund to be governed by an Administration Agreement signed with the World Bank on June 25, 2012. The first phase of the KTF, Seoul Center 1.0, was supported by Korean trust funds of approximately $16 million for five years (June 2012–August 2017) under the management of the WBG’s then Finance & Markets (F&M) Global Practice (GP). The Seoul Center started as a virtual center in Washington DC and took presence in the WBG Korea Office since July 2015. In May 2017 the trust fund end-disbursement date was extended to December 31, 2018 to allow for continuity between Phase 1 and Phase 2 of the trust fund.

In December 2017, the partnership with the Korean government was extended to allow for a second phase, Seoul Center 2.0, supported by Korean trust funds of $9 million over 3 years (December 2017–December 2020), under the management of the WBG’s Finance, Competitiveness & Innovation (FCI) GP. Seoul Center also receives approximately $1 million over 3 years (May 2018–April 2021) from the Korea Office TF for 60% of Korea Office-based Seoul Center staff costs.

The objective of the Korean Trust Fund is to improve and develop financial sectors in the East Asia and Pacific (EAP) region by delivering better technical assistance and advisory services. The second phase of the trust fund provides financing for activities clustered around the following themes:

(i) Monitoring and addressing systemic risk and vulnerabilities;

(ii) Building resilient financial institutions and financial infrastructure;

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\(^1\) The Ministry was formerly named Ministry of Strategy and Finance (MOSF), until the English name was changed to Ministry of Economy and Finance (MOEF) as of August 1, 2018.

\(^2\) The WB Financial and Private Sector Development Department was reorganized as the Finance & Markets Global Practice in 2014, and reorganized as the Finance, Competitiveness & Innovation Global Practice as of January 1, 2018.
(iii) Aligning legal, regulatory, and supervisory frameworks with international standards;
(iv) Improving resolution regimes and policies, enhancing crisis preparedness and strengthening financial safety nets;
(v) Supporting financial integrity initiatives;
(vi) Fostering capital markets and other long-term finance; and
(vii) Promoting innovative financial products and services.

The chart above summarizes the two phases of the partnership and the new components added in Phase 2: (i) a focus on Financial Stability and Soundness, which is an area of competitive advantage for Korea’s financial sector, (ii) increased knowledge generation to add more value to the FCI agenda and operations, and (iii) increased local presence in Korea by leveraging secondees and short-term support staff.

Leveraging Seoul Center to Support Financial Sector Development in EAP

In the EAP region, FCI’s priorities are: (i) enhancing the stability of financial systems, (ii) improving financial inclusion and infrastructure, and (iii) supporting long-term finance for development, to address the region-specific challenges in the financial sector.

The Seoul Center team, with 2 technical staff and 1 short-term consultant as of end-2018, continues to build on the FCI portfolio, participating more extensively in ASA programs. The following chart is a summary of the technical and operational support that the Seoul Center provides to the country/regional programs.
## Seoul Center’s technical/operational support for country/regional programs

<table>
<thead>
<tr>
<th>Preparation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Peer review and technical input for program design</td>
</tr>
<tr>
<td>• Facilitate KTF funding application and approval through close communication with donor</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Provide direct technical/operational support as team leads or members</td>
</tr>
<tr>
<td>• Identify and connect appropriate Korean partners to add value to the advisory work</td>
</tr>
<tr>
<td>• Proactively manage trust fund resources to ensure effective and efficient use</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Monitoring &amp; Evaluation/Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Collaborate with team to disseminate lessons learned (feature stories, blogs, lessons notes)</td>
</tr>
<tr>
<td>• Support with M&amp;E set-up, tracking, and reporting</td>
</tr>
</tbody>
</table>

The Seoul Center team has also been strengthening the partnerships between the WBG and the Korean counterparts in the financial sector to support country programs and client-demanded engagements in the EAP region by sharing knowledge, expertise, and lessons from Korea’s successful development experience. The Korean partnership activities are described in detail in the following section.
SECTION I.
Seoul Center Activities in 2018

Trust Fund Financial Summary

<table>
<thead>
<tr>
<th>PHASE 1 Status (as of December 31, 2018)</th>
<th>In USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Contributions Received (2012-2016 inclusive)</td>
<td>15,867,052</td>
</tr>
<tr>
<td>(+) Investment Income</td>
<td>226,546</td>
</tr>
<tr>
<td>(-) Administrative Fees$</td>
<td>688,982</td>
</tr>
<tr>
<td>(-) Allocation to Country/Regional Projects and Seoul Center Operations</td>
<td>15,378,951</td>
</tr>
<tr>
<td>Balance</td>
<td>25,665</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PHASE 2 Status (as of December 31, 2018)</th>
<th>In USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Contributions Received (2017-2018 inclusive)</td>
<td>4,000,000</td>
</tr>
<tr>
<td>(+) Investment Income</td>
<td>80,791</td>
</tr>
<tr>
<td>(-) Allocation to Country/Regional Projects and Seoul Center Operations</td>
<td>2,116,000</td>
</tr>
<tr>
<td>Balance</td>
<td>1,964,791</td>
</tr>
</tbody>
</table>

Three new programs received additional funding from Phase 2 to support financial sector reforms: In 2018, three new programs were approved by MOEF to receive additional funding for a combined trust fund allocation of $1,966,000 for Mongolia, Myanmar, and Lao PDR. Please refer to the next chapter for details of each program.

Focus on delivering and completing Phase 1 technical assistance programs: Seven of the trust-funded country/regional programs came to closure during this year and two programs are planned to be completed within FY19. Accordingly, a total of $3,042,296 was disbursed in 2018. The chart and table below show the disbursements by calendar year.

$ Until CY2015, the TF administrative fees were equal to a one-time set-up fee of $35,000 plus 5% of the funds received from the donor. From CY2016, as the new Bank Directive “Cost Recovery Framework for Trust Funds” applies to existing and new trust funds, the administrative fees (“TF indirect rate”) are charged as 17% of all staff and consultants salaries and benefits (except for extended assignment benefits) on an ongoing basis as the personnel expenses are disbursed.
Disbursement and implementation of KTF-funded activities became significantly higher after Seoul Center became operational in Korea in the second half of 2015.

Staff and Consultant fees account for 78% of total expenses.

### KTF Disbursements by Calendar Year

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Costs</td>
<td>512,401</td>
<td>487,818</td>
<td>279,918</td>
<td>2,904,391</td>
<td>2,369,570</td>
<td>1,647,617</td>
</tr>
<tr>
<td>Consultant Fees</td>
<td>74,029</td>
<td>775,844</td>
<td>344,736</td>
<td>600,871</td>
<td>1,059,171</td>
<td>725,100</td>
</tr>
<tr>
<td>Travel Expenses</td>
<td>144,730</td>
<td>234,635</td>
<td>99,087</td>
<td>872,255</td>
<td>964,057</td>
<td>482,683</td>
</tr>
<tr>
<td>Media, Workshop</td>
<td>40,775</td>
<td>3,428</td>
<td>7,072</td>
<td>89,626</td>
<td>98,018</td>
<td>74,798</td>
</tr>
<tr>
<td>Overhead Costs</td>
<td>7,368</td>
<td>7,633</td>
<td>5,068</td>
<td>64,735</td>
<td>111,112</td>
<td>96,343</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>1,994</td>
<td>112</td>
<td>91</td>
<td>13,317</td>
<td>23,306</td>
<td>15,755</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>781,297</strong></td>
<td><strong>1,509,469</strong></td>
<td><strong>735,973</strong></td>
<td><strong>4,545,195</strong></td>
<td><strong>4,625,233</strong></td>
<td><strong>3,042,296</strong></td>
</tr>
</tbody>
</table>
### KTF – Financial Status by Project – PHASE 1 (as of December 31, 2018)

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Country</th>
<th>Project Closing</th>
<th>Grant Amount</th>
<th>Disbursements</th>
<th>Outstanding Commitments</th>
<th>Available Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia Crisis Simulation Framework</td>
<td>Indonesia</td>
<td>3/7/2014</td>
<td>314,063</td>
<td>314,063</td>
<td></td>
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</tr>
<tr>
<td>China Financial Consumer Protection and Financial Literacy</td>
<td>China</td>
<td>8/31/2015</td>
<td>456,756</td>
<td>456,756</td>
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<td></td>
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<tr>
<td>Thailand: Solvency Modernization and Risk Based Capital</td>
<td>Thailand</td>
<td>5/15/2015</td>
<td>399,282</td>
<td>399,282</td>
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</tr>
<tr>
<td>TA to the Implementation of PNG Financial Competency Survey</td>
<td>Papua New Guinea</td>
<td>11/30/2015</td>
<td>474,661</td>
<td>474,661</td>
<td></td>
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</tr>
<tr>
<td>East Asia Regional Financial Integration</td>
<td>Region</td>
<td>10/16/2015</td>
<td>385,115</td>
<td>385,115</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Risk Assessment ASEAN</td>
<td>Region</td>
<td>12/31/2018</td>
<td>608,000</td>
<td>602,575</td>
<td>5,425</td>
<td>-</td>
</tr>
<tr>
<td>Basel II Pillar 2 Practice Study</td>
<td>Region</td>
<td>6/30/2018</td>
<td>305,807</td>
<td>305,807</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Myanmar: Scaling Up Financial Services for the Poor</td>
<td>Myanmar</td>
<td>12/31/2018</td>
<td>3,652,400</td>
<td>3,603,894</td>
<td>14,729</td>
<td>33,777</td>
</tr>
<tr>
<td>Cambodia: Financial Sector Development TA</td>
<td>Cambodia</td>
<td>6/30/2019</td>
<td>1,442,600</td>
<td>1,140,756</td>
<td>53,446</td>
<td>248,398</td>
</tr>
<tr>
<td>Mongolia: Financial Sector Development Support Program</td>
<td>Mongolia</td>
<td>10/31/2018</td>
<td>1,920,000</td>
<td>1,919,008</td>
<td>930</td>
<td>62</td>
</tr>
<tr>
<td>Vietnam: Capital Markets and NBFI Development</td>
<td>Vietnam</td>
<td>8/31/2018</td>
<td>1,435,867</td>
<td>1,435,867</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>PH Financial Development and Inclusion</td>
<td>Philippines</td>
<td>3/31/2019</td>
<td>550,000</td>
<td>404,977</td>
<td>8,427</td>
<td>136,596</td>
</tr>
<tr>
<td>Lao PDR: Financial Sector Development</td>
<td>Lao PDR</td>
<td>10/31/2018</td>
<td>800,000</td>
<td>800,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Case Studies in De-Risking</td>
<td>Region</td>
<td>8/31/2018</td>
<td>142,371</td>
<td>142,371</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Seoul Center Operations and Knowledge</td>
<td>Korea</td>
<td>12/31/2018</td>
<td>1,438,811</td>
<td>1,428,582</td>
<td>4,735</td>
<td>5,494</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>15,378,951</strong></td>
<td><strong>14,866,933</strong></td>
<td><strong>87,693</strong></td>
<td><strong>424,326</strong></td>
</tr>
</tbody>
</table>
### KTF – Financial Status by Project – PHASE 2 (as of December 31, 2018)

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Country</th>
<th>Project Closing Date</th>
<th>Grant Amount</th>
<th>Disbursements</th>
<th>Outstanding Commitments</th>
<th>Available Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mongolia: Financial Sector Development Support Program</td>
<td>Mongolia</td>
<td>6/30/2019</td>
<td>486,000</td>
<td>122,600</td>
<td>33,560</td>
<td>329,840</td>
</tr>
<tr>
<td>Myanmar: Scaling Up Financial Services for the Poor</td>
<td>Myanmar</td>
<td>12/31/2019</td>
<td>1,000,000</td>
<td>-</td>
<td>-</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Lao PDR: Financial Sector Development</td>
<td>Lao PDR</td>
<td>12/31/2020</td>
<td>480,000</td>
<td>188,007</td>
<td>62,011</td>
<td>229,983</td>
</tr>
<tr>
<td>Seoul Center Program Implementation</td>
<td>Korea</td>
<td>12/31/2020</td>
<td>150,000</td>
<td>61,923</td>
<td>16,476</td>
<td>71,601</td>
</tr>
<tr>
<td>Seoul Center – Financial Sector Advisory and Partnerships</td>
<td>Korea</td>
<td>12/31/2020</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>2,116,000</td>
<td>372,530</td>
<td>112,046</td>
<td>1,631,424</td>
</tr>
</tbody>
</table>

### KTF Cumulative Allocations by Recipient Country

- **Indonesia**: 8.2%
- **Thailand**: 8.2%
- **Papua New Guinea**: 8.2%
- **Philippines**: 9.1%
- **China**: 15.8%
- **Laos**: 26.6%
- **Vietnam**: 6.5%
- **East Asia and Pacific**: 7.3%
- **Cambodia**: 2.7%
- **Korea**: 3.1%
- **Mongolia**: 2.3%
- **Myanmar**: 1.8%
- **Total**: 100%
KTF SUPPORT – EAP COUNTRY AND REGIONAL OPERATIONS

Summary

• A total of 20 KTF proposals for country or regional support have been approved over Phase 1 and Phase 2, as of the end of 2018. This represents 10 countries and 4 regional initiatives. Out of the 20 programs, 15 are completed and the other 5 are under implementation.

• Since 2015, the WBG FCI has been responding to client demand through multi-year Programmatic Approach (PA) programs which allow for more strategic and comprehensive country engagements. Accordingly, the funding requests for KTF support have been more comprehensive and spanning longer timeframes (thus also larger in amount). This has responded well to MOEF’s recommendation to develop larger proposals addressing strategic reforms and aiming for stronger impact in EAP countries.
<table>
<thead>
<tr>
<th>Project</th>
<th>Country</th>
<th>Grant (USD)</th>
<th>Objective</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crisis Simulation Framework</td>
<td>Indonesia</td>
<td>370,000</td>
<td>To contribute to the promotion of a sound and stable financial sector in Indonesia through improved capacity of financial authorities to prevent, manage, and resolve financial crises</td>
<td>Mar 2013 – Mar 2014</td>
</tr>
<tr>
<td>Financial Reform Strategy Report</td>
<td>China</td>
<td>470,000</td>
<td>To design and implement far-reaching and fundamental financial reforms to China’s financial system</td>
<td>Mar 2013 – Feb 2014</td>
</tr>
<tr>
<td>Solvency Modernization &amp; Risk-Based Capital</td>
<td>Thailand</td>
<td>420,000</td>
<td>To assist the financial authorities to improve risk-based supervision and dynamic solvency regimes for insurance, including the legal/regulatory framework, tools, and market practices</td>
<td>Jul 2013 – May 2015</td>
</tr>
<tr>
<td>TA to the Implementation of Financial Competency Survey</td>
<td>Papua New Guinea</td>
<td>475,000</td>
<td>To assist the PNG financial authorities to develop a baseline for understanding the financial capability of the PNG population</td>
<td>Jul 2013 – Nov 2015</td>
</tr>
<tr>
<td>Capital Market Development TA</td>
<td>Mongolia</td>
<td>370,000</td>
<td>To support the Mongolian authorities in developing robust deep capital markets</td>
<td>Sep 2013 – Dec 2015</td>
</tr>
<tr>
<td>East Asia Regional Financial Integration</td>
<td>Regional</td>
<td>475,000</td>
<td>To support economic growth and poverty reduction through the expansion of investments and financing under the ASEAN agenda of financial integration</td>
<td>Dec 2013 – Oct 2015</td>
</tr>
<tr>
<td>Evaluation System for Consumer Financial Education</td>
<td>China</td>
<td>250,000</td>
<td>To assist the Chinese financial authorities to develop a system for evaluating the effectiveness of consumer financial capability programs</td>
<td>Mar 2014 – Dec 2015</td>
</tr>
<tr>
<td>National Risk Assessment ASEAN</td>
<td>Regional</td>
<td>608,000</td>
<td>To help ASEAN countries improve the effectiveness of detecting and preventing financial crimes and illicit financial flows</td>
<td>Apr 2015 – Dec 2018</td>
</tr>
<tr>
<td>Basel II Pillar 2 Practice Study</td>
<td>Regional</td>
<td>310,000</td>
<td>To develop a study for the use of banking supervisors based on a sample of client jurisdictions to understand the effectiveness of their Basel II implementation</td>
<td>Oct 2015 – Jun 2018</td>
</tr>
<tr>
<td>Project</td>
<td>Country</td>
<td>Grant (USD)</td>
<td>Objective</td>
<td>Timeframe</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>-------------</td>
<td>-------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------</td>
</tr>
</tbody>
</table>
| Scaling up Financial Services for the Poor (PA)                       | Myanmar     | 4,652,400   | To help increase access to financial services by the poor in Myanmar through a wide range of advisory services  
  • Phase 1: $3,652,400 (Sep 2015 – Dec 2018)  
  • Phase 2: $1,000,000 (Dec 2018 – Dec 2019)                                                                 | Sep 2015 – ongoing |
| Financial Sector Development TA (PA)                                    | Cambodia    | 1,442,600   | To support the Cambodian financial authorities in core areas of financial sector modernization and reform                                                                                     | Jan 2016 – ongoing |
| Financial Sector Development Support (PA)                              | Mongolia    | 2,406,000   | To support building a sound, diversified, and inclusive financial system for Mongolia through a wide range of advisory services  
  • Phase 1: $1,920,000 (Apr 2016 – Oct 2018)  
  • Phase 2: $486,000 (Sep 2018 – Jun 2019)                                                                 | Apr 2016 – ongoing |
| Capital Markets and NBFI Development (PA)                              | Vietnam     | 1,460,000   | To support the Vietnamese financial authorities to leverage capital markets and Non-Bank Financial Institutions for economic development                                                                                                                     | Sep 2016 – Aug 2018 |
| Financial Development and Inclusion (PA)                               | Philippines | 600,000     | To support the Philippines’ development of the financial system and financial inclusion                                                                                                                                                                                                                                                              | Sep 2016 – ongoing |
| Financial Sector Development (PA)                                       | Lao PDR     | 1,280,000   | To promote the development of a more stable and efficient financial sector in Lao PDR through advisory services  
  • Phase 1: $800,000 (Sep 2016 – Oct 2018)  
  • Phase 2: $480,000 (Oct 2018 – Dec 2020)                                                                 | Sep 2016 – ongoing |
| Case Studies in De-Risking                                             | Regional    | 145,000     | To document the effects of de-risking on local communities and work with partners to develop solutions for those affected to maintain access to financial services                                                                                                                        | Mar 2017 – Aug 2018 |
STRENGTHENING KOREAN PARTNERSHIPS

An important objective of the WBG and MOEF partnership is to leverage the expertise and capacity of Korean institutions to support country needs and enhance/deepen the delivery of assistance to the client countries. At the end of 2018 the WBG had formal MOUs with 10 key Korean institutions in the financial sector, which have added value to the FCI teams and client countries in their respective areas of expertise. These key partners are noted in the chart below.

One new MOU was signed in 2018, with Korea Asset Management Corporation (KAMCO). The details of this MOUs can be found in Annex 1.

While the partnerships relied on formal MOUs during the time the trust fund was operated from the WBG headquarters in Washington DC, the staffing of the Seoul Center team in Korea since the second half of 2015 has enabled more direct, frequent, and effective interactions and communication with Korean partners on the ground. Much progress has been made with all the formal and informal partnerships (30+ partners and connections so far) to connect these institutions with specific country needs in the EAP region.
CONNECTING KOREAN PARTNERS WITH FCI COUNTRY OPERATIONS

The infographic below shows the partnerships and connections made and progress in leveraging these partners to support WBG client countries in EAP. Over 3.5 years (July 2015–December 2018), Seoul Center built partnerships with over 30 Korean institutions and organized and/or facilitated over 40 knowledge exchanges and capacity building activities to add value to FCI’s ASA operations in each country.
The figure below highlights key partnership activities supported by Seoul Center team in 2018.

**Learning from Korea’s Successful Experience—Seoul Center Partnership activities in 2018**

<table>
<thead>
<tr>
<th>Partner</th>
<th>Partnership Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td>• Provided speaker for GFRID co-organized by WB and other institutions (May 2018)</td>
</tr>
<tr>
<td><strong>Vietnam</strong></td>
<td>• Provided a session on Repo regulation for Vietnamese Ministry of Finance and others as part of bond market study tour in Korea (Aug 2018) [P162226]</td>
</tr>
<tr>
<td><strong>Seoul Center team</strong></td>
<td>• Supported the succession of the <strong>FSC secondment program to WB HQ</strong> (discussions and support during Feb–Dec 2018)</td>
</tr>
<tr>
<td><strong>Cambodia</strong></td>
<td>• Senior management meeting between WBG President Kim and BOK Governor Lee (May 2018)</td>
</tr>
<tr>
<td><strong>Bank of Korea</strong></td>
<td>• Provided a session for Cambodian Ministry of Economy &amp; Finance and National Bank of Cambodia as part of Early Warning System study tour in Korea (Dec 2018) [P160713]</td>
</tr>
<tr>
<td>Partner</td>
<td>Partnership Activities</td>
</tr>
<tr>
<td>---------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Cambodia:</td>
<td>Provided a session for Cambodian Ministry of Economy &amp; Finance and National Bank of Cambodia as part of Early Warning System study tour in Korea (Dec 2018) [P160713]</td>
</tr>
<tr>
<td>MOU signed (Apr 2018)</td>
<td>Vietnam: Provided a session on NPL resolution for Vietnamese Ministry of Finance and others as part of bond market study tour in Korea (Aug 2018) [P162226]</td>
</tr>
<tr>
<td>Asia: Provided a speaker for Forum on Asian Insolvency Reform held in Bangkok (Sep 2018)</td>
<td>2-year staff secondment to Seoul Center agreed (Dec 2018)</td>
</tr>
<tr>
<td>Vietnam:</td>
<td>Provided a session on bond clearing &amp; settlement for Vietnamese Ministry of Finance and others as part of bond market study tour in Korea (Aug 2018) [P162226]</td>
</tr>
<tr>
<td>Seoul Center team presented at CIFIC’s annual workshop (May 2018)</td>
<td>Seoul Center team did a written interview for CIFIC’s biannual report (Aug 2018)</td>
</tr>
<tr>
<td>Seoul Center team presented at CIFIC’s international conference (Dec 2018)</td>
<td>Several discussions on joint research</td>
</tr>
<tr>
<td>Cambodia:</td>
<td>Provided a session for Cambodian Ministry of Economy &amp; Finance and National Bank of Cambodia as part of Early Warning System study tour in Korea (Dec 2018) [P160713]</td>
</tr>
<tr>
<td>Global:</td>
<td>Provided senior executive participant for FCI’s workshop to launch global community for secondary mortgage market institutions (May 2018)</td>
</tr>
<tr>
<td>Vietnam:</td>
<td>Provided a session on bond markets for Vietnamese Ministry of Finance and others as part of bond market study tour in Korea (Aug 2018) [P162226]</td>
</tr>
<tr>
<td>Each had an information-sharing meeting with FCI staff and Seoul Center team on SME finance (Mar 2018)</td>
<td></td>
</tr>
</tbody>
</table>

continued on next page
### SECTION I. SEOUL CENTER ACTIVITIES IN 2018

**Partner** | **Partnership Activities**
---|---
Ministry of Justice | • **Lao PDR:** Each provided a session on insolvency for Lao Ministry of Justice and Supreme Court as part of insolvency study tour in Korea (Jul 2018) [P160715]

Korea Restructuring and Insolvency Practitioners’ Association (KRIPA) |  

JPS |  

Vietnam: Provided a session on bond markets for Vietnamese Ministry of Finance and others as part of bond market study tour in Korea (Aug 2018) [P162226]

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**SEOUL CENTER ACHIEVEMENTS**

**Launch of Seoul Center Webpage**

Working closely with FCI’s Communications team, the Seoul Center team successfully launched a dedicated webpage in December 2018.


The Seoul Center webpage has information about the partnership with MOEF, country programs supported, profiles of key Korean partners, select outputs and other related materials supported by the Korean trust fund. The Annual Reports of Seoul Center provide further details on specific country programs as well as highlight the yearly progress.

The team will further populate the webpage with partnership activities with each Korean partner, highlights from the ongoing work supported by the Seoul Center partnership, as well as results and outcomes from past Korean trust fund grants.
Knowledge Generation and Sharing

In addition to the country programs and partnership activities described in the previous sections, the Seoul Center team also supported smaller-scale initiatives and work programs for FCI, to generate and share knowledge.

Macro-financial monitoring

The Seoul Center provided financial support for FCI’s financial stability monitoring work, which comprises of the following activities:

<table>
<thead>
<tr>
<th>Team Leader</th>
<th>Aviles, Ana Maria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team Members</td>
<td>Choi, Youjin; Ren, Jiemin; Song, Jiyoung; Sourrouille, Diego; Tatucu, Radu</td>
</tr>
<tr>
<td>(in alphabetical order)</td>
<td></td>
</tr>
</tbody>
</table>

Macro-financial monitoring

The Seoul Center provided financial support for FCI’s financial stability monitoring work, which comprises of the following activities:
Quarterly Financial Sector Monitor: FCI has a platform in place, jointly developed with the IFC, to produce the ‘Quarterly Financial Sector Monitor’ series for the EAP region (issued in January, April, July and October). This monitor aims to have candid presentation of the recent macro-financial developments and short-term prospects in financial sectors across the EAP countries. At such, it has a confidential nature and is intended for WBG internal purposes. It includes a regional “Special focus” note, which have included topics such as ‘banking sector vulnerabilities’, and ‘risks arising from private sector credit growth’.

EFI macro-financial initiative: FCI carries out a semi-annual integrated assessment of major financial sector trends and themes that may pose systemic challenges to stability and development in EAP. This serves as input for a confidential publication on global macro-financial issues led by the offices of the EFI VP. This publication is internally circulated ahead of Spring and Annual meetings to Senior Management in the WBG. It includes a “Special focus” note, which in the past has included inputs from EAP on ‘the evolution, impact and policy implications of blockchain applications’ and on ‘sovereign-bank nexus in emerging markets.’

EAP Regional Update: FCI produces input on financial sector issues for the EAP Regional Update that is published by the office of the Chief Economist for Spring and Annual Meetings (April, October). FCI contributes a box to the publication for which the topics included in recent issues are ‘intraregional banking trends in EAP’, and ‘vulnerabilities in EAP’s banking sector’.

China stability call: FCI participates in monthly calls on macro-financial issues in China, providing updates on financial sector developments and risks. Given the regional and global systemic importance of China, it is important to be up-to-date on macro-financial developments and take into consideration the spillover impact and risks for the rest of the region.

The key outputs of EAP financial monitoring work included

- East Asia and Pacific Financial Sector Monitor (Q1-Q4, 2018) with special focus on issues such as ‘banking sector vulnerabilities’ and ‘risks arising from private sector credit growth’
- EFI Macro-Financial Review (Spring and Annual meetings) – EAP financial sector issues section
- EAP Economic Update (Spring and Annual meetings) – Financial sector issues section and related writeups

Case study: Banking on Technology - Intellectual Property-Based Finance in Korea

<table>
<thead>
<tr>
<th>Team Leader</th>
<th>M. Gutierrez, Eva</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team Members</td>
<td>Choi, Jiyoung; Choi, Youjin</td>
</tr>
</tbody>
</table>

(in alphabetical order)

Following informational meetings in March 2018 between FCI and Korea’s three development banks (Industrial Bank of Korea, Korea Development Bank, Korea Eximbank) to learn about their SME finance practices and lessons, the FCI secondee from MOEF and the Seoul Center team produced an in-depth case study on Korea Development Bank (KDB)’s ‘Techno Banking’. This is seen as an innovative product that provides finance for technology-oriented SME firms based on their intellectual property. The case study gathered interest among WBG staff working on SME finance and was recommended by management to be published for a broader audience; however, the team did not proceed with publishing as KDB preferred it to remain an internal document for the WBG.
SECTION II.
Detailed Results of KTF-Funded Operations in 2018

Results and Progress of KTF Programs under Implementation

ASEAN — National Risk Assessment

|                      | Grant amount: USD 608,000  
|----------------------|-----------------------------|
|                      | Project duration: April 2015–December 2018  
| Team Leader          | Yikona, Stuart  
| Team Members         | Bartlett, Nigel; Bostwick, Lisa; Da Silva Pereira, Maria; Duarte, Rideca; Emini, Leonora; Hassan, Syed; Malik, Priyani; Park, Seunghwan; Phounvixay, Vidaovanh; Pop, Laura; Tanaka, Kiyotata; Viehweg, Keesook  

Context
With the expansion of ASEAN membership to the Mekong countries (Cambodia, Laos, Myanmar, and Vietnam, “CLMV”) in the 1990s, ASEAN now encompasses high-, middle-, and low-income countries. Among them, the CLMV countries are at significant risk of money laundering and financing of terrorism (ML/FT) issues and the abuse of their economies threatens sustainable growth in the future. Their regional environment and the weaknesses of their legal system constitute substantial concerns and make them susceptible to proceed generating criminal activities. Cambodia and Myanmar have already asked for the technical assistance of the WB, and early WB engagement with Lao and Vietnam is taking place. This project is part of a broader collaboration with the ASEAN countries on issues related to anti-money laundering and combating the financing of terrorism (AML/CFT).
**Project Objective**

The project helps improve the effectiveness of some of the countries in the ASEAN region to detect illicit financial flows, investigating and prosecuting financial crime such as corruption, tax evasion, and fraud. The results/indicators for the activity will be measured by the following: (1) Some of the ASEAN countries have a detailed and comprehensive report that identifies and analyzes the proceeds of crime in the country and identifies the key vulnerabilities of law enforcement agencies to investigate and prosecute financial crime; (2) Some of the ASEAN countries officially adopts concrete time bound action plan that is endorsed by the government through appropriate processes such as a national coordination committee on anti-money laundering and terrorism financing or at cabinet level.; and (3) 50-60 key experts from the judicial, law enforcement, financial regulators and senior policy makers are trained on how to identify the money laundering and terrorism financing risks and vulnerabilities facing some of the ASEAN countries.

**Progress**

For the past 4 years the Korean Trust Fund has provided support to some ASEAN countries in conducting and successfully completing their national risk assessments on money laundering and terrorism financing. **Cambodia** completed its national risk assessment in 2015. The **Philippines** completed the first national risk assessment in 2016. It then followed this up with an update in 2017 that included the assessment of the Casino sector. In the case of the Philippines, it is noteworthy that the update by the authorities was done without the hands-on advisory support of the World Bank Group. The only role Bank staff played was in reviewing the quality and consistency of the update report. This demonstrates that the impact of the training provided by the World Bank during the first national risk assessment did indeed result in an enhancing of skills of the Philippine officials enabling them to carry out the 2017 update on their own.

In 2018, the remaining two countries—Lao PDR and Vietnam—successfully completed their national risk assessments.

**Lao PDR**

The risk assessment process began in July 2017 and was successfully completed in August 2018. Moreover, the Government of Lao PDR recently approved the national risk assessment. In delivering this advisory support, the World Bank Group organized an interim workshop in January 2018. This mid-course intervention was critical and ensured that the authorities were able to complete the work successfully.
The second (interim) workshop showed that good progress had been made by the working groups, and that they had gathered all available data, and were able to move forward writing up the sector analyses, to enable the compilation of the single NRA report.

The third and final workshop held in August 2018, comprised approximately 120 participants. They were representatives from a range of institutions, including law enforcement, customs and border management, regulators and supervisors for banking, credit unions, insurance, securities and other financial institutions. It also included representatives from the Ministry of Public Security, Ministry of Finance, Ministry of Planning and Investment, Ministry of Home Affairs, and Ministry of Industry and Commerce.

One key lesson learned from the Lao PDR engagement was the benefit of having a face to face interim workshop following the first workshop and the gathering and analysis of data. Such an interim engagement served as a way of refining and refocusing the preliminary analysis conducted by the working group members. Moreover, it also served to deepen the skills and understanding of conducting an effective risk assessment.

Following the completion of the national risk assessment, Lao PDR asked for follow up assistance from the WB to develop a risk-based framework for AML supervision (This follow up work to the national risk assessment was launched in February 2019 to be delivered over 18 months, funded by the European Union Delegation).

Vietnam

The second and final workshop was held in June 2018. One of the key outputs was a visual presentation of the results of the risk assessment in the form of a sectoral heat map. The officials that worked on the national risk assessment analysis and findings were able to match the threats and vulnerabilities faced by each of the sectors assessed. However, as at the preparing of this annual report, the authorities had not indicated whether the national risk assessment report has been approved by the Cabinet. Furthermore, Vietnam has not indicated whether they have plans to have follow up work to implement the action plan arising of the risk assessment completed.
EAP: Basel II Pillar 2 Practice Study

<table>
<thead>
<tr>
<th>Grant amount: USD 340,000</th>
<th>Project duration: October 2015–June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team Leader</td>
<td>Aviles, Ana Maria (current); Ard, Laura A. (former); Krishnamurti, Damodaran (former)</td>
</tr>
<tr>
<td>Team Members (in alphabetical order)</td>
<td>Chatain, Pierre-Laurent; Chung Yee, Brian Kwok; Dohotaru, Matei; Han, Koo; Pailhé, Cristina; Park, Sang Man; Ren, Jiemin</td>
</tr>
</tbody>
</table>

Context

The Basel Committee on Banking Supervision (BCBS) issued a comprehensive revised capital adequacy framework in 2004 (known more popularly as Basel II), which was designed to be more risk-sensitive than the Basel I framework. Basel II has three pillars: Pillar 1 – prudent capital regulation; Pillar 2 – supervisory review, and Pillar 3 – market discipline. Pillar 2 involves two main steps – (a) requiring banks to maintain an internal capital adequacy assessment process (ICAAP) and complying with the internal targets; and (b) supervisory evaluation of how well banks are assessing their capital needs relative to all risks incurred by the bank. Pillar 2 implementation is mandatory and critical to the effective implementation of Basel II. Within Pillar 2, some jurisdictions have progressed on part (a) above, but very few have progressed on implementation of part (b). This offers a vast potential for providing technical assistance in this specialized area to client authorities.

Project Objective

The objective of this project is to undertake a study of Basel II Pillar 2 practices in selected countries to assist jurisdictions in their goal towards further implementation of international capital standards.

Progress

The WB conducted a country-based study of Pillar 2 practices in selected countries to obtain information about their implementation of international capital standards. As a basis for the work, the WB designed a questionnaire, with contribution from the secondees from Korea’s FSS, to:

(i) Collect information regarding how the ICAAP has been approached by supervisors and the expectations they have therein; and

(ii) Understand how supervisors consider and respond to bank-submitted reported ICAAP documents (the SREP).

Twelve countries were surveyed and ten responded: Republic of Korea, Argentina, Colombia, Croatia, Morocco, Nigeria, Peru, Poland, Thailand, and Turkey. A technical note was produced based on the responses to the country surveys. The document presents an analysis of countries’ responses aiming at helping supervisors identify common practices, challenges, and lessons from Pillar II implementation. As a by-product, it can contribute to constructive supervisory discussions with the banks regarding their direction and progress in implementing standards. It also indicates, at a high level, the range of practices and nuances therein. The paper builds on
responses provided by the surveyed jurisdictions and information was cross-checked with the legislation and with documents provided by the respondents.

The technical note, after an internal review meeting chaired by the management team, was recommended to be published. The final document was completed and published in June 2018. Subsequently the report was disseminated through workshops in the WBG HQ and Malaysia (hub for the Development Economics group) and is uploaded on the WBG and Seoul Center website for public use.

MYANMAR: Scaling Up Financial Services For the Poor

<table>
<thead>
<tr>
<th>Grant amount: USD 3,652,400</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project duration: September 2015–December 2018</td>
</tr>
</tbody>
</table>

| Team Leader | Wagh, Smita (current); Wong, Sau Ngan (former); Drees-Gross, Alexandra (former) |

<table>
<thead>
<tr>
<th>Team Members (in alphabetical order)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alba Prado, Carlos; Anantavrasilpa, Ratchada; Annamalai, Nagavalli; Arsana, I Gede Putra; Bell, Simon C.; Borgenovo, Alfred Jean-Marie; Button, David Rex; Chen, Nancy; Chien, Jennifer; Choi, Youjin; Christova Hollanders, Luchia Marius; Corazza, Carlo; De Luna-Martinez, Jose; Delort, Dorothee; Devi, Chaw Su; Dias, Denise Leite; Eh, Naw Khu; Endo, Isaku; Eris, Mete Can; Fabling, Christopher Robert; Gonulal, Serap; Htay Htay, Nang; Kikeri, Sunita; Mahadevan, Balakrishnan; Mason, Andrew McEwen; Merican, Latifah Osman; Mortimer-Schutts, Ivan Daniel; Mylenko, Nataliya; Natarajan, Harish; Nguyen, Hang Thi Thu; Nicoli, Marco; Oo, Khin Saw; Poonprasit, Piathida; Rischall, Neal Howard; Sirois, Bonnie Ann; Song, Jiyoung; Srinivas, Gynedi; Swami, Rajeev Kumar; Tanaka, Kiyotaka; Trieu, Viet Quoc; Vijayakumar, Pammi; Wickramasinghe, Jiwanka B.; Yankey, Frederick</td>
</tr>
</tbody>
</table>

Context

Financial inclusion is a key priority in Myanmar’s development agenda. At present, over 70 percent of adults do not have access to credit, savings, and deposits. The Government of Myanmar has formulated a Financial Inclusion Roadmap 2014-2020 that aims at increasing the percentage of adults with access to basic financial services from 30% in 2015 to 40% by 2020.

Project Objective

The Development Objective of this program is to help increase access to financial services by the poor in Myanmar, to be achieved through the provision of technical assistance and advisory services in relation to strengthening the legal and regulatory framework; modernizing the payment systems; strengthening the supervisory and regulatory framework for microfinance; and enhancing the capability of financial sector authorities to identify and manage risks through financial sector development.

Progress

The Myanmar KTF Programmatic Approach (PA) concept was approved on January 2015, complementary to the World Bank IDA credit of $100 million for financial sector development which provided for disbursement-linked indicators for the achievement of outcomes that are reflected in the KTF PA. Hence, the TA delivered under the KTF was instrumental in paving the way for the scaling up of activities related to financial sector development in Myanmar.

The following are the various activities carried out under the KTF PA in 2018:

Banking Regulatory Modernization

With the passage of the Myanmar Financial Institutions Law (“FI Law”) in 2016, TA has been provided to the Central Bank of Myanmar (CBM) in the drafting of the subsequent regulations. The TA has adopted a multi-pronged approach in Myanmar’s low-capacity environment and has included policy discussions, and capacity training. In this regard, three major events took place after the enactment of the FI Law — one
for stakeholders and donors and other for CBM and the Financial Regulatory Department (FRD).

Following the FI Law 2016, CBM issued 4 key prudential regulations on Capital Adequacy, Liquidity Ratio Requirement, Asset Classification and Provisioning, and Large Exposure Regulation in July 2017. In addition, directives on dividends, banking hours and asset revaluation were also issued prior to July 2017. The new regulatory framework, especially the capital adequacy ratio and asset classification requirements, have exposed longstanding problems and vulnerabilities in the banking system related to capital, non-performing loans and large exposures. Therefore, in 2018 CBM made some adjustments in the grace period for compliance in relation to the Asset Classification and Provisioning Regulations relating to the rollover of overdraft facilities to term loans in consultation with the industry.

Additionally, ongoing advice on several policy issues has been provided to CBM on the implementation of the FI Law including the drafting and finalization of 5 regulations on the Substantial Interest, External auditors, Board of Directors of Banks, Subordinated Debt and Fit and Proper. Out of which, the Directive on the Subordinated Debts was issued in January 2019. Furthermore, policy advice on the interest rate liberalization has been provided to the CBM and the lending rate instruction and housing loans instructions are successfully issued by the CBM.

National Payments Strategy

A draft of National Payment System Strategy (NPSS) was provided to CBM in August 2018. At the request of the CBM, this NPSS has been designed to guide the establishment of a modern and inclusive national payments market in Myanmar over the period 2019-2024 and it is also built on the previous achievements and initiated reforms and is aligned with Government of Myanmar strategic objectives for financial sector and social development.

As part of TA program, capacity building on Bank Resolution and Prompt Corrective Actions was conducted in March 2018. Feedback from CBM regarding TA delivery on the above has been very positive and CBM has expressed its appreciation of WB’s contribution through the above activities. In October 2018, TA support was provided for the study visit for 3 senior officials from the CBM and they had learned the Bank of Thailand’s onsite supervision, offsite monitoring and MIS system of the BOT.
Expanding the Depth of the Financial Sector and Promoting Responsible Finance

Much has been achieved in building and exchanging financial knowledge with FRD of MOPF. In September 2018, Workshop on Enhancing Financial Capability and Inclusion in Myanmar (A Demand Side Survey) was launched and honorably presented by the Union Minister and Deputy Minister of the MOPF. This workshop for the dissemination of a nation-wide survey report focused on the financial capability, inclusion and consumer protection. The main finding from the survey is that savings and borrowing behavior is far wider spread than channeled by the formal financial system and that in practice there are gaps in the understanding basic concepts like interest rate, making the case for scaling up financial literacy and consumer protection reforms.

Insurance Sector Reforms

The Technical Note on Myanmar Insurance Market Liberalization was delivered to the FRD in February 2017 and it was submitted to the Union Government for the adoption. After that, explanatory discussions were continuously conducted with FRD and it was adopted in September 2017. Finally, in the first week of 2019 the MOPF made the announcement on opening the insurance market in Myanmar based on the policy advice provided by the WB.

In addition, in November 2018, a Preliminary Assessment of Myanmar Insurance (MI) was presented to the state-run insurance company. The assessment report provides recommendations for MI’s potential restructuring in order to assess potential options for the future of the company in light of full liberalization of the insurance market. Simultaneously, TA support on risk-based supervision and risk-based capital, guide the resident adviser and FRD supervision teams on RBS and RBC was conducted in June 2018.
CAMBODIA: Financial Sector Development TA

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</table>

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Context
The Ministry of Economy and Finance (MEF) and the National Bank of Cambodia (NBC) have requested the assistance of the WBG to modernize the financial system with the ultimate goal of building a sound, efficient and inclusive financial system to underpin economic growth and poverty reduction in Cambodia. The financial system provides all citizens with the opportunity to save, invest, and get credit from financial institutions to cover their consumption needs or meet unexpected expenses. Furthermore, a larger and more dynamic financial system is needed to support the financing needs of economic actors, from micro-entrepreneurs, small and medium enterprises (SMEs) to large corporations and government institutions. Recognizing the importance of these objectives, MEF and NBC have reached out to the WBG for TAs in a number of areas of financial sector development.

Project Objective
WBG TA activities aim to support the MEF and NBC in core areas of financial sector modernization and reform to build a stable, efficient and inclusive financial system to underpin economic growth and poverty reduction. The beneficiaries are financial sector policymakers, regulators and market players in Cambodia. This program is designed to establish the fundamental components for an effective and efficient financial system in Cambodia and for a financial sector that will support economic stability and growth with inclusion goals of the country.

The following activities are proposed for this TA:

- **Pillar 1:** Enhancing and maintaining financial stability: (i) strengthening prudential regulation and supervision in the banking sector; (ii) Strengthening capacity for financial crisis prediction and management; (iii) Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT)
- **Pillar 2:** Increasing system efficiency: (i) Supporting the development of a National Payments Strategy (NPS) and a payments system oversight framework; (ii) Strengthening the accounting and auditing system in financial system
- **Pillar 3:** Promoting inclusion and consumer protection: (i) Supporting the deepening and strengthening of non-bank financial institutions; (ii) Promote consumer protection framework in financial system

Progress
During the past 3 years, WB has provided several workshops/trainings in financial stability, risk-based supervision (RBS), AML/CFT, payment system, audit quality, and insurance to the MEF, NBC, and Security and Exchange Commission of Cambodia (SECC) officials. In term of advisory services, the WB conducted a diagnostic assessment of the existing RBS, deposit protection framework, and payment system. After the completion of the diagnostic, the team officially submitted the Technical Note on RBS, DPF, and payment system for the authorities to address the gaps and recommendations identified in the Technical Note. In addition, the WB provided a Technical Note on amendment to the Micro-
Insurance Sub Decree for their promulgation. Concurrently during the implementation period, the WB together with Cambodia financial regulators consulted key stakeholders, both public and private, before finalizing these Technical Notes. In 2018, the WB finished and delivered consumer protection work and audit quality assurance work with the authorities’ satisfaction. In 2019-2020, the WB will focus its effort in financial stability areas including establishing a functioning deposit protection fund (DPF), enhancing risk-based supervision for both banking and insurance sectors, setting up a functioning National Payment System, and enhancing AML/CFT compliance.

Under Pillar 1, the WB team continued providing TA supports on financial stability by providing technical comments on the terms of reference of the National Committee on Financial Stability and advising on the structure of the national level Financial Stability Committee in Cambodia. In order to ensure that the financial sector facilitates economic growth and poverty reduction and becomes immune to future financial crisis, the financial sector development and crisis management committee is introduced with detailed role and responsibilities; in addition to the macro prudential committee.
In the area of Early Warning System (EWS) in financial sector, nineteen MEF and NBC officials visited Korea in December 2018 to learn and obtain first-hand experience from Financial Supervisory Service (FSS), Korea Center for International Finance (KCIF), and the Bank of Korea (BOK). As stated in the MEF’s appreciation letter, “through this (study visit) experience, the MEF will be able to lay down the foundation for the implementation of Cambodia’s Early Warning System.”

In the area of Anti-Money Laundering and Combatting Financing Terrorism (AML/CFT), the WB has continued technical assistance by arranging a training on codes of conduct for public servants and conflict of interest regimes. The training was well attended by key officials in the Anti-Corruption Unit (ACU) and several related agencies. The success of this training has demonstrated the enhanced awareness in codes of conduct and conflict of interest among public servants. In addition, the WB has provided advisory support to the MEF and Cambodia Financial Intelligence Unit (CAFIU) on AML/CFT compliance in the casino sector by conducting an extensive workshop on a risk-based approach to the AML/CFT regulation and assisting in the development of internal guidelines for compliance activities in the casino industry.

Under Pillar 2, WB has continued our TA on payment system by conducting a capacity building program on Payment Oversight Framework and on the Principles for Financial Market Infrastructure (PFMIs). Concurrently, the WB discussed how international standards and good practices for central banks payment oversight can be implemented in the NBC. It is agreed that the WB will continue supporting the NBC to draft an Oversight Policy Framework document to be published in line with international best practices. In addition, WB has initiated the TA on developing the 5 years Cambodia National Payment System (NPS) Strategy. The drafted NPS Strategy identifies gaps and suggesting actions to improve the payment ecosystem in Cambodia.

Under Pillar 3, WB has agreed to continue our support to promote insurance products to the untapped population. With our success in the TA on Micro-Insurance sector, the MEF has an additional request in other areas of insurance sector. It is agreed that the WB will continue providing TA on restructuring Motor & Motor Third Party Liability Insurance legal framework and its market practice, and on insurance strategy to enhance insurance access and literacy in 2019-2020.
MONGOLIA: Financial Sector Development Support Program

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<th>Team Leader</th>
<th>Lohmus, Ulle</th>
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<tr>
<td>Team Members</td>
<td>Anvari, Farid; Bartlett, Nigel Marc; Batbold, Batmunkh; Benton, Jonathan Paul; Cervone, Elisabetta; Cheah, Kim Ling; Choi, Youjin; Christova Hollanders, Luchia Marius; Cohen, Michael; Damdinjamts, Mongoljingoo; Di Benedetta, Pasquale; Endo, Isaku; Goyal, Sameer; Hertzberg, Robert Steven; Hua, Xiaofeng; Kikeri, Sunita; Koltko, Olena; Kotlyar, Dmytro; Lai, Jinchang; Majlessi, Mohammad Shervin; Mc Guinness, Elizabeth Emily; McGuire, Claire Louise; Milyutin, Andrey; Mocheva, Nina Pavlova; Mullineux, James Lionel; Mundy, Shaun; Nicoli, Marco; Nolte, Jan Philipp; Pindaru, Ionut; Pop, Laura; Tamir, Amarsaikhan; Tatucu, Radu; White, David John; Wong, Lai Ying; Wong, Sau Ngan; Woo, Yip Kei; Xu, Yangguang; Zottel, Siegfried</td>
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Context

Natural-resource rich countries face extra financial stability risks as well as constraints to developing financial systems, stemming from the “Dutch disease” effects and higher macroeconomic volatility. The slowdown in China, the main export destination for Mongolia, and the declining global commodity prices have transmitted to the real economy, and consequently, to the financial sector. The Mongolian Authorities are acknowledging that a sound financial sector is essential for sustainable growth of the Mongolian economy which is inherently subject to the commodity price swings and aim at developing an internationally competitive, efficient, inclusive and balanced financial system.

Project Objective

The Development Objective (DO) of the Program is to support building a sound, diversified and inclusive financial system for Mongolia. The Program is focused on strengthening financial system stability, including through strengthening the banking sector; developing capital markets and the non-bank financial sector; improving financial infrastructure and financial literacy, and creating better conditions for recovery of stolen assets.

The program has been designed in two phases: Phase I from May 2016 to December 2017; and Phase II from January 2018 to June 2019 (different from the funding phases). The key elements of the program are noted below.

(i) Strengthen financial sector oversight; crisis preparedness and financial safety nets;

(ii) Design and implement a policy framework for the state-owned financial institutions and state-owned enterprises;

(iii) Strengthen the regulation and supervision of capital markets and insurance sector;

(iv) Improve the national payments system and expand access and use of payment services;

(v) Improve the legal and regulatory framework for financial consumer protection and foster financial literacy; (vi) reform the insolvency system; and

(vi) Strengthen the effectiveness of the asset declaration system and the capacity of Mongolian institutions to trace, freeze, confiscate and return stolen assets.
Progress
The KTF supported the delivery of the following activities during 2018:

Supporting Banking Sector Soundness
The WB team actively supported the preparation and delivery of the Special Review on the Quasi-Fiscal Activities of the Bank of Mongolia (BOM), conducted by KPMG Audit LLC. This Review is one of the prior actions for the second Development Policy Operation (DPO). The Review was disclosed at the BOM website in December 2018.

Link to the Review

In cooperation with the IMF team, the WB team supported the work on amending the Deposit Insurance Law and the Banking Law. Both amended laws were ratified by the Parliament in February 2018.

Following the assistance from the WB team, the Deposit Insurance Corporation of Mongolia (DICOM):

• Signed a cooperation agreement with the BOM to allow for information sharing on member institutions. Such information sharing is essential to DICOM’s effectiveness in preparing for a potential payout of insured deposits and understanding the future risks to its fund from possible bank failures.
• Signed a funding agreement with the Ministry of Finance (MOF) to provide for back-up funding in the case of need. This is consistent with good practice which requires that deposit insurers have ready access to funding in case of need.

Policy framework for SFIs and SOEs
The WB team supported the preparation and delivery of the Financial Diagnostics of the Development Bank of Mongolia (DBM), conducted by the PricewaterhouseCoopers Audit LLC. This Diagnostics was completed in December 2018 and is one of the prior actions for the second DPO. The findings of the diagnostics suggest that the DBM’s credit risk and collateral management as well as key corporate governance matters need to be significantly improved. This Diagnostics provides the grounds for developing and implementing the DBM reform agenda, aimed at making the DBM an independent, profitable and financially sound state financial institution.

Stronger asset declaration and recovery
The enactment of new criminal procedure code and the outcome of the FATF AML/CFT mutual evaluation
SECTION II. DETAILED RESULTS OF KTF-FUNDED OPERATIONS IN 2018

process saw priorities renewed in this area of TA. In early 2018, support was provided through the desk-based review of draft guidance documents prepared by the Mongolian authorities, which was followed by an in-country workshop in May to further develop guidance. At this same time, a review was undertaken on the current state of the implementation of the asset declaration system which identified further areas of focus for ongoing work — e.g. roll out of digital signatures, expanding red-flag testing across all 40,000 declarants.

In October, two training workshops on Financial Investigations were conducted with participants for the FIU, IAAC, General Police Agency, PGO, General Customs Authority, General Taxation Authority and General Intelligence Agency. The focus of the first workshop was putting in place the building blocks so that participants would be well placed to undertake the more advanced courses within this broader program. The second strategic management of financial investigations workshop was attended by 15 senior staff from these same agencies with the overall objective of this workshop to discuss what was necessary to build and enhance the effectiveness of a financial investigations function.

Payment system strategy implementation
The WB team continued to support the BOM in the implementation of the National Payments System Strategy through one field mission (in May 2018) and ongoing correspondence. In April 2018, the BOM issued a regulation on electronic money and the WB team provided inputs to further enable the development of e-money in the market. Following the suggestion of the WB, the BOM is also working to consolidate some of the implementing regulations of the National Payments System Law into one main regulation, thereby reducing the risk of inconsistency and arbitrage and developing a regulatory framework that would be easier to navigate for all parties: this new regulation is expected to be finalized in mid-2019.

In line with NPS Strategy #11, the WB completed an assessment of the market for international remittances in Mongolia against the WB-CPMI General Principles for International Remittance Services. The assessment was delivered in July 2018 and will enable the BOM to identify and prioritize any reforms to be implemented in this area.

Financial capability
The WB team conducted several workshops on Monitoring and Evaluation (M&E) and supported the BOM with the development of a M&E framework, as well as M&E tools and trackers to aid the monitoring and reporting of Mongolia’s National Program on Financial Literacy progress. A finalized M&E report, including tools and trackers was shared with BOM in May 2018 and it was based on international best practices.

With WB support, the financial capability program for rural dwellers was initiated. The BOM signed a joint MOU with the Microfinance Fund of the MOF as well as the National Center for Lifetime Learning (NCLL). This provides for the Microfinance Fund to support the training of NCLL trainers while BOM — with WB team support — is expected to provide the financial education content to be delivered to residents living in rural parts of the country.

Insolvency reform
The IFC team continued to assist the project counterparts in revising the Bankruptcy Law (the Law) which resulted in the progressively newer and better versions of the draft legislation. Based on the previous work with the Ministry of Justice and Home Affairs (MoJHA), the latest version includes all main elements necessary for the smooth functioning of a modern insolvency regime. The draft Law has been favorably regarded by the international experts and has also been shared with the IMF team.

The Working Group (WG) for the Law represents a diverse range of stakeholders (judicial officials, lenders, academics, businesses, etc.) and convened several times during the year to debate in detail on all aspects of the Law. In 2018, a total of 80 participants joined the WG meetings.

Three rounds of technical comments were provided on the revised law by IFC experts; and a detailed discussion between the IFC experts and the WG members was held in Ulaanbaatar on September 26, 2018. The purpose was to explain in detail the
technical comments and to answer questions from the WG members. Among others, more contents were provided on personal insolvency framework, commercial restructuring process, capacity building of the future insolvency professionals, etc.

The team continued to participate in the discussion of the IMF-led NPL (non-performing loan) resolution and legal review process and coordinated closely with other donors interested in the debt resolution issues on the ground.

The Law drafting process is now at its final stage. During 2019, the team will organize with the project counterparts’ wider consultations on the draft legislation to reach out to the stakeholders outside the WG. It will then be submitted to the higher-level government Authorities for approval as soon as possible before it is transmitted to the Parliament for consideration. Under the current Mongolian legislative process, the Parliament staffers and its relevant Committees will also review the submitted law and can make further changes to the text. In the meantime, the team plans to conduct some technical trainings on the NPL management for the lenders in the Mongolian market. A learning trip for the key stakeholders to Korea is also likely to be organized.

Just in time Policy Advice

The WB team provided significant TA on reforming the Housing Mortgage Program (HMP). The WB team helped the MOF and BOM to draft the Degree for the Restructuring of the HMP, aimed at supporting affordable housing in a more cost-effective way, with a time-bound plan for the BOM to fully exit the Program. This is one of the prior actions for the second DPO.

The WB team conducted two field missions (in October and November 2018) to continue support to the Authorities on restructuring the HMP and to initiate the securitization legal and regulatory reform to reduce initial and ongoing transaction costs, including establishing a Mortgage Securitization Working Group. The inaugural meeting for the latter took place on November 23, 2018 in Ulaanbaatar and included representatives from MOF, BOM, Financial Regulatory Commission (FRC), and Mongolia Mortgage Corporation (MIK). The WB team and MIK delivered 3 presentations on the mortgage securitization status quo and proposed reform directions.
VIETNAM: Capital Markets and NBFI Development

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Context
Vietnam has achieved remarkable economic performance since the start of its transition in 1986 including rising levels of formal financial intermediation and deepening. However, several challenges remain to be addressed as noted in the 2012 Financial Sector Assessment Program (FSAP) report. As Vietnam strives to move towards a higher middle-income country, it is facing higher demands for sustainable long-term financing and a diversified financial system. Capital markets and NBFI remain in the early stage of development and are not yet able to relieve the pressures on a very bank centric financial system for long-term financing. To address these challenges in the NBFI sector and also the vulnerabilities in the banking sector, the Vietnamese financial authorities have requested technical assistance from the WBG, to which F&M has responded by developing a multi-year Programmatic Approach (PA).

Project Objective
The overall objective of this PA activity is to leverage capital markets and NBFI for the growth and development of Vietnam. Developing capital markets is not an easy task, as it involves a large number of players and institutions, as well as complex building blocks, to ensure the efficiency and safety of their operations. The key stakeholders in this market include, banks, insurance funds, pension funds, securities market as well as the bond markets. The engagements under this pillar will develop these complementary segments in appropriate sequence to support long term growth and development. Key discrete activities under this engagement will include:

1) **Insurance:** (i) Design an information system to capture insurance supervisory information required for a modern smart-RBS; (ii) Review the insurance law and regulations and supervisory framework and identify gaps and determine needed changes for a smart-RBS; (iii) Provide training as needed in all activities and specific training focusing on using IT and data management for effective smart-RBS.

2) **Pension:** (i) Support the Ministry of Finance (MoF) to develop the private pensions market and to ensure safe and productive investment of pension assets; (ii) Support the Vietnam Social Security Fund (VSS) and stakeholders to develop a clear governance structure and investment strategy for the fund; propose legislative and/or regulatory amendments required for safe and efficient investment of public pension assets; (iii) Provide capacity building/training for the MoF, the VSS, and related stakeholders regarding global good practice on the investment and governance of public pension funds.

3) **Government bond market:** (i) Review the implementation of Vietnam Bond Market Development Roadmap (2012) and its results and support the MoF to prepare the next phase of implementation; (ii) Strengthen the legal framework for a better functioning and more liquid government bond market and to make government...
borrowings more market-based and transparent; (iii) Develop policies to increase demand and broaden the investor base for government bonds; (iv) Develop policies to improve supply and support development of new, relevant bond products that cater to the needs of institutional investors; (v) Develop policies to improve the secondary market operation.

4) Securities: (i) Support legislative reform of the Securities Market Law and prepare for the promulgation of the next generation of Securities Law; (ii) Provide on-site training programs for the State Securities Commission (SSC) and prepare internal operating manuals.

Progress

Pension

The pension team had two missions in 2018 to work with VSS, MoF and Ministry of Labor - Invalids and Social Affairs (MOLISA) on public pension and with the MOF on private pensions development.

On public pension, efforts were focused on (i) assessment of the Vietnam Social Security Fund (VSS) fund liabilities, (ii) improvement of the VSS’s investment strategy and operations, and (iii) development of private pensions. There was considerable progress in advancing the pension reform agenda through the elevation of the dialogue to the higher levels of government in a multi-disciplinary approach and in close collaboration with SPJ and MTI GPs. The team has produced a policy note on strategic pension reform to inform the dialogue. This was also used by the GoV to inform their Politburo’s drafting of a major resolution on pension reform including reform to the fund’s investments which later was approved in Resolution 28/2018 by this highest political body in the country. As part of bringing this important resolution into life, a formal request from Deputy Prime Minister Hue was received by the WB for further support including on improvement of VSS investments.

VSS liabilities assessment: Despite challenges in data collection for PROST modelling, the WB team supported the GoV in developing a liability profile of the VSS funds under the existing legal regime and analyzed different scenarios and their implications on the fiscal sustainability of the fund. The team also supported the development of pension liability modeling capabilities among key government agencies to inform policy and decision making on pension system reform through delivery of two rounds of training with over 10 detailed training sessions on
the PROST model to government staff from the VSS, MoLISA and MoF. To institutionalize these capabilities, a manual and process for data collection for PROST modeling has been developed with the VSS for future valuations of the fund’s liabilities.

**VSS investment capacity:** A technical note on assessments of the fund governance against the International Social Security Association standards and of the fund investments were shared to inform future changes to current policies and practices. VSS staff have completed training on investment including on investment analytics and operations, government bonds and how to develop a long-term pension fund investment strategy, using multiple international comparisons. Advice was also provided to the VSS in developing internal investment operations guidelines.

**On private pensions,** support was provided to the MoF in reviewing Decree 88 and development of new circular, particularly on tax treatment and international experience, supervisory framework for private pensions and pension fund operations. It was recommended to the MoF that a robust supervisory framework and capacity be put in place to ensure the safe launch of first pension funds.

**Insurance:**

A mission was conducted in 2018 to deliver the following products: (i) a review of the current insurance supervisory framework and international experience and approach for risk-based supervision to inform ISA’s future approach for supervision. A review of international experience on IT system development for supervisory purposes and detailed recommendations for business processes and IT system design has been developed with ISA. These will help inform the upcoming reform of the law and regulations and establishment of IT tools for supervision.

**Securities Market:** In 2018, the work was focused on delivering the last module of the Securities Market Supervisory Capacity Building, namely Module 5: Investigation and Enforcement.

In February 2018, a 3.5-day training workshop titled “Effective Oversight of Capital Markets: Inspections, Investigations, and Prosecutions of Securities Fraud” was organized jointly by SSC, WB, and the US SEC. Case studies from the US and other markets were discussed. In addition, key issues related to SSC’s investigation and enforcement scope, power, and mechanisms were also discussed during the workshop. This discussion was relevant for the drafting process of the new Securities Law.

Meanwhile, the drafting process of the new Securities Law entered the next phase in the first half of 2018, with a new draft circulated for discussion with the Ministry of Finance. The project team prepared a set of comments and conducted a mission in June 2018 to deliver and discussed the comments in the following areas: (i) SSC powers, (ii) public offering of securities, (iii) listing, (iv) private offers and exempt offers, (v) public companies, (vi) corporate disclosures, (vii) corporate governance, and (viii) securities firms. Eventually, a new draft was circulated for public comments between October and December 2018.

**Bond Market**

Following the important results achieved in 2017, in particular the establishment of the Bond Market Development Roadmap 2020 with vision to 2030 (Government Decision 1191/2017) and the enactment of new Public Debt Management Law,
the project team continued supporting the Vietnam MOF in establishing a modern framework for government bond market regulation under the new Law. Particularly, a new Decree 95/2018 on issuance registration, depository, listing and payment of government debt instruments was issued with support from the project team during the drafting and consultation process. In addition, two circulars implementing the new Decree were drafted with project team’s support. Meanwhile, the discussions on a new decree to replace Decree 90/2011 on corporate bond issuance continued during 2018.

It is important to note that, due to the anticipated project’s conclusion in mid-2018, the activities under this component were gradually transferred to a new Bond Market Development program within the World Bank Group. Eventually, at the end of 2018, a new Decree 163/2018 was issued to replace Decree 90/2011, providing a new framework for the development of corporate bond market in Vietnam. In addition, the two circulars drafted during early 2018 were also issued, namely: Circular on Buyback and Switch of Government Debt Instruments, and Circular on Issuance and Settlement of Government Bonds in the domestic market. The earlier activities funded by the KTF established a core foundation for these new regulations.

To further support these efforts, the team worked with the Seoul Center team to organize a knowledge exchange with Korean partners on Korea’s bond market development. Eleven government officials from MOF, SBV, the two stock exchanges (Hanoi and Ho Chi Minh), and other related institutions visited Korea during August 21-23, 2018 and met with Korea’s Financial Services Commission, Korea Exchange, Korea Financial Investment Association, Korea Securities Depository, Korea Asset Management Corporation, and a Primary Dealer Firm (Mirae Asset Daewoo).
**PHILIPPINES: Financial Development and Inclusion**

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<tr>
<td><strong>Team Leader</strong></td>
<td>Endo, Isaku <em>(current)</em>; Goyal, Sameer <em>(former)</em>, Mylenko, Nataliya <em>(former)</em></td>
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**Context**

The Philippines’ financial system is dominated by the banking sector and appears to be stable and highly liquid. Growth of the banking system and abundant liquidity, however, are not translating into greater access to financial services. Access to basic financial services for the lower 40% (by income) of the population increased from 10% in 2011 to 18% in 2014 but remains low. Lack of access to basic savings, payment and credit services for low income population and MSMEs limits their ability to fully participate in the broader economy, exacerbating inequality and poverty in the Philippines. Lack of effective insurance and retail finance mechanisms also means that financial assistance and risk mitigation for natural disasters cannot be delivered efficiently to the affected populations. To address these challenges, the Philippines financial authorities launched a National Strategy for Financial Inclusion (NSFI) in 2015, which the WBG had helped design. Following the launch, the authorities have also requested WBG’s support in the implementation of the NSFI. WBG Finance and Market’s team has developed a multi-year Programmatic Approach (PA) to respond to the client request.

**Project Objective**

The overarching objective of the PA is the development of the financial system of the Philippines and increased financial inclusion through:

**Pillar I: Financial inclusion**

(i) Monitoring and measurement system and mechanism for NSFI implementation

(ii) Assessment of data gaps in cooperative sector and enhancement of Cooperative Development Authority capacity in cooperative oversight

(iii) Stock taking and developing a systematic approach for the implementation of financial education programs and policies across agencies

(iv) Identification of specific reforms and instruments (guarantees, special purpose funds) to improve access to finance for SMEs

**Pillar II: Financial stability and soundness**

(i) Implementation of the enhanced bank resolution framework and improving the deposit insurance capacity

**Progress**

**Pillar I: Financial inclusion**

Most of the outputs for this pillar relate to the previous support for the National Strategy for Financial Inclusion (NSFI). Technical notes were provided to the clients under this NSFI subtask to help better design and implement the NSFI. These notes were intended to inform and stimulate the policy dialogue with the counterparts and relevant stakeholders in Philippines’ financial inclusion space. During the implementation period, the team had several discussions and provided face to face advice in the areas of the notes as well as other technical areas related to the NSFI as
requested by the client. The notes were not intended to be published as formal reports. The technical notes, however, led to agreements on additional activities which are currently under design to be continued over the next couple of years under new programmatic arrangements.

In particular, the Korean Trust Fund associated with these activities supported missions during FY18 and FY19 to support the agriculture finance study and a report was prepared on the government schemes to support agriculture finance in Philippines. A more comprehensive report on agriculture finance in the Philippines is being prepared jointly with the Agriculture GP and scheduled to be completed in early 2019.

The team also discussed potential support for the consolidation of the credit guarantees in Philippines approved by the President in the 2nd half of 2018. On the latter, at the Treasurer of Philippines’s request, a presentation on best practices relating to partial credit guarantee schemes was made to the technical working group for the consolidation of the state guarantee programs in April 2018.

There is also a technical note on SME finance that started preparation in 2018 and is scheduled to be completed in 2019.

Pillar II: Financial stability and soundness

The work under this pillar faced delays due to uncertainties around leadership changes in key counterpart agencies including Philippine Deposit Insurance Corporation (PDIC), Department of Finance (DOF), and the Central Bank (BSP). This activity was proposed as there was strong interest from PDIC for WB support for the implementation of the enhanced bank resolution framework approved as part of PDIC charter amendments as well as other support to strengthen their institutional capacity. The WB team continues to provide ad hoc advice (for instance, in the second half of 2018, the team provided feedback and advice to PDIC relating to their strategy for disposing repossessed assets).

The support to the counterparts in the area of stability also included contributions to regular regional and Philippines economic updates, inputs and dialogue on enhancement of Anti-Money Laundering Act...
Dialogue with the Financial Sector Forum and BSP over the past 6 months led to new technical assistance requests to support the government on several areas and is guiding the next phase of WBG support such as institutionalizing the crisis simulation, FinTech Deep Dive Technical Note, Capacity building and regulatory reforms of capital market, money services business and payment systems.

The dialogue on the financial sector development and a need for a sector strategy led to the workshop on the Financial Sector Assessment Program (FSAP). The WBG team organized an FSAP workshop in September 2018, hosted by BSP with participation from 36 members from the Financial Sector Forum (BSP, Securities and Exchange Commission, Insurance Commission, and PDIC), IMF, and WBG. The workshop focused on an overview of the FSAP — objectives, components, process and outputs. Following the workshop, the Philippine authorities made an official request to the WB and IMF to undertake a full FSAP for the country for the first time since 2009. The WB is requested to support the Financial Sector Forum to facilitate the development of the Philippines’ first financial sector development blueprint post-FSAP in 2020.

Just-in-time assistance

Just-in-time assistance on payment systems regulatory and oversight frameworks was delivered to support BSP’s preparation for an implementing regulation for the new National Payment System Law (signed by President Duterte in October 2018, effective December) and to support the newly created Payment Systems Oversight Department (PSOD). A workshop was delivered by WBG global payment system experts and legal expert, to provide capacity development training to BSP staff in the Payment Systems Oversight Department, Payment and Settlement Office, Core IT Specialists Group, and the Office of General Counsel. The workshop provided the conceptual framework of payment systems oversight and regulation. The workshop supported BSP in preparing for the implementing regulations for the new law.
LAO PDR: Financial Sector Development

| Flag | Grant amount: USD 800,000  
|      | Project duration: September 2016–October 2018 |

| Team Leader | Corlett, Michael (current); Tanaka, Kiyotaka (former) |

| Team Members (in alphabetical order) | Annamalai, Nagavalli; Bell, Simon C.; Booth, Charles D.; Delion, Marie Lily; Fabling, Christopher Robert; Kwok Chung Yee, Brian; Lorenzo, Laura Maria; Mocheva, Nina Pavlova; Mortimer-Schutts, Ivan Daniel; Nolte, Jan Philipp; Omany, Vonglatda; Orbeta, Cristina; Pankov, Alexander; Panyanouvong, Duangchay; Phomsouvanh, Sakhone; Phonvisay, Alina; Phounvixay, Vidaovanh; Poonprasit, Piathida; Sakohninhom, Sourignahak; Salomao Garcia, Valeria; Sitorus, Djauhari; Sombounkhanh, Souksavanh; White, David John; Wong, Sau Ngan |

Context

A more stable and efficient financial sector is essential to promote economic growth and shared prosperity in Lao PDR. The modernization of Lao PDR’s financial system is one of the ten strategic areas that the WBG has decided to support in the upcoming years. This concept note outlines the WBG’s Financial Sector Development TA program designed to achieve this goal, utilizing a Programmatic Approach (PA) that will allow the WBG to operate on a multi-year timeframe and address problems in a comprehensive manner through coordinated and properly sequenced projects.

Project Objective

The development objective of this Programmatic Approach is to promote the development of a more stable and efficient financial sector. This will be achieved through the provision of TA to enhance the capabilities of financial sector authorities, and assist in the aligning of laws, regulations and practices with key international standards. This TA program involves a coordinated, sequenced and comprehensive approach, with a consistent impact monitoring framework, based on the following three pillars:

(i) Pillar 1: Enhancing Financial Stability
   a. Financial Stability Monitoring
   b. AML/CFT National Risk Assessment (separate regional KTF code)
   c. Deposit Insurance (moved from Pillar 3 in July)

(ii) Pillar 2: Upgrading the Legal and Regulatory Framework
   a. Legal and Regulatory
   b. Accounting and Auditing (partly Malaysia-office funded from FY18)
   c. Insolvency and Creditor Rights (moved from Pillar 3 in July)

(iii) Pillar 3: Just-in-time Technical Assistance

Progress

This proposal was approved in September 2016, coinciding with a window of opportunity in Lao PDR’s willingness to reform its financial sector and engage international partners. The Bank of Lao (BOL)’s 2016-2025 Strategy, approved in late 2016 is particularly ambitious. BOL also took the initiative to compile their TA requests to the WBG for 2017 and 2018 into one document, aided by the Bank’s coordinated approach, which was received in February 2017, and further requests in 2018, which are noted below.
Pillar 1: Enhancing Financial Stability

a. Financial Stability Monitoring

This activity’s main counterpart is the BOL Banking Supervision Department. In continuation of technical assistance initiated in 2016, in 2018 BOL began to publish Financial Soundness Indicators (FSI) on its website. Financial stability indicators (of which the IMF’s Financial Soundness Indicators (FSIs) are the archetype) are indicators of the current financial health and soundness of the financial institutions in a country. FSIs are calculated and aggregates are disseminated (by over 100 countries) by IMF to support macroprudential analysis.

WBG TA on calculating FSI was delivered in 2016, and in 2017 resulted in BOL agreeing to the quarterly publication of seven core aggregated FSIs as part of the Green Resilient Growth DPO 2. BOL will therefore publish Q4 2017 FSIs by March 2018, increasing to nine core indicators for Q2 2018.

Aside from supporting FSIs, the World Bank conducted a half-day workshop in February 2018 on State Owned Bank (SOB) reforms, attended by BOL Banking Supervision Department and SOB management. The presentations introduced a SOB reform framework, and examples from South Asia, Indonesia, and Myanmar, featuring financial and technical support from the WBG. The seminar emphasized the need for: a thorough diagnostic (financial, operational and institutional), a clear mandate, suitable instruments, the ability to collect on debt, and good governance. BOL noted that Lao PDR has undergone SOB reforms in the past, and like in the successful international examples, is also in the process of strengthening the banking supervisor, and Basel II compliance by commercial banks. The Chair (the Director General of Banking Supervision) concluded by noting they would like to explore how the WBG could be engaged further. Next Steps: Discuss specific areas for further sharing of international experiences.

b. AML/CFT National Risk Assessment

This TA is KTF-funded but provided through the regional “National Risk Assessment (NRA) ASEAN” (P152092, TTL: Stuart Yikona, Dec 2014–Aug 2018). As noted above, the final NRA report and action plan was approved by NCC in December 2018, having benefitted by multiple rounds of comments by the WB team. Furthermore, AML-IO has requested further support in Risk Based Assessment Capacity Building involving 8 modules over two years.

c. Deposit Insurance (moved from pillar 3)

In response to earlier crises, the BOL Depositor Protection Fund (DPF) was established by a decree in 1999. It however still has capacity constraints on multiple fronts, including funding, IT (depositor data is on 6 stand-alone PCs), and institutional coordination (no back-stop agreement with MOF), so is unable to enhance financial sector stability as intended.
During 2018, the WBG TA continued to support the strengthening of DPF capacity, focusing on (i) addressing weaknesses identified in the International Association of Deposit Insurers (IADI)’s Core Principals self-assessment, which DPF completed in 2017 with WBG TA support financed under KTF; and (ii) implementing the new Deposit Insurance Decree, which issued in October 2017, also benefitting from extensive WB support financed under KTF. The decree is a marked improvement on the 1999 decree but requires significant follow-up TA to implement.

In 2018, the World Bank delivered the following TA: (i) business process review on major areas of DPO operations: (premium collection, monitoring of deposit data, monitoring and analysis of financial condition of banks, deposit reimbursement, fund management); (ii) workshop on Corporate Governance; (iii) Update on the compliance with Core Principles and proposed action plan; Deposit Insurance Reimbursement System (DIRS); (iv) Workshop on Deposit Reimbursement Simulation Exercise.

The generous support provided by the Korean Trust Fund is greatly appreciated by Laotian authorities, who have officially requested IDA financing to strengthen the financial and institutional capacity of DPF. Project preparation is underway and expected delivery is end 2019. The project is the result of the successful collaboration built under the TA provided under the KTF. Finally, KTF financed the attendance of the Deputy Director General of DPF to the FDIC 101 training in Washington October 2018.

Pillar 2: Upgrading the Legal and Regulatory Framework

Legal and Regulatory

The current financial sector legal framework is outdated and inadequate; e.g. the Commercial Bank Law falls short of many Basel Core Principles, requirements of the ASEAN integration framework, the Key Attributes for resolution and most of all its appropriateness for the Laotian banking system. Similarly, the BOL Law suffers from serious gaps including governance, accountability and its role and function vis a vis the banking sector, the government and other regulators. BOL has therefore requested TA on these key laws as well as related laws and regulations.

In 2018, legal experts from the WBG conducted missions in February, March, August and November to continue working with the BOL legal teams on the BOL Law and the Commercial Banking Law. Due to their importance, the submission to the National Assembly of international standard central banking and commercial banking laws are prior actions of the Green Resilient Growth DPO 2 due in late 2018 (delayed until mid-2019) and DPO 3 due in early 2020 respectively.

The BOL Law was approved by the National Assembly on June 19, 2018, and greatly benefitted from extensive WB TA.

As of end-2018, the Commercial Banking Law is in the final stages of drafting, having benefitted from multiple rounds of comments by the WB team, including missions in March and August 2018. Previous WB advice on corporate governance, risk management, Board of Directors and increase in minimum capital requirements seem to have been well received. The law is scheduled to be presented to the National Assembly in the upcoming session.

Decree on Resolution Powers: The details of the decree were discussed. Again, the comments provided in August on the draft decree was reiterated. BOL was keen to understand the issues related to mergers and acquisitions and the mission provided a learning session on the foregoing.

WB has also been providing Legal TA on Decisions relating to: Dormant Accounts, Asset Foreclosure, Large exposure, capital adequacy, liquidity, Bank resolution, corporate governance, merger and acquisition and consolidated supervision. During the November 2018 mission, BOL requested additional TA to address the following: (i) Basel II-disclosure; (ii) Net open position; (iii) ICAP and ILAP assessment; (iv) PCA framework; and (iv) Early warning system.

Securities Law: The World Bank continued to provide support with the development of a new Securities law. During 2018, WBG provided comments on various iterations of the draft law, and two missions were conducted in March, August and November 2018.
The law is expected to be finalized in mid-2019, and the World Bank continues to provide support.

The mission met with the Bankruptcy Law drafting committee of the MOJ and discussed the below laws. The Deputy Director General that the mission met with is also on the drafting committees of the Enforcement Law and Economic Dispute Resolution Law. Bankruptcy, dispute resolution and enforcement are all part of the Doing Business Indicators (below).

**Bankruptcy Law:** The mission discussed TA based on the timeline that has been approved by the steering committee. The plan is for submission to the National Assembly in November 2018 for initial comments and re-submission of the final draft law for endorsement in April 2019.

**Enforcement Law:** At the MOJ’s request the WBG provided two rounds of comments on the existing Enforcement Law. The plan is for submission to the National Assembly in October 2019, and a drafting committee chaired by MOJ’s Court Enforcement Department has been appointed. The UNDP is providing some TA under its program on the Legal Sector Master Plan.

**b. Accounting and Auditing**

The WBG is providing TA to revise and strengthen Lao PDR’s accounting and auditing standards to ensure they are more consistent with international best practices. This will particularly help Lao PDR adopt IFRS, revise training programs and the curriculum for certified public accountants, adjust auditing requirements for national and international firms, strengthen the Lao Chamber of Professional Accountants and Auditors (LCPAA) and related institutions.

During 2017, the WBG team worked closely with LCPAA and the Malaysian Institute of Accountants to conduct an IFRS Gap Analysis, which was accepted by the IFRS Steering Committee chaired by MOF, presented at a regional IFRS conference in Vientiane in December 2018, which was jointly-organized by the WBG.

**On April 24, 2018, the Vice Minister, Ministry of Finance formally approved the final IFRS Gap Analysis Report and requested World Bank support for the next stage of the transition project.**

The gap analysis will now inform the drafting of a transition plan for the three sectors regulated by BOL, MOF (Insurance) and Lao Securities and Exchange Commission Office. The World Bank delivered a workshop in July 2018 with the following objectives: (i) to provide an overview and key matters for consideration when preparing the IFRS Transition Plan; (ii) to identify the key cross sectoral issues that can best be dealt with through a collaborative approach between MOF, regulators and the accounting profession; (iii) to agree on the preparation and finalization of the overall draft IFRS Transition Plan to be overseen by the IFRS Steering Committee; and (iv) to discuss TA required to assist
with implementation of the IFRS Transition Plan once it has been approved. The next steps include: (i) A final draft of an overall IFRS Transition Plan will be submitted to the IFRS Steering Committee; (ii) a dissemination workshop would then be held to run through the draft plan and explain to public interest entities how they should prepare their own entity specific IFRS Gap Analysis and IFRS Transition Plan for submission to their regulator.

c. Insolvency and Creditor Rights (moved from Pillar 3)

According to WBG’s Doing Business report, Laos is joint-last in the world for the ease of resolving insolvencies. This lack of creditor rights places a severe cost on lenders’ ability to lend, ties up capital in zombie firms, and reduces the incentives for entrepreneurs to innovate. The Ministry of Justice (MOJ) has requested TA to better understand the situation and reform the Bankruptcy Law, now due for submission to the national assembly in April 2019. During 2018, the WBG provided comments on the current bankruptcy law in May, as well as on the related draft civil code due in April and the Law on Enforcement in February 2018. Seven representatives from the Ministry of Justice, People Supreme Court, Ministry of Industrial and Commerce, and the Bank of Laos visited Korea during July 16-17, 2018 to meet with Korea’s Ministry of Justice, Seoul Bankruptcy Court, Judicial Research and Training Institute, Judicial Policy Research Institute, and Korea Restructuring and Insolvency Practitioners Association. Korea, ranking third in the Doing Business 2018 for resolving insolvencies, and having a separate insolvency regime for SMEs, shared its rich experience and lessons with the Laotian authorities.

The study tour to Korea was jointly organized by the team and the Seoul Center with Korean partners on Korea’s insolvency system. Ten representatives from the Lao Ministry of Justice led by the Vice Minister, the People’s Supreme Court, the Ministry of Industry and Commerce, and the Bank of Laos visited Korea during July 16-17, 2018 to meet with Korea’s Ministry of Justice, Seoul Bankruptcy Court, Judicial Research and Training Institute, Judicial Policy Research Institute, and Korea Restructuring and Insolvency Practitioners Association. Korea, ranking third in the Doing Business 2018 for resolving insolvencies, and having a separate insolvency regime for SMEs, shared its rich experience and lessons with the Laotian authorities.
Pillar 3: Just-in-time Technical Assistance

Lao PDR’s financial sector is in the early stages of its development, and the capacity of the financial sector authorities is low. The authorities often do not know what assistance they need ahead of time. The financial sector authorities therefore benefit from being able to request small but timely TA, and this facilitates a dialogue on high-priority reform areas. The just-in-time pillar has been especially helpful for WBG to responsively build relationships that lead to new opportunities for reform.

An example of activities covered under this pillar this year include timely training opportunities for key counterparts, e.g. Deputy Director General of Deposit Protection Office attended the FDIC 101 course in Washington DC in October 2018.
EAP: Case Studies In De-Risking

Grant amount: USD 145,000
Project duration: March 2017–June 2018

Team Leader
Chatain, Pierre-Laurent

Team Members (in alphabetical order)
Abel, Donald Bremner; Aviles, Ana Maria; Celik, Kuntay; Eckert Sawoski, Sue Ellen; Endo, Isaku; Goyal, Sameer; Malik, Priyani

Context

Correspondent banking is an essential component of the global payments system, especially for cross-border transactions. De-risking, the termination of correspondent banking services for clients perceived to be “high risk” has the potential to reverse some of the progress made in reducing remittance prices and fees, as well as in the prices of other financial instruments and services. The WBG and the international community have been giving increasing attention to the significance of de-risking. The proposed project aims to respond to this phenomenon with more information on possible knock-on effects of de-risking and on informing policy decisions at both local and global levels.

Project Objective

The objective is to gather information on the effects of de-risking on local communities and to work with private and public sector partners to develop solutions to ensure that the affected organizations maintain access to financial services. This country-specific pilot study intends to shed more light on the way the withdrawal of correspondent banking and de-risking activities in the remittance market are affecting specific categories of customers. It will also discuss not only the negative impacts of de-risking but also the positive ones.

Progress

At the request of the G20 and with the support of the Financial Stability Board (FSB) and the Committee on Payments and Market Infrastructures (CPMI), the World Bank Group carried out two fact-finding projects on de-risking. These projects confirmed the trend that correspondent banking relationships had been restricted or terminated, affecting especially Money Transfer Operators (MTOs), small and medium domestic banks, and small and medium exporters. Following subsequent discussion and stakeholder dialogue between relevant global entities it was recommended that “further work should be undertaken to identify and quantify the negative effects on the economies of smaller jurisdictions (trade finance and remittance dependent individuals/families) to strengthen the case for public intervention/concern.”

To respond to this call for more granular analysis, the World Bank Group initiated a project in 2017 to conduct 8 country studies to better understand the effects of de-risking at the local level, considering local banks, MTOs, and the final customers receiving remittances, using trade finance and benefiting from other services. The KTF supported research in 4 of the countries—Bangladesh, The Philippines, Kingdom of Tonga and Samoa—on the impacts of the withdrawal of correspondent banking relationships (CBRs). The objective of these studies was two-fold: (i) to collect qualitative and quantitative data covering a number of issues, including trends in correspondent banking (closure of accounts of domestic banks and

SEOUl CENTER FOR FINANCIAL SECTOR DEVELOPMENT ANNUAL REPORT 2018 51
MTOs) and (ii) to assess potential impact on specific categories of clients, products and services. The case studies benefitted from interviews with government officials, regulators and supervisors, international and local banks, money transfer operators, chambers of commerce, and inter-institutional commissions for financial inclusion.

The findings of the individual country studies were used to prepare a summary paper which offers further insight into the debate through the prism of these eight emerging market economies in East Asia and Pacific (EAP), Latin America and the Caribbean (LAC), South Asia (SA), and Sub-Saharan Africa (SSA). Overall, in the eight countries covered in this study, the macro-economic impact of de-risking appears limited. In a few countries, the net loss of CBRs has been marginal and the impact has remained contained. Banks have been able to cope with the situation by dealing with fewer correspondent banks or establishing new ones. The study shows however that the impact of de-risking has been felt at the micro-level, sometimes intensively, especially in two jurisdictions surveyed under the KTF assistance. On a few rare occasions, banks nearly lost their access to the international financial system. The final output was published by the World Bank Group in April 2018 on the sidelines of the WBG-IMF Spring Meetings. The link to the final report is given below.

SECTION III.
Seoul Center Plans For 2019–2020

**SEOUL CENTER 2.0: Enhanced Knowledge Generation and Partnerships**

The Seoul Center team proposes to expand its activities to implement the FCI - Korean Government partnership in line with the partnership agreement with the Government of Korea. The primary objective of these activities is to support financial sector development in EAP client countries by leveraging Korean expertise and knowledge. The deliverables will be organized as follows:

**Seoul Center Korea Based Team — Work Program**
Focus on Financial Stability and Soundness

<table>
<thead>
<tr>
<th>KTF-Funded FCI Country Programs</th>
<th>Research and Knowledge Generation</th>
<th>Partnerships and Knowledge Exchange</th>
<th>KTF Management, Visibility, Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Technical/operational work (ASA): SC team joins and provides technical input as team leads or members</td>
<td>• Global/regional diagnostics and research on financial stability and soundness (incl. EAP macro-financial analysis and monitoring)</td>
<td>• Strengthen collaboration through continued joint missions, study tours, conferences, workshops</td>
<td>• Donor communication and reporting, TF management</td>
</tr>
<tr>
<td>• Facilitate approval of funding for country programs through close communication with donor</td>
<td>• Lesson notes/case studies on Korean experience (focusing on stability, innovation)</td>
<td>• Korean secondees onboarding and leveraging</td>
<td>• SC webpage: information/news/blogs/publications</td>
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<tr>
<td>• Identify and connect appropriate Korean partners for country programs</td>
<td>• Technical/policy notes on priority aregas (for EAP or globally)</td>
<td>• Partnership event (Q4 2019)</td>
<td>• KTF branding guidelines for country engagements and events</td>
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<td>• Regular smeetings, maintaining partner profiles &amp; news</td>
<td>• Joint events with other hubs (Vienna-FinSAC, Malaysia Hub, Chile Hub) (e.g. NPL resolution event in KL in April)</td>
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Research and Knowledge Generation

This is a new type of activity for the Seoul Center to more actively distill knowledge and lessons from Korea and add more value to the WBG operations. The activities will comprise conducting diagnostics and research as well as preparing notes on lessons from Korea’s successful development experience. The deliverables will be developed by teams led by the Seoul Center with participation of FCI and other experts from the WBG as well as appropriate partners from the Korean financial sector. The outputs will be topical briefs, working papers, lessons notes, etc. Potential topics for the deliverables include: (a) Non-performing loans (NPL) in EAP with focus on use of Public AMCs; (b) Technology and financial services innovations in Korea (including possibly case study on Internet-Only Banks and the crypto currency-related issues in Korea); (c) Korea lessons notes (e.g. innovative products for asset/NPL management, capital markets and long-term finance, financial inclusion evolution in Korea, etc.)

EAP macro-financial monitoring: Consists of a systematic assessment of financial sector stability issues and development trends in EAP. This is also a continuation of the work that was supported by the Seoul Center KTF since last year and is led by a team based in the HQ. Knowledge of vulnerabilities at the country, regional and global level is an important foundation for engaging with countries, developing appropriate programs to strengthen financial systems and providing active support for reforms/capacity building. This project will support and complement several high priority engagements relating to EAP financial sector. The deliverables will be periodic EAP-focused reports and notes such as the Quarterly Financial Sector Monitor, contributions to the EFI Macro-Financial Initiative and EAP Economic Update, and China Stability Calls.

Partnerships and Knowledge Exchange

This is a continuation of what the Seoul Center has been focusing on from the very beginning. The activities will focus on strengthening the network of partners in Korea, continuing to leverage Korean partners to support technical inbound and outbound activities such as topical training/workshops; working jointly with other FCI hubs (e.g. collaboration with Malaysia Hub and FinSAC team on upcoming NPL conference in KL); and other opportunities to share knowledge with our EAP clients in their areas of interest/priority. The work will be led primarily by the Seoul Center team in cooperation with EAP teams and possibly teams in other regions. The actual deliverables will include study tours, training workshops, presentations at partner/WBG events, etc.

TOWARDS SEOUL CENTER 3.0

In response to MOEF’s earlier (2016-2017) interest in stronger technical presence in Korea to expand operational support out of the WBG Korea Office, the Seoul Center had proposed to establish a center of excellence in the office, housing global technical expertise in financial stability and soundness. Such an approach would allow the Seoul Center to better respond to: (i) growing concerns on vulnerability in the region and globally; (ii) strong demand for support in the area of financial stability and soundness (evidenced from the focus areas of the previous phases); (iii) growing interest in learning from Korea’s experience in this area of comparative advantage.

This proposal was endorsed in principle by both MOEF and the WBG but was not materialized in the second phase of the partnership as it was not a good timing for budget expansion. The Seoul Center and FCI management, while continuing to deliver what has worked well in the first and second phase, are eager to discuss with MOEF what thoughts/plans they have for the third phase of the partnership.
The following can be part of Seoul Center 3.0 discussion (in no particular order and could be considered together or independently):

- **Expanding outreach of Seoul Center to countries beyond EAP:**
  Consideration could be given to expanding the grant coverage under Seoul Center partnership beyond EAP (could be to another region, e.g. South Asia, or select priority countries)

- **Korea-based FCI Center of Excellence focused on Financial Stability and Soundness:**
  As discussed during the preparation of Seoul Center 2.0, technical staffing could be strengthened in WBG Korea office to focus on Korea’s areas of comparative advantage (financial stability and soundness or similar theme) which would not only enhance the partnership work but also allow for richer and more substantive knowledge work and technical support to client countries.

- **Broader mandate in line with FCI priorities and Korea Office strategic direction:**
  The Finance, Competitiveness and Innovation Global Practice was formed after the signing of the Phase 2 Seoul Center agreement. The current focus of the Seoul Center is financial sector development since the initial agreement was made with the Finance and Markets GP. With establishment of the FCI GP (financial sector and private sector development), consideration may be given to expand the mandate of the partnership with Korea to include competition, technology and innovation themes. This could be aligned with the current priorities of FCI—Digital Economy, Fintech, Maximizing Finance for Development, Jobs and Economic Transformation—as well as the current thinking of having innovation and technology as the focus for the Korea Office.
KOREA ASSET MANAGEMENT CORPORATION (KAMCO)

- MOU signed on April 16, 2018 (virtual signing)
- KAMCO was established by the Act on the Efficient Disposal of Non-Performing Assets, etc. of Financial Companies and the Establishment of Korea Asset Management Corporation in 1962. KAMCO has supported households, corporations, financial institutions, and the government as the nation’s economic safety net. As a quasi-governmental entity, KAMCO is mandated to purchase and resolve non-performing loans of financial institutions, execute corporate restructuring, help restore the creditworthiness of the financially underprivileged, manage and develop national properties, and collect delinquent taxes. As the perpetual restructuring organization, KAMCO is committed to the development of the nation’s economy and its financial institutions, and strives to maximize government revenues.

- The prospective policy areas of collaboration under this Memorandum MOU would be to support:
  a. Promoting financial stability, enhancing crisis preparedness, and strengthening financial safety nets;
  b. Improving distressed asset resolution regimes and policies; and
  c. Building resilient financial institutions and financial infrastructure

- The prospective modes of collaboration under this MOU would include:
  a. Technical assistance on the policy areas listed above to national and sub-national authorities in the East Asia and the Pacific region, as well as other regions, to assess and implement necessary initiatives to strengthen the financial sector and markets, which in turn will foster efficient real sector growth.
  b. Knowledge sharing and capacity building for member countries of the World Bank Group through training, workshops/seminars, and other knowledge transfer activities.
  c. Strengthening the partnership and institutional capacity of each Party through staff exchange opportunities as appropriate.
May 10, 2018 – The World Bank Group and Korea Asset Management Corporation (KAMCO) have committed to increasing their cooperation to promote financial stability, enhance crisis preparedness, and strengthen financial safety nets in developing countries. A memorandum of understanding (MOU) signed by the parties in April 2018 formalizes the joint commitment of both parties to work with countries to build their capacity to address distressed assets and to strengthen their policy frameworks to boost overall financial stability.

KAMCO, established in 1962, played an important role during the Asian Financial Crisis in the resolution of distressed assets in Korean financial institutions and has continued to support stability in the financial system. It focuses on the purchase and resolution of non-performing loans, restructuring corporations, assisting in the restoration of credit-worthiness of the financially-underprivileged, management of state-owned properties, collecting overdue taxes as a quasi-governmental entity, and management of Korea’s “On-Bid, On-line Public Property Disposal System.”

Drawing on KAMCO’s experience and the World Bank Group’s knowledge and convening power, the partnership will scale up technical assistance and capacity building support to national and sub-national authorities, particularly in the East Asia and the Pacific region. The partnership will be facilitated through the Seoul Center for Financial Sector Development, established at the World Bank Group Korea Office with the generous support from the Korean Ministry of Strategy and Finance. The center works to strengthen financial systems in World Bank client countries in East Asia and the Pacific.

“Non-performing loans (NPLs) and other financial vulnerabilities have long weighed heavily on the financial system development in several countries in East Asia and the Pacific and have constrained their growth potential,” said Sameer Goyal, Program Manager of Seoul Center for Financial Sector Development. “Countries have expressed strong interest in learning from Korea’s experience in resolving NPLs. KAMCO’s know-how and experience will help the World Bank enhance its...
support to countries to strengthen NPL resolution regimes and contribute to strengthening financial safety nets in general.”

“Non-performing loans (NPLs) and other financial vulnerabilities have long weighed heavily on the financial system development in several countries in East Asia and the Pacific and have constrained their growth potential.”

— Sameer Goyal, Program Manager of Seoul Center for Financial Sector Development

Aside from KAMCO, the Seoul Center maintains strong partnerships with more than 10 core financial institutions in Korea. The Center recently signed MOUs with the Korea Deposit Insurance Corporation (KDIC), the Financial Services Commission (FSC), and the Korea Financial Intelligence Unit (KoFIU), and has long-standing partnerships with the Bank of Korea (BOK), the Financial Supervisory Service (FSS), Korea Securities Depository (KSD), Korea Credit Guarantee Fund (KoDIT), Korea Institute of Finance (KIF), Korea Capital Market Institute (KCMI), and the Council on International Financial Cooperation (CIFC).
### Seoul Center Korea-Based Team

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>职责</th>
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</table>
| Sameer Goyal        | Program Manager             | - Seoul Center program and partnership management  
|                     |                             | - EAP financial sector advisory services and analytics  
| Kyung Kyun Park     | Senior Financial Sector Specialist| - Secondee from KAMCO  
|                     |                             | - EAP financial sector advisory services and analytics focusing on Non-Performing Loans and insolvency  
| Soyoun Jun          | Team Assistant              | - Seoul Center operational and administrative support  
|                     |                             | - Trust fund administration  
| Ryosun Jang         | Consultant                  | - Seoul Center website and communication materials design  
|                     |                             | - Operational support for Seoul Center knowledge and partnership activities  
| Youjin Choi         | Financial Sector Specialist | - Seoul Center partnership management and activities  
|                     |                             | - EAP financial sector advisory services and analytics  
|                     |                             | - Trust fund administration  
