



Ministry of Strategy
and Finance



WORLD BANK GROUP
Finance & Markets

**The Poverty Reduction & Socio-Economic Development
Trust Fund II (TF071872, TF072685)**

Annual Progress Report 2016

***Seoul Center for Financial Sector Development:
Strengthening Partnerships and Delivering Results***



**Finance and Markets Global Practice
THE WORLD BANK GROUP**

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List of Acronyms and Abbreviations

| | | | |
|---------|--|------|---|
| AML/CFT | Anti-Money Laundering and Combating the Financing of Terrorism | MOF | Ministry of Finance |
| ASEAN | Association of Southeast Asian Nations | MOJ | Ministry of Justice |
| BOK | Bank of Korea | MOSF | Ministry of Strategy and Finance (Korea) |
| BOL | Bank of the Lao PDR | MOU | Memorandum of Understanding |
| BOM | Bank of Mongolia | MSE | Mongolia Stock Exchange |
| BPNG | Central Bank of Papua New Guinea | MSME | Micro, Small, and Medium Enterprise |
| CBM | Central Bank of Myanmar | NBC | National Bank of Cambodia |
| CBRC | China Banking Regulatory Commission | NBFI | Non-Bank Financial Institution |
| CIFC | Center for International Financial Cooperation (Korea) | NPS | National Payments Strategy / System |
| CLMV | Cambodia, Laos, Myanmar, and Vietnam | OIC | Office of Insurance Commission (Thailand) |
| DO | Development Objective | PA | Programmatic Approach |
| EAP | East Asia and the Pacific | PBOC | People's Bank of China |
| EWS | Early Warning System | PNG | Papua New Guinea |
| F&M | Finance and Markets Global Practice | RBC | Risk-Based Capital |
| FCPFL | Financial Consumer Protection and Financial Literacy | RBS | Risk-Based Supervision |
| FIU | Financial Intelligence Unit | SC | Seoul Center for Financial Sector Development |
| FRC | Financial Regulator Commission (Mongolia) | SSC | State Securities Commission (Vietnam) |
| FSAP | Financial Sector Assessment Program | SME | Small and Medium-sized Enterprise |
| FSC | Financial Services Commission (Korea) | SOB | State-Owned Bank |
| FSS | Financial Supervisory Service (Korea) | TA | Technical Assistance |
| ISA | Insurance Supervision Agency (Vietnam) | VSS | Vietnam Social Security Fund |
| KAMCO | Korea Asset Management Corporation | WBG | World Bank Group |
| KDIC | Korea Deposit Insurance Corporation | | |
| KoDIT | Korea Credit Guarantee Fund | | |
| KoFIU | Korea Financial Intelligence Unit | | |
| KSD | Korea Securities Depository | | |
| KTF | Poverty Reduction & Socio-Economic Development Trust Fund II | | |
| M&E | Monitoring and Evaluation | | |
| MEF | Ministry of Economy and Finance (Cambodia) | | |

HIGHLIGHTS OF 2016

Operations of Seoul Center for Financial Sector Development (Seoul Center)

- 2016 was the first full year of operation in Korea for the Seoul Center. Operational processes streamlined and operational guidelines updated. Process for approval from MOSF enhanced and processing timelines shortened through face to face proposal presentation to MOSF team.
- Seoul Center staff integrate into country operations providing technical assistance through country programs (Mongolia, Vietnam) as well as providing technical inputs for concept review, program design, implementation support and identifying appropriate partner connections.
- Knowledge generation activities initiated -- Greenback (related to migrant remittances); financial sector and gender diversity and broader issues of financial literacy; and preliminary research on financial stability focus started.
- Programs start leveraging Korean partners and several connections made to transfer knowledge and lessons. Knowledge-sharing enhanced with participation of F&M in several partner events. Event on fintech co-organized with ADB and FSS for APEC financial regulators.
- Dialogue started with Finance and Markets Global Practice centers in Malaysia and Austria (FinSAC) to coordinate support and seek opportunities for synergy; joint work under discussion
- Seoul Center next phase approach and design developed in consultation with MOSF. “Seoul Center 2.0.” to focus on financial stability and soundness, an area of comparative advantage for Korea.

Country and Region specific operational work support through KTF

- 2016 was an outstanding year for KTF-funded F&M country programs, with the largest number and size of programs being under implementation since the beginning of the trust fund operation. A record-high of \$4,545,195 of technical assistance was implemented during the year.
- Four new projects were approved in 2016 for a total grant amount of \$4,130,000 (Mongolia, Vietnam, Lao and Philippines). As of end-2016 a total of 16 proposals had been approved, covering 10 countries and 3 at regional level. Eight projects have been completed and eight are ongoing.
- All country focused projects funded by the KTF are in response to client demand and aligned with the Country Partnership Framework (CPF) agreed with each country. Internally WBG standard Accountability and Decision-Making (ADM) process is followed. Project concept is reviewed and approved by Country Director or relevant Manager before proposal is sent to MOSF.
- Responding to MOSF’s recommendation to develop larger proposals addressing technical assistance needs in EAP countries, all the new projects are designed as multi-year Programmatic Approaches which allow for more strategic and comprehensive engagement. However, closing date of KTF will be needed to complete technical assistance effectively (especially for the recently approved projects).

Leveraging Korean expertise and institutional capacity through partnerships

- An important objective of the WBG and MOSF partnership is leveraging expertise of Korean institutions to support country needs and enhance/deepen the delivery of assistance. Substantial progress has been made in 2016 with all the formal and informal partnerships (12 partners so far, including MOSF) to connect these institutions with specific country needs in the EAP region.
- Physical presence of technical team in Korea has allowed Seoul Center team to focus on more direct, frequent, and effective interactions and communication with Korean partners on the ground.

KEY OUTPUTS OF KTF-FUNDED OPERATIONS IN 2016

The table below highlights the key outputs of the KTF-funded operations that were delivered in 2016. Please refer to the main text of the report for details.

| Country | Key Outputs |
|---------------------|--|
| Myanmar | <ul style="list-style-type: none"> • Two major pieces of legislation through WBG’s technical assistance to CBM: <ul style="list-style-type: none"> ○ Myanmar Financial Institutions Law ○ Mobile Financial Services regulation • BOK shared knowledge on Korea’s payment system |
| Cambodia | <ul style="list-style-type: none"> • National Payment System Strategy note preparation started • National Bank of Cambodia “Let’s Talk Money” campaign launched • BOK shared financial stability lessons from Korea |
| Mongolia | <ul style="list-style-type: none"> • Financial Sector Reform policy note prepared for new government • Assessment of the Deposit Insurance Corporation of Mongolia conducted • Roadmap prepared for enhanced risk-based supervision of insurance sector. |
| ASEAN | National Risk Assessment (NRA): <ul style="list-style-type: none"> • TA enabled Philippines to prepare and publish NRA report • NRA tool transferred to Cambodia, Vietnam, Lao; NRA preparation started |
| EAP | Basel II Toolkit: <ul style="list-style-type: none"> • Quantitative model prepared and discussed with FSS (supported with FSS secondee) |
| Seoul Center | <ul style="list-style-type: none"> • APEC Financial Regulators Conference on FinTech (jointly with FSS and ADB) • Proposal for Seoul Center 2.0 designed |

ABOUT SEOUL CENTER AND THE PARTNERSHIP

BEGINNING OF THE PARTNERSHIP

The Ministry of Strategy and Finance (MOSF) of the Republic of Korea and the World Bank Group's Financial and Private Sector Development (FPD) Department, which is now the Finance & Markets (F&M) Global Practice, agreed on October 11, 2011 to establish the *Seoul Center for Financial Sector Development (Seoul Center)*. MOSF subsequently provided a trust fund to be governed by an Administration Agreement signed with the World Bank on June 25, 2012. The KTF is scheduled to operate for five years, from 2012 to 2017, under the management of F&M GP.

Government of Korea

Looking to enhance its contribution to the development of East Asian economies and the World through:

- **Sharing its lessons** of its successful development experience more widely
- **Contributing its expertise and institutional capacity** to support development
- **Increasing Korea's visibility in the global financial community** and playing a stronger leadership role in shaping the development and innovations in this area



WBG - Finance & Markets

Looking to:

- Further **strengthen its leadership in shaping the global policy debate** on financial markets **vetted by successful country experiences**
 - **Actively exploring closer partnerships in creating an inclusive policy platform** across a number of developed and developing countries
 - **Leveraging our special relationship to Korea** and the exemplary role it can play **to enhance delivery to our client countries**
- **Address growing demand in EAP for financial stability (and inclusion) related TA**

The objective of this Korean Trust Fund, titled the **Poverty Reduction and Socio-Economic Development Trust Fund II ("KTF")**, is to improve and develop financial sectors in the East Asia and Pacific (EAP) Region by delivering better technical assistance and advisory services. It provides financing for activities clustered around the themes of (i) Mitigating financial crises, (ii) Meeting international standards, (iii) Balancing the role of state financial systems, (iv) Developing capital markets, (v) Improving financial inclusion, (vi) Deepening Asian regional integration, (vii) Financing sustainable growth, and (viii) Monitoring, reporting, and evaluation.

LEVERAGING SEOUL CENTER TO SUPPORT FINANCIAL SECTOR DEVELOPMENT IN EAP

The World Bank is increasingly focusing on results-oriented comprehensive solutions, which demand a new approach to the delivery of its activities to ensure a more integrated, strategic, and selective knowledge portfolio at the global and country levels. This has given birth to the Programmatic Approach (PA), which organizes separate activities within a program under the framework of an overarching development objective, thus expected to enhance the results and allow greater impact from the overall regional or global multi-year comprehensive program rather than individual activities. F&M has also adopted this Programmatic Approach since 2015 for its country engagements.

In the EAP region, F&M's priorities are: (i) enhancing the stability of financial systems, (ii) improving financial inclusion and infrastructure, and (iii) supporting development finance initiatives, to address the region-specific challenges in the financial sector. The Seoul Center, established to support these priorities, was operated as a virtual pilot for the first two years and subsequently took presence in the WBG Korea Office in the fall of 2015, now housing two F&M technical staff and one short-term staff. The team will continue to build on the current F&M portfolio, participating more extensively in projects (see table below). The Seoul Center team has also been strengthening the partnership between the WBG and the Korean counterparts in the financial sector to support country programs and client-demanded engagements in the East Asia and Pacific region by sharing knowledge, expertise, and lessons from Korea's successful experience.

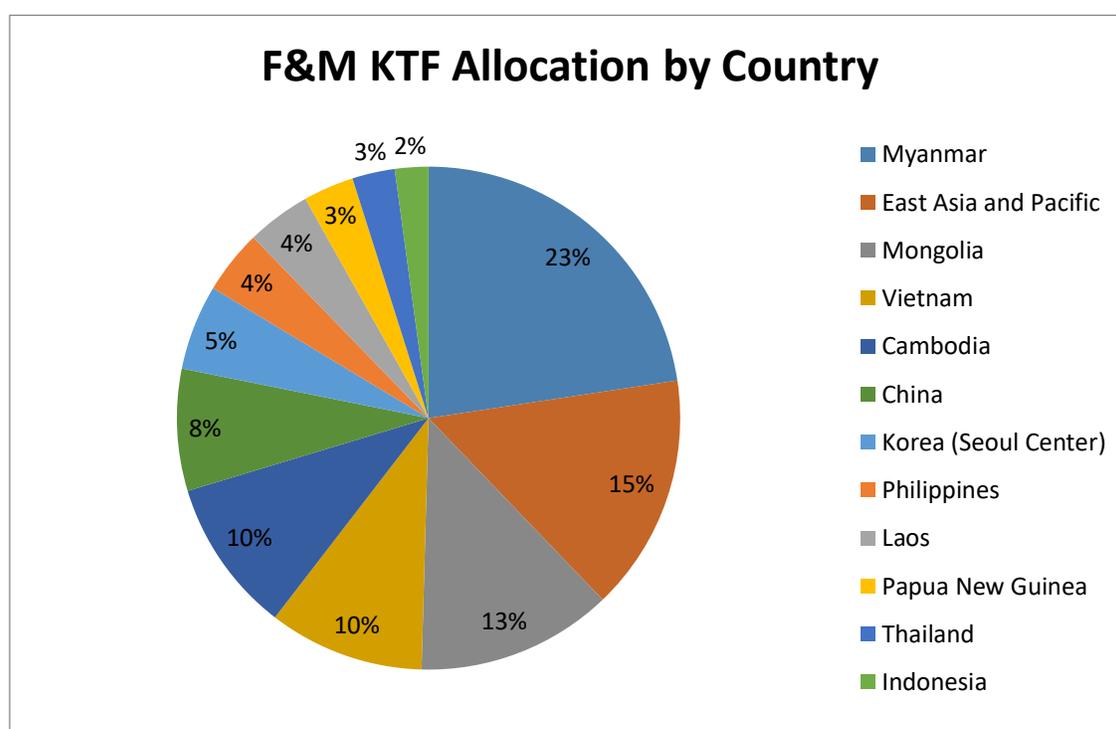

Seoul Center for Financial Sector Development 2012-17


Operational Engagements -- Technical support from Seoul Center

| Seoul Center Korea Office - Contribution to Operational Engagements | ASEAN National Risk Assessments | Basel II Pillar 2 Toolkit | Cambodia Programmatic Approach (PA) | Mongolia PA | Myanmar PA | Vietnam NBF |
|---|---------------------------------|---------------------------|-------------------------------------|-------------|------------|-------------|
| Project Concept Design | | | | | | + |
| Detailed Review and advise to Country + GP Management | + | + | + | + | + | + |
| Monitoring and evaluation framework set up | + | + | + | + | + | + |
| Application for KTF and processing | + | | + | + | + | + |
| Direct project/ mission participation | | | Planned | + | Planned | + |
| Connecting to Korean Expertize | | | + | + | + | + |
| Implementation support | + | + | + | + | + | + |
| Communicating Lessons and Results (at completion) | Planned | Planned | Planned | Planned | Planned | Planned |

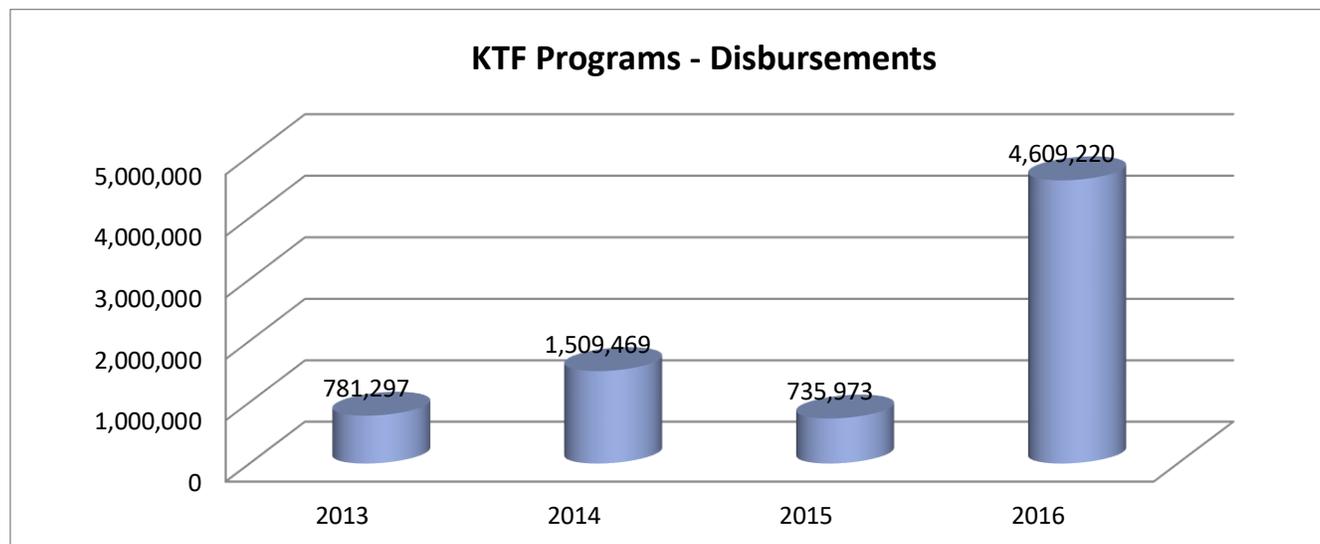
TRUST FUND FINANCIAL SUMMARY

| As of December 31, 2016 | In USD |
|--|-------------------|
| Total Contributions Received (2012-2016 inclusive) | 15,867,052 |
| (+) Investment Income | 140,685 |
| (-) Allocation to Country / Regional Projects and Seoul Center Operations | 14,593,696 |
| (-) Administrative Fees | 688,982 |
| Remaining KTF Funds (To be used for Seoul Center operations, administrative fee adjustments, allocation to new discrete tasks) | 725,059 |



4 new programs approved to support comprehensive technical assistance and reforms: In 2016, 4 new programs were approved by the MOSF for a combined trust fund allocation of \$4,130,000 for Mongolia, Vietnam, Philippines, and Lao PDR. Also, \$800,000 was allocated to the Seoul Center for staff cost and partnership activities. Please refer to the next chapter for details of each program.

Significant acceleration in pace of delivery: Calendar year 2016 was an outstanding year for KTF-funded F&M country programs, with the largest number and size of programs being under implementation since the beginning of the trust fund operation. A record-high total of \$4,609,220 was disbursed during this year to support critical technical assistance in EAP. Below is a breakdown of disbursements by calendar year.



| Expense Categories | CY 2013 | CY 2014 | CY 2015 | CY 2016 |
|-----------------------------|----------------|------------------|----------------|------------------|
| Staff Costs | 512,401 | 487,818 | 279,918 | 2,930,295 |
| Consultant Fees | 74,029 | 775,844 | 344,736 | 600,871 |
| Travel Expenses | 144,730 | 234,635 | 99,087 | 893,691 |
| Media, Workshop | 40,775 | 3,428 | 7,072 | 97,606 |
| Associated Overhead | 7,368 | 7,633 | 5,068 | 73,240 |
| Contractual Services | 1,994 | 112 | 91 | 13,517 |
| Total | 781,297 | 1,509,469 | 735,973 | 4,609,220 |

Notwithstanding the accelerated implementation this year, the ongoing KTF-funded operations would benefit from an extension of the grant closing date (currently set at August 31, 2017) to ensure more effective delivery of the technical assistance. This is especially true for the three most recent projects (Vietnam, Philippines, and Lao PDR) that were newly approved in September 2016.

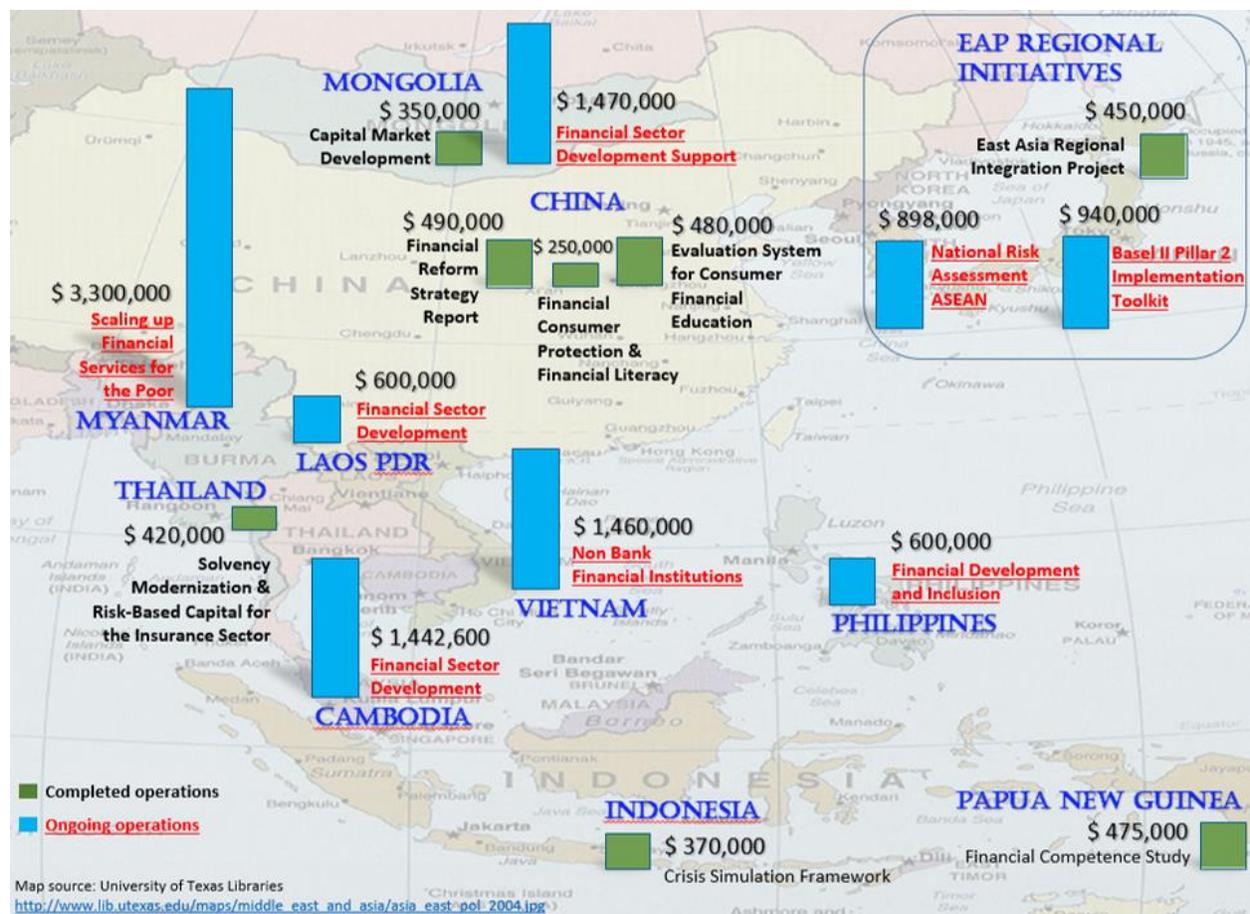
KTF – Status of Disbursements by Project (accumulated as of December 31, 2016)

| Project Name | Country | Project Closing | Grant Amount | Disbursements | Outstanding Commitments | Available Balance |
|---|----------------|------------------------|---------------------|----------------------|--------------------------------|--------------------------|
| Indonesia Crisis Simulation Framework | Indonesia | 3/7/2014 | 314,063 | 314,063 | - | - |
| China Financial Reform Strategy Report | China | 2/13/2014 | 469,715 | 469,715 | - | - |
| China Financial Consumer Protection and Financial Literacy | China | 8/31/2015 | 456,756 | 456,756 | - | - |
| Thailand: Solvency Modernization and Risk Based Capital | Thailand | 5/15/2015 | 399,282 | 399,282 | - | - |
| TA to the Implementation of PNG Financial Competency Survey | PNG | 11/30/2015 | 474,661 | 474,661 | - | - |
| Mongolia Capital Market Development TA | Mongolia | 12/31/2015 | 366,321 | 366,321 | - | - |
| East Asia Regional Financial Integration | Region | 10/16/2015 | 385,115 | 385,115 | - | - |
| Evaluation System for Consumer Financial Education in China | China | 12/31/2015 | 217,183 | 217,183 | - | - |
| National Risk Assessment ASEAN | Region | 8/31/2017 | 898,000 | 234,957 | 11,495 | 651,548 |
| Basel II Pillar 2 Implementation Toolkit | Region | 6/15/2017 | 940,000 | 47,855 | - | 892,145 |
| Myanmar: Scaling Up Financial Services for the Poor | Myanmar | 8/31/2017 | 3,300,000 | 2,269,508 | 235,801 | 794,691 |
| Cambodia: Financial Sector Development TA | Cambodia | 8/31/2017 | 1,442,600 | 364,092 | 137,525 | 940,983 |
| Mongolia: Financial Sector Development Support Program | Mongolia | 8/31/2017 | 1,470,000 | 700,851 | 154,764 | 614,385 |
| Vietnam: Capital Markets and NBFIs Development | Vietnam | 8/31/2017 | 1,460,000 | 218,516 | 2,713 | 1,238,772 |
| PH Financial Development and Inclusion | Philippine | 8/31/2017 | 600,000 | 6,013 | - | 593,987 |
| Lao PDR: Financial Sector Development | Lao PDR | 8/31/2017 | 600,000 | 64,025 | - | 535,975 |
| Seoul Center Operations and Knowledge | Korea | 8/31/2017 | 800,000 | 647,046 | 10,823 | 142,131 |
| Total | | | 14,593,696 | 7,635,958 | 553,121 | 6,404,616 |

KTF SUPPORT – EAP COUNTRY AND REGIONAL OPERATIONS

SUMMARY

- **A total of 16 KTF proposals for country or regional support have been approved as of end of 2016.** This represents 10 countries and 3 regional initiatives. Eight of the 16 projects have already been completed; the other 8 projects, which were approved in 2015 and 2016, are under implementation.
- **Since 2015 the WBG F&M program has been supporting client demand through a multi-year Programmatic Approach (PA) which allows for more strategic and comprehensive country engagements.** Accordingly, funding requests for KTF support have recently been more comprehensive and spanning longer timeframes (thus also larger in amount). This has responded well to the MOSF recommendation to develop larger proposals addressing strategic reforms and aiming for stronger impact in EAP countries.



KTF-SUPPORTED COUNTRY AND REGIONAL OPERATIONS BY PROGRAM

| Project | Country | Grant (USD) | Objective | Timeframe |
|---|------------------|-------------|--|---------------------|
| Crisis Simulation Framework | Indonesia | 370,000 | To contribute to the promotion of a sound and stable financial sector in Indonesia through improved capacity of financial sector authorities to prevent, manage, and resolve financial crises. | Mar 2013 – Mar 2014 |
| Financial Reform Strategy Report | China | 480,000 | To design and implement far-reaching and fundamental financial reforms to China’s financial system. | Mar 2013 - Feb 2014 |
| Financial Consumer Protection & Financial Literacy | China | 490,000 | To support the Chinese authorities in setting up an effective Financial Consumer Protection & Financial Literacy system in China. | May 2013 - Aug 2015 |
| Solvency Modernization & Risk-Based Capital | Thailand | 420,000 | To assist the Office of Insurance Commission of Thailand to improve risk-based supervision and dynamic solvency regimes, including designing the required legal/regulatory framework, tools, and market practices. | Jul 2013 – May 2015 |
| TA to the Implementation of Financial Competency Survey | Papua New Guinea | 475,000 | To assist the PNG Central Bank to develop a baseline for understanding the financial capability of the PNG population. | Jul 2013 – Nov 2015 |
| Capital Market Development TA | Mongolia | 350,000 | To support the Mongolian authorities in developing robust deep capital markets. | Sep 2013 – Dec 2015 |
| East Asia Regional Financial Integration | Regional | 450,000 | To support sustained economic growth and poverty reduction through the expansion of investments and financing under the ASEAN agenda of financial integration. | Dec 2013 – Oct 2015 |
| Evaluation System for Consumer Financial Education | China | 250,000 | To assist the People’s Bank of China to develop a system for evaluating the effectiveness of consumer financial capability programs. | Mar 2014 – Dec 2015 |

| Project | Country | Grant (USD) | Objective | Timeframe |
|---|-------------|-------------|--|---------------------|
| National Risk Assessment ASEAN | Regional | 898,000 | To help the ASEAN countries improve the effectiveness in detecting and preventing financial crime. | Apr 2015 – ongoing |
| Basel II Pillar 2 Implementation Toolkit | Regional | 940,000 | To develop a supervisory toolkit for the use of banking supervisors in client jurisdictions to improve the effectiveness of their Basel II implementation. | Oct 2015 -- ongoing |
| Scaling up Financial Services for the Poor (PA) | Myanmar | 3,300,000 | To help increase access to financial services by the poor in Myanmar through technical assistance and advisory services. | 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 | 1,470,000 | To support building a sound, diversified, and inclusive financial system for Mongolia. | Apr 2016 - ongoing |
| Capital Markets and NBF Development (PA) | Vietnam | 1,460,000 | To support leveraging capital markets and Non-Bank Financial Institutions for growth and development of Vietnam | Sep 2016 - ongoing |
| Financial Development and Inclusion (PA) | Philippines | 600,000 | To support the development of the financial system of the Philippines and increased financial inclusion | Sep 2016 - ongoing |
| Financial Sector Development (PA) | Lao PDR | 600,000 | To promote the development of a more stable and efficient financial sector in Lao | Sep 2016 - ongoing |

RESULTS AND PROGRESS OF KTF PROGRAMS UNDER IMPLEMENTATION



ASEAN: NATIONAL RISK ASSESSMENT

Grant amount: USD 898,000

Project Duration: April 2015 – August 2017

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

The Philippines. The final workshop was delivered from May 11-13, 2016. A half-day session on May 13 was held for senior policy makers at which the findings of the national risk assessment process were presented and discussed. The team provided detailed comments on the NRA Draft Report, and during the final workshop provided comments on the draft action plans. Following the endorsement of the Government of the Philippines in July 2016, the NRA Report was published on the website of the Anti-Money Laundering Council (the Philippines Financial Intelligence Unit (FIU)) - www.amlc.gov.ph. The action plan for the coming years covers: (i) amendments to the Anti-Money Laundering Act to cover casinos and real estate agents and brokers; amendments of the Central Bank of the Philippines Charter to cover Money Service Businesses; and Institution of a National Identification Document; and (ii)

support, the team benefited from the participation of a Korean colleague on secondment to the World Bank from the Korean Prosecutor's Office. The World Bank team support to Vietnam will extend through the end of the NRA process when the final NRA report is presented to senior government policy makers in the first quarter of 2018.

Lao PDR. Following the authorities decision in April 2016 to ask for the World Bank to begin the support on the national risk assessment, an awareness raising workshop was held from January 9-10, 2017. The purpose of the workshop was to raise awareness of the Laotian authorities on how to conduct a National Money Laundering and Terrorism Financing Risk Assessment of Lao PDR. 30 officials participated in the



workshop. Going forward in 2017, the first national risk assessment workshop will be delivered within the first half of 2017, likely by May 2017. In delivering this support, as in the case of Vietnam, the team benefited from the participation of a Korean colleague on secondment to the World Bank from the Korean Prosecutor's Office.

ASEAN Regional Risk Assessment workshop. Working in consultation and collaboration with the Korean Financial Intelligence Unit and the FATF Training and Research Institute based in Busan, Korea, the World Bank is organizing an ASEAN regional workshop to be held in Busan, Korea, from March 27-30, 2017. The focus will be on the implementation of actions arising out of the national risk assessment processes and exploring regional solutions to cross border risks. 36 participants will be expected to attend from the ASEAN countries plus Timor-Leste and Korea. Completing the assessment while laudable and foundational is not sufficient. The most critical part is putting into effect the action plan(s) that mitigates the risks and vulnerabilities identified by the country. In view of this, the workshop will be expected to facilitate the sharing of country experiences on progress being made on implementing respective country action plans arising out of the risk assessments completed and/or to be completed. Each participating country will be expected to make a presentation on one of the following themes/topic:

- Smuggling (humans; goods; cash, etc.)
- Remittances & informal channels
- Wildlife, illegal logging & natural resources
- Banking channels for moving criminal proceeds
- Financial inclusion, expanding financial access, maintaining integrity

- Terrorism financing, terrorism
- Dealing with real estate, casino and gem stone sectors
- Offshore business and financial integrity



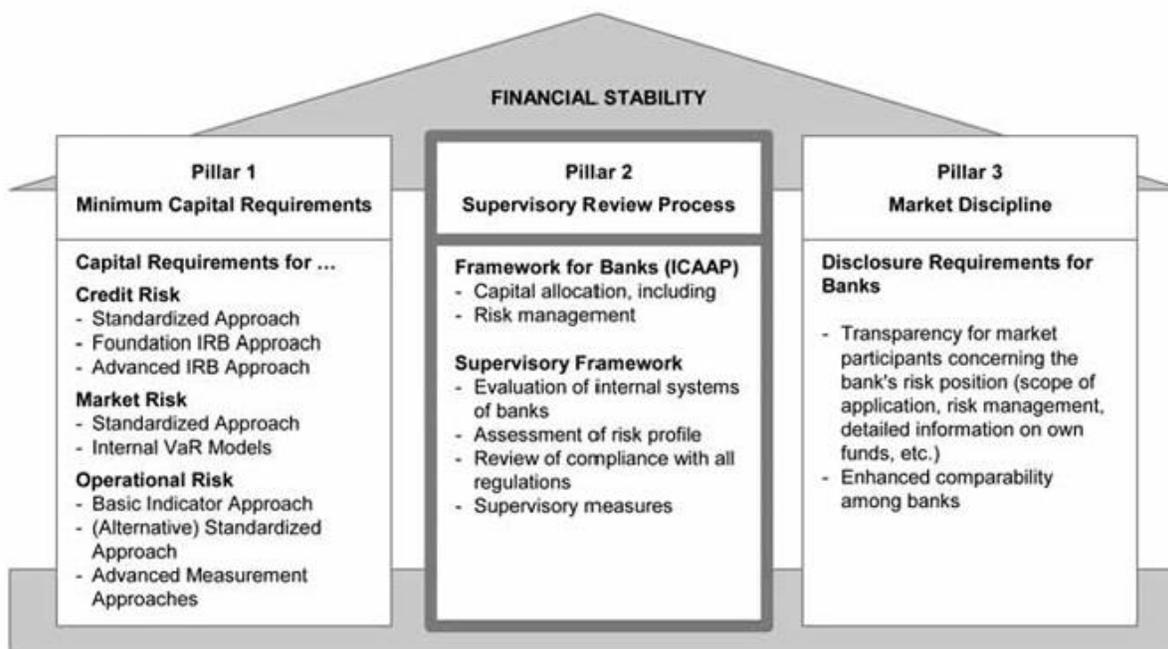
EAP: BASEL II PILLAR 2 IMPLEMENTATION TOOLKIT

Grant amount: USD 940,000

Project duration: October 2015 – June 2017

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 for this project is to assist banking supervisors in client jurisdictions to improve the effectiveness of their capital adequacy framework, which would eventually help them achieve a higher level of compliance with international standards. This will be achieved through the development, customization and delivery of a supervisory toolkit.

PROGRESS

The Pillar 2 toolkit and guidance notes are being designed to meet the needs of banking systems in low and middle-income jurisdictions, including those that are currently on Basel I. The Pillar 2 toolkit comprises of two key components, a qualitative section and a quantitative section. The two components of the Pillar 2 Toolkit can collectively better equip the supervisors in performing more effective supervisory reviews, engaging in constructive discussions with banks and performing more dynamic supervision. Thus, the Pillar 2 toolkit can contribute to strengthening the capacity of banking system supervisors to promote resilient and stable banking systems.

The project team, including a seconded staff from Financial Supervisory Service (FSS), has developed the toolkit quantitative section and visited FSS in Korea to discuss the preliminary model in mid-2016. With feedback from the FSS the team has completed the core elements of the quantitative parts.

Work on the project slowed down with the return of the FSS secondee in October 2016. F&M management has reviewed the status and agreed to assign more staff to speed up this important assignment and to start work on the qualitative part. Upon completion, the toolkit will be reviewed and offered to select EAP countries.

The primary reason for the low disbursement of this project is the heavy use of the seconded staff which was not anticipated when they first designed the project. The Seoul Center team is working with the project team to adjust the costing estimates for the remainder of the project term and will accordingly claw back the excess funds so that they can be used for other programs and activities.



MYANMAR: SCALING UP FINANCIAL SERVICES FOR THE POOR

Grant amount: USD 3,300,000

Project duration: September 2015 – August 2017

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. Thus, the Government of Myanmar has recently 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 is to help increase access to financial services by the poor in Myanmar. Financial inclusion is a key priority in Myanmar's development agenda. 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. Hence, the objectives under this Programmatic Approach are achieved through the provision of technical assistance and advisory services to enable local financial institutions to offer new savings and deposit accounts; grant credit to smallholder farmers and micro, small and medium enterprises (MSMEs); leverage digital finance to serve the financial needs of the poor; and enhance the capability of financial sector authorities to identify and manage risks.

PROGRESS

The activities supported through this Programmatic Approach (PA) are proceeding well and there has been substantial implementation progress across all sub-tasks despite the transition in government and change in leadership in the Ministry of Planning and Finance. The counterparts have maintained a strong commitment to the reform program despite the major political and policy uncertainty related to the November 2015 elections and the rather long period of transition thereafter.

Across all components of the PA, the teams have continued with the TA and capacity building programs with the Central Bank of Myanmar (CBM), Ministry of Planning and Finance (MOPF) and the Financial Regulatory Department (FRD). The TA program has established strong engagements at the working level particularly at the MOPF-FRD which is responsible for insurance, microfinance supervision and regulation as well state-bank ownership, and at the CBM with regard to bank regulation and supervision and payments systems development. **For the payment systems work, the Bank of Korea provided two technical experts to share their expertise with the CBM.** The IFC work is also ongoing and proceeding well with regard to credit bureau development and the legal framework for secured transactions.

Notably, **two very substantial outcomes were achieved during 2016** that are expected to have a large positive impact on financial inclusion in the medium and long term. First, the **Myanmar Financial Institutions Law was passed** in January 2016, significantly modernizing the financial sector legal framework and providing the basis for modern banking product development and implementation of Basel Core Principles. Second, **CBM issued the Mobile Financial Services regulation**, strengthening the regulatory basis for provision of mobile financial services by non-banks, including telecommunication companies. Both these areas were supported through technical assistance funded under the KTF PA directly to the CBM, sharing of good international practices, and support for consultation with the private sector. Implementation of both laws remain a high priority given weak institutional capacity of the CBM.

Overall, the TA has been an important factor in **building consensus for the World Bank’s Myanmar Financial Sector Development IDA credit of US\$100 million which was approved Board in December 2016**. The WB’s IDA project will build on the work programs implemented through the KTF-funded activities and provide the co-financing necessary to ensure deep impact and effectiveness of the many reform initiatives in the financial sector.

**Leveraging Technical Assistance for Substantive Impact
An example from Myanmar**

**Technical Assistance (KTF support) –
Guiding the plan for transformation**

Legal, regulatory & oversight gaps assessed and upgrade started (FIL & MFS Regulation passed)

Financial infrastructure assessed and National Payment System strategy advised

State owned banks assessed to improve access to finance – reform plan outlined

The Challenge

Financial sector small, inefficient, uneven

Outdated legal and regulatory framework

Access to finance biggest obstacle to business

Only 23 % of adults have bank account

Weak financial infrastructure

**Financing the Transformation –
Financial Sector Development Loan
(\$100 mn – WBG approval Dec 2016)**

Reform of state owned banks/ financial system

Upgrade of financial sector legal and regulatory framework and related supervisory capacity

Modernizing Central Bank and financial infrastructure



CAMBODIA: FINANCIAL SECTOR DEVELOPMENT TA

Grant amount: USD 1,442,600

Project duration: January 2016 – August 2017

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 of its 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

Based on these requests and dialogue with the WBG financial sector team, TA activity plans to support the MEF and NBC in core areas of financial sector modernization and reform have been developed. The beneficiaries of this proposed TA are financial sector policymakers, regulators and market players in Cambodia in their efforts to build a stable, efficient and inclusive financial system to underpin economic growth and poverty reduction. 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

The work has begun across all three pillars. Under Pillar 1, there were a series of capacity building programs held in 2016. With KTF's financial support, both MEF and NBC jointly organized three workshops related to macro-prudential, financial stability, and financial crisis management, while the **Bank of Korea provided a technical expert** in one workshop. In addition, the KTF supported **officials from the MEF and NBC to attend the Financial Stability Study Program organized by the Bank of Korea**. In the last quarter, a **Risk-Based Supervision (RBS) mission was conducted to assess the existing RBS regime** and provide recommendations to enhance this system. Regarding the next steps, the authorities plan to enhance risk-based supervision and its crisis management framework.



Under Pillar 2, a series of missions were conducted in 2016. The WBG has conducted a **preliminary assessment of the payment system in Cambodia and started work on a national payment system strategy** which will be presented in 1H 2017. In terms of accounting and auditing, the WBG has jointly worked strategically with the PUM Netherlands Senior Experts, the non-profit organization specialized in accountancy. The team has provided technical support to establish and implement a quality assurance and quality control structure in accordance with the International Federation of Accountants (IFAC)'s Statements of Member Obligations (SMO) 1 requirements. Regarding the next steps, the authorities plan to implement the national payment strategy and quality assurance review system in order to improve the accounting practice in Cambodia.

Under Pillar 3, a series of missions were conducted in 2016. The WBG has provided technical support for the **NBC's "Let's Talk Money" campaign to enhance financial education and consumer protection**. In addition, the WBG has also supported the **financial counseling pilot project** at the village level. In terms of financial inclusion, the WBG has supported a **legal reform of the Micro-Insurance Sub-Decree** in order to promote micro-insurance products to the untapped population. Regarding the next steps, the authorities will continue its "Let's Talk Money" campaign and the financial counseling pilot project at the village level. In addition, they plan to draft a series of legislation (Prakas) to support the Micro-insurance Sub-Decree and enhance the market conduct for the micro-insurance sector.



MONGOLIA: FINANCIAL SECTOR DEVELOPMENT SUPPORT PROGRAM

Grant Amount: USD 1,470,000

Project Duration: April 2016 – August 2017

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 also 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. KTF is expected to support Phase II once funding is confirmed. 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 support for the program was made available in May 2016 and it has already delivered a number of important financial sector development support activities:

- **A financial sector policy note** was prepared for the new Mongolian government, highlighting the key areas for reform and suggesting policy actions. The policy note was highly valued by the new management teams of the Bank of Mongolia (BOM) and Ministry of Finance (MOF).

- The **assessment of the Deposit Insurance Corporation of Mongolia (DICOM) structure and operations** was prepared based on the IADI Core Principles for Effective Deposit Insurance System and a corrective action plan was recommended to improve DICOM's compliance with the deposit insurance core principles. The next step - implementation of this action plan - will improve the financial safety net and relatedly, the overall financial sector stability in Mongolia.



- The new State Property Agency (SPA) that was established in July 2016 was advised on the necessary **amendments to the State Property Law and the Resolution on the Functions of SPA.**
- The work with Independent Authority against Corruption (IAAC) was commenced on developing an **investigations manual.**
- A **draft medium-term roadmap for enhanced risk based supervision (RBS) of insurance industry** was prepared in cooperation with the Financial Regularity Commission (FRC). A two-day training on RBS was provided for 20 supervisory personnel of FRC. For the securities sector, a two-days training for 25 FRC personnel was provided, addressing RBS and the securities market clearing and settlement issues. Both training events were well received by the participants.
- The **Strategy for National Payments System (NPS) Development** was launched and a workshop on the self-assessment of Mongolia's Real Time Gross Settlement System was conducted for the BOM staff. The BOM Governor opened the NPS Strategy launch event and emphasized its importance for supporting the economic growth in Mongolia.

- A two-day workshop on **Debt Collection Best Practices** was organized in cooperation with the BOM and the Mongolian Bankers Association. More than 60 financial sector representatives attended the event and it was very well received by all participants.
- A two-day workshop on key ingredients of a **modern insolvency system** was conducted; it was well received by the authorities.



- The work on supporting the **implementation of the National Program for Financial Capability** was launched, with a focus on incorporating financial education into the curriculum for schoolchildren and undertaking preparatory work on the website. In his letter to the WBG Management, the BOM Governor highlighted the importance of this work.

- A **draft policy note on the Mongolia Education Loan Policy** was prepared at the request of the MOF, highlighting the necessary amendments to the current set-up of the Education Loan Fund based on the best international practices.
- A regular **presentation on the Mongolia financial sector situation** was designed and prepared.



VIETNAM: CAPITAL MARKETS AND NBF1 DEVELOPMENT

Grant Amount: USD 1,460,000

Project Duration: September 2016 – August 2017

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 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 NBFIs 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 NBF1 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 NBFIs 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

This project was approved at the end of September 2016, but the teams have already made progress on several fronts.

The **pension** team worked with VSS to develop investment governance and operations, and with MoF to develop private pensions. This component kicked off in November 2016 with strong client endorsement of the short-term deliverables to improve current operations but a desire to engage over the longer term to transform investment capabilities and results, as well as the coverage of pensions for the people in Vietnam. 2017 will see a range of outputs from new assessment of their liabilities to inform policy to create a more sustainable system, improved strategy and operations on investment, development of policy to improve coverage and development of private pension regulation and supervision to help create a more diversified pension system in Vietnam.

The **government bond market** team had a mission in December to meet with the delegation from Vietnam - comprising 11 representatives from MoF, SBV, SSC and Ho Chi Minh and Hanoi Stock Exchanges, and Vietnam Bond Market Association - with the purpose of exchanging knowledge and studying the development of the bond market in advanced economies. Two meetings with WB/IFC teams were arranged to discuss the recent developments in the Bond Market in Vietnam, specifically focused on the on-going TA work with MOF on information disclosures, assessments and recommendations to develop the corporate bond market roadmap during 2017-2020 & about the IFC bond program. The teams discussed the bond market development roadmap and priorities to be included to develop the corporate bond market, among others: information disclosures, measures to attract more issuers to the market (advised MOF to look into specific sectors in the economy for long term financing such as telecom, banking, power); discussed tax policies on deposit and tax on corporate bond investment.

The **securities** team had a mission in November (i) to conduct a knowledge sharing session with SSC staff on international practices on supervision of securities businesses and market intermediaries, and (ii) to have dialogues with SSC staff, the Exchanges (Hanoi and Ho Chi Minh City), and select market participants on potential enhancements in the regulatory and supervisory framework for securities firms and market intermediaries. The knowledge sharing session was organized in two half-day sessions (November 16-17, 2016) and attended by 24 staff from various departments. During the session, the team shared international experience and best practice on supervision of securities firms in the area of business conduct. Based on the dialogue with the clients and review of related material, the mission team recommended 5 priorities for SSC to be implemented with the support from WBG.



PHILIPPINES: FINANCIAL DEVELOPMENT AND INCLUSION

Grant Amount: USD 600,000

Project Duration: September 2016 – August 2017

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 which has been approved by the WBG management.

PROJECT OBJECTIVE

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

1) 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

2) Pillar II: Financial stability and soundness

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

PROGRESS

This proposal was approved at the end of September 2016. The team provided assistance to the NSFI secretariat for the development of the monitoring and results framework for the NSFI. Also developed was the draft dashboard for review by the authorities which was shared in September 2016. The next



steps are to revise and finalize the framework as well as support the NSFI secretariat with the preparation of the first monitoring report for the NSFI.

The team also completed a preliminary review of the cooperative sector and is working to finalize the report. Considering substantial changes in the Philippine government following the 2016 elections, the report is being updated to be aligned with the new administration priorities and to identify suitable implementation modalities for reforms. The next steps include a mission in March 2017 to discuss the preliminary findings with key stakeholders.

The team also prepared a draft report on SME finance and shared it for discussion with relevant authorities. The next steps are recruitment of experts to advise on the possible reforms for the SME guarantee facility and establishment of early stage financing mechanisms in the Philippines. Consultant selection is ongoing and expected to be completed by February 2017.



LAOS: FINANCIAL SECTOR DEVELOPMENT

Grant Amount: USD 600,000

Project Duration: September 2016 – August 2017

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 KTF program)

- (ii) Pillar 2: Upgrading the Legal and Regulatory Framework
 - a. Legal and Regulatory
 - b. IFRS Roadmap

- (iii) Pillar 3: Just-in-time Technical Assistance
 - a. Deposit Insurance
 - b. Insolvency and Creditor Rights

PROGRESS

This proposal was approved in September 2016 and the team has been working to speed up the implementation. Although some challenges remain (such as the lack of an FSAP conducted for the country), Lao PDR's recent willingness to reform its financial sector and engage international partners has opened a window of opportunity. The Bank of Lao (BOL)'s 2016-2025 Strategy, approved in late 2016 is particularly ambitious. BOL has also taken the initiative to compile their TA requests to the WBG for 2017 into one document, aided by the Bank's coordinated approach.

Pillar 3, the just-in-time pillar, has been especially helpful for the Bank to responsively build relationships that lead to new opportunities for reform. Although one activity in Pillar 1 (Financial Stability Monitoring) lost traction, through just-in-time, we now have two very relevant engagements in Deposit Insurance, and Insolvency. Also with the just-in-time support, the Deputy Governor attended the IMF/Fed/WB training for Emerging Market Banking Supervisors held in Washington in October, and while there, had a dozen frank and productive meetings with senior experts and management. Both the course content and the meetings were excellent in building their trust in the Bank, and catalyzing progress for the project.

Under Pillar 1, the last training session for the Financial Soundness Indicators was carried out in the first quarter of 2016 and BOL is finalizing its selection of core indicators for monitoring and eventual publication. On the AML/CFT front, the team convinced the Deputy Governor of the fundamental importance of doing an NRA earlier rather than later, during their meeting in October. A two-day awareness raising workshop was subsequently held in January, with a training of NRA module team leaders penciled in for March, and an NRA kick-off workshop by June this year.

Under Pillar 2, the BOL has categorically reaffirmed they would like TA on key laws such as the Bank of Lao Law, Commercial Banking Law, and related regulations. WBG legal experts have provided comments on what is needed in the Laws as well as relevant regulations including draft Decision on the Management of Bank Assets and draft Decision on Bank's Products in 2016. Based on the request from BOL, an expert will visit Lao again in February 2017 to continue working with the BOL legal team. In addition, BOL has requested assistance from the WBG to review and advise on the Law on Securities, which is expected to go into effect in mid-2017.

On the assistance toward the adoption of IFRS, the team has been working closely with LCPPA and provided three trainings in 2016 including (1) Training from the Institute of Singapore Chartered Accountants in October 2016, and (2) International Standards on Accounting (ISA) Training from the Federation of Accounting Professionals to support LCPPA in November 2016. There has also been agreement from the MOF and BOL to establish a joint-committee chaired by MOF to undertake a gap analysis under this PA, led by the Malaysian Institute of Accountants. The gap analysis would inform a transition plan, to be drafted by June 2017, and separately funded capacity building in FY18.

Under Pillar 3, the team has provided support to the Depositor Protection Fund (DPF) with several rounds of inputs to the new DPF Decree that was submitted to the Ministry of Justice (MOJ) in December 2016. In conjunction with the submission of the Decree, DPF has requested support from the WBG in reviewing and advising on the Implementation Guidelines and related regulations in early 2017. On the capacity building front, training on Payouts and Purchase and Acquisition are being planned for Q1 and Q3 respectively.

The team has also been working with the MOJ and related parties on improving Lao's extremely low position in the WB's Doing Business ranking for resolving insolvencies. An expert visited Lao to present preliminary findings in September, and several counterparts attended the INSOL International (International Association of Restructuring, Insolvency & Bankruptcy Professionals) conference in Hanoi in November. A formal request for TA on amending the Bankruptcy Law and/or Dispute Resolution Law is expected shortly.



STRENGTHENING THE PARTNERSHIPS

An important objective of the WBG and MOSF partnership is leveraging the expertise and capacity of Korean institutions to support EAP country needs and enhance/deepen the delivery of assistance to the client countries. At the end of 2016 the WBG has 6 formal MOUs with Korean institutions, which had helped the F&M teams connect better with these institutions before the Seoul Center was established. All these partners are noted in the chart below.



With the staffing of the Seoul Center in the 2nd half of 2015, the F&M has focused on more direct, frequent, and effective interactions and communication with Korean partners on the ground, rather than having formal MOUs. Much progress has been made with all the formal and informal partnerships (12 partners so far, including MOSF) to connect these institutions with specific country needs in the EAP region. The table below lists the connections and partnerships made and progress in leveraging these partners to support F&M client countries.

| Partner | Subject Countries | Partnership |
|---|-------------------|---|
|  Financial Services Commission | Korea | <ul style="list-style-type: none"> • The Seoul Center team organized a meeting with FSC and F&M staff to discuss the potential of a Greenback project (to improve the remittances environment of migrant workers) in Korea (April 2016) • The Seoul Center team also had follow up meetings with FSC to discuss future plans and collaboration (October 2016) |
|  금융감독원 | EAP | <ul style="list-style-type: none"> • The FSS secondee in F&M (HQ) is working with the F&M team to develop and test a Basel II toolkit as part of a TA funded by the KTF (ongoing) • The Seoul Center, FSS, and ADB co-organized a conference titled “Fintech-Avoiding the Pitfalls, Reaping the Benefits” for 50 participants from financial regulatory agencies of APEC countries (September 2016) • The Seoul Center team has had many meeting with FSS to discuss the various TA requests from F&M clients and teams (April, May, July, September 2016) |
|  KIF | All | <ul style="list-style-type: none"> • The Seoul Center and KIF have been discussing research support focusing on Financial Stability and Soundness (April, July, August 2016) • The Seoul Center and staff from other F&M hubs (Malaysia, Austria) had a joint meeting with KIF to discuss potential collaboration (September 2016) • F&M and KIF are also discussing a staff exchange program to the WBG headquarters |
|  Korea Capital Market Institute | All | <ul style="list-style-type: none"> • The Seoul Center and KCMI are discussing potential collaboration opportunities |
|  Center for International Financial Cooperation | All | <ul style="list-style-type: none"> • The Seoul Center team presented at CIFIC’s annual workshop to explore more concrete collaborative opportunities with FSC and other members (March 2016) • The Seoul Center team also connected F&M senior staff Alwaleed Alatabani with CIFIC to speak at CIFIC’s 3rd International Financial Cooperation Forum (December 2016) |
|  KAMCO KOREA ASSET MANAGEMENT CORPORATION | Lao | <ul style="list-style-type: none"> • The Seoul Center team is working with KAMCO and F&M Lao team to arrange for KAMCO’s technical support to the Central Bank of Lao as part of the F&M program (planned for 2017) |

| Partner | Subject Countries | Partnership |
|---|----------------------------------|---|
| | | <ul style="list-style-type: none"> The Seoul Center is also discussing a KAMCO staff exchange program to the WBG Korea Office |
|  | <p>All</p> <p>Tanzania</p> | <ul style="list-style-type: none"> The Seoul Center team arranged for F&M Global Lead Simon Bell to deliver the keynote address in KoDIT's Global Forum on SME Finance (May 2016). Subsequently, Mr. Bell wrote a blog on the WBG webpage highlighting the case of KoDIT and its key characteristics and lessons. (see annex 4) <p>http://blogs.worldbank.org/psd/learning-korea-story-korea-s-credit-guarantee-agency</p> <ul style="list-style-type: none"> The Seoul Center team also arranged for KoDIT to present at F&M's credit guarantee schemes workshop in Tanzania (planned mid-year 2017) |
|  | EAP | <ul style="list-style-type: none"> The Seoul Center is discussing collaboration with KoFIU to sign an MOU and also to cooperate on the operationalization of Financial Action Task Force (FATF)'s Training and Research Center (TREIN) in Busan The Seoul Center team organized a meeting with F&M staff, KoFIU, and TREIN (December 2016) to discuss collaboration on the upcoming National Risk Assessment workshop for ASEAN countries to be held in Busan in March 2017 (preparation ongoing) |
|  | <p>Indonesia</p> <p>Mongolia</p> | <ul style="list-style-type: none"> The Seoul Center arranged for an expert from KSD to speak at the international seminar "Financial Market Deepening: the Way Forward for Indonesia" hosted by Bank Indonesia and facilitated by the WBG (September 2016) The Seoul Center is discussing F&M plans to involve KSD in the F&M program in Mongolia for them to provide technical support to the Mongolian Central Securities Depository and the Mongolian Securities Clearing Co. (planned for 2017) |
|  | All | <ul style="list-style-type: none"> The Seoul Center team participated in the International Association of Deposit Insurers (IADI) Annual Conference organized by KDIC (October 2016) The Seoul Center and KDIC are discussing support for F&M country programs (Cambodia, Philippines) |

SEOUL CENTER WORK PROGRESS AND PLANS

SEOUL CENTER – RESULTS FOR 2016

CY 2016 was the first year that the Seoul Center was fully operational. In addition to managing the trust fund, working with country teams, and working with partners as described in the previous sections, the Seoul Center team has also worked to generate and share knowledge on current and important topics in today's financial markets, and to collaborate with other F&M hubs for more synergy and lessons.

KNOWLEDGE GENERATION AND SHARING

During CY 2016 the Seoul Center team also carried out a few research initiatives in collaboration with F&M colleagues specializing in each of the subject areas. These tasks were initiated to chart out the landscape of these topical areas in Korea and explore the possibility of applying the lessons from Korea to future F&M operations, or to identify any areas where Korea might be able to benefit from WBG's knowledge portfolio.

Financial Literacy and Entertainment Education

- This research was done to take stock of Korea's financial literacy and education for financial consumers, and possibly derive lessons for developing economies. The Seoul Center team identified the champions in Korea's financial education that F&M could consider partnering with in its client engagements.
- Also explored was the possibility to leverage Korea's entertainment media that is vastly popular in the region, to convey important messages for financial education in a more familiar and effective way for the general public.

Project Greenback 2.0

- This is an integrated product that F&M provides with an aim to improve the remittances services and environment for migrant workers in select cities highly populated by immigrants and active corridors of remittances.
- As this topic is also relevant to Korea which is seeing a fast-growing population of migrant workers (in cities such as Ansan), the Seoul Center team and F&M staff introduced the concept and potential benefits of the project to Korea's Financial Services Commission (FSC) to gauge their interest.

Gender and Finance

- This initiative highlights the gender gap and glass ceiling in the Korean workforce that are particularly pronounced in the financial sector. Korea comes in last among OECD countries when it comes to gender equality and research shows that the financial sector has the largest income gap between genders.
- However, this seems yet to be dealt with as a high-priority issue for the financial authorities. The team sees a great value that the WBG can provide to Korea and other countries by sharing its global insight and lessons on gender issues.

Financial Regulators Conference - FSS-ADB-WBG

Fintech – Avoiding the Pitfalls, Reaping the Benefits



The Seoul Center team co-organized a financial regulators conference on “Fintech - Avoiding the Pitfalls, Reaping the Benefits” that was held on September 7, 2016 in Seoul, together with the Asian Development Bank (ADB) and the Financial Supervisory Service (FSS), partly sponsored by MOSF.

Reflecting Fintech’s growing position at the center of governments’ and regulators’ strategy and vision of future financial services, the forum brought

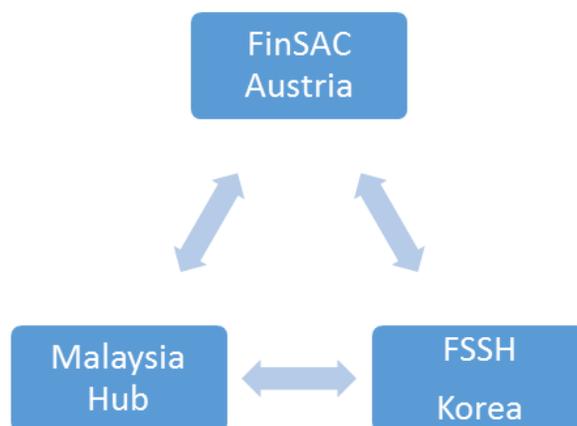
together 50 participants from APEC country central banks, securities commissions, stock exchanges, associated financial regulatory agencies and standard-setting bodies as they exchanged ideas and views on Fintech’s impact on regulation and how regulators should respond to this new wave of developments.

Speakers from the WBG, ADB, FSS, think-tanks, consulting firms, and fintech companies discussed: the rise of fintech and the future of financial services, introduction of certain fintech products such as crowd funding and block chain, the opportunities for improving financial inclusion through fintech and the challenges for the traditional financial industry, how regulators should approach and tackle fintech, the issue of cyber security and how the financial industry can be better prepared. The lively questions and discussions from the audience clearly showed that fintech was indeed becoming a keyword of the year for many policy makers and regulators, warranting much more attention and cross-border knowledge-sharing going forward.



Financial Stability and Soundness Focus: The Seoul Center team has also started preliminary work to prepare for the Financial Stability and Soundness focus of the next phase of funding, including communicating and coordinating with other F&M hubs (described in more detail below), brainstorming with think-tanks such as the Korea Institute of Finance (KIF) and building a database of related literature and publications of the Financial Stability Board (FSB), G20, IMF, multilateral development banks, and the like, to take stock on the current developments in financial stability.

COLLABORATION WITH OTHER HUBS



The Seoul Center team also worked closely with F&M colleagues in the Malaysia Office and the Vienna FinSAC (Financial Sector Advisory Center) during this year to coordinate the work done by each hub office and to seek opportunities for synergy. Besides numerous two-way and three-way discussions at the working level, the following are some noteworthy efforts that were made to better understand the approach of each office and think about ways to collaborate.

- Seoul Center and the Malaysia Office held joint presentations for F&M staff that are not yet familiar with the work being done in the EAP region, to introduce and explain the different setup of each trust fund and how they can help F&M (May 2016 in Washington, September 2016 in Malaysia).
- Seoul Center, the Malaysia Office, and Vienna FinSAC offered a joint presentation to the staff in the Korea Office for them to better understand GP operations and the composition and work of different offices. This was also helpful input for the thinking on the future of the Korea Office (September 2016).
- The team members from the three hub offices had a joint meeting with the Korea Institute of Finance (KIF) to exchange ideas on financial stability and Korea's comparative advantage (September 2016). The Seoul Center is following up and planning to build upon these discussions to start preparatory work for the next phase of the Seoul Center with a focus on financial stability.

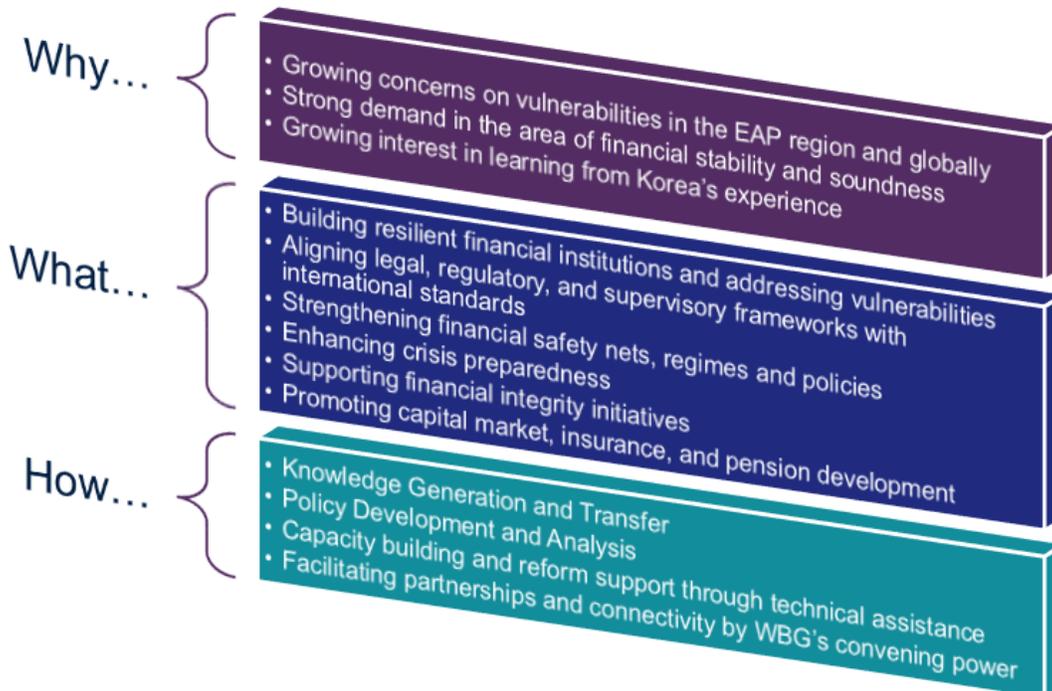
SEOUL CENTER 2.0: EXPANDED SCOPE, ENHANCED IMPACT

During a meeting between the management of MOSF and WBG in February 2016, informal discussion started regarding the next phase of the Seoul Center and exploring options to expand and deepen the partnership. During the course of 2016, the Seoul Center team has worked with MOSF, F&M management and the Korea Office team to develop the approach for Seoul Center 2.0. The design has benefited from dialogue and discussion with the other two F&M centers in Vienna (FinSAC) and Malaysia.

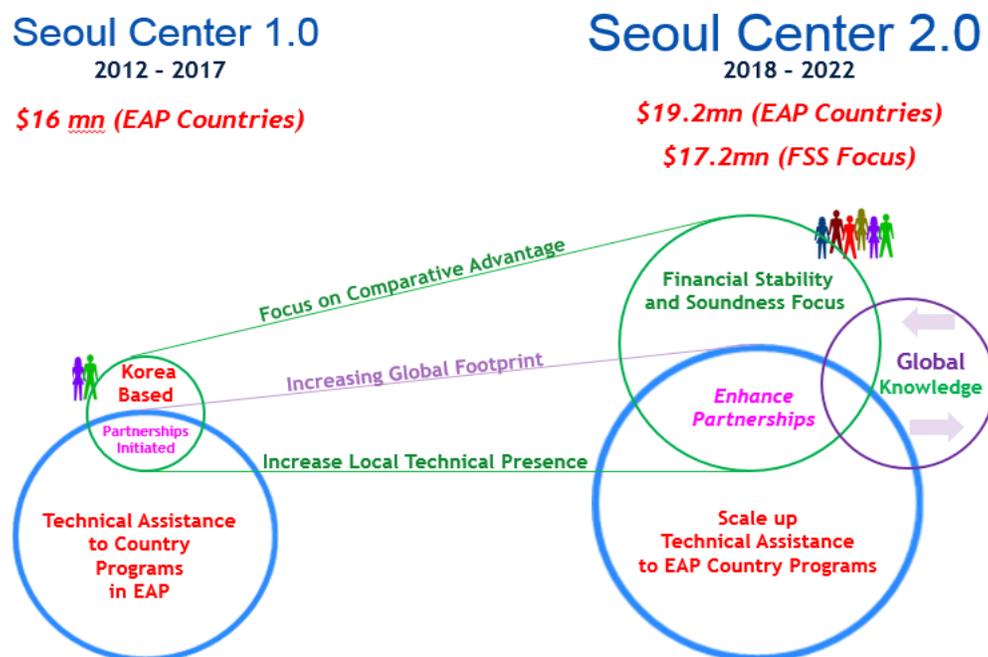
Strategic context and rationale for Seoul Center 2.0: Lessons learned from the first phase demonstrate the tremendous potential to expand the Korea Office from its current role focusing on knowledge-sharing and partnerships, into a specialized hub with stronger links with WBG operations. MOSF has expressed its support for and appreciation of the Seoul Center’s support to advisory and analytical activities over the past couple of years, and in particular the results of the partnership model to transfer lessons from Korea’s successful development experience and leverage its expertise and institutional capacity. A proposal has been developed which builds on the highly successful first phase of the Seoul Center to introduce Seoul Center 2.0 – a significantly expanded and broadened partnership aimed at raising the profile and visibility of the Center and establishing it as a “center of excellence” for the region. This new strategy will introduce both scale and thematic depth, and enable greater global knowledge creation.



Strategic Focus on Financial Stability and Soundness



A renewed vision to scale response through positioning and comparative advantage: The renewed vision for “Seoul Center 2.0” builds on feedback from Korean partner institutions and responds to the high demand from country clients. The key guiding principles include: (i) Maintain and expand the current support to country programs in EAP; (ii) Focus on Korea’s comparative advantage and increase local presence → higher visibility and stronger partnerships; and (iii) Increase its global footprint and thus impact. The key elements of the approach are summarized in the figure and box below. Discussions are ongoing between MOSF, F&M team, and the larger WBG to finalize the design and approach of the second phase of the Seoul Center. Annex 3 lists some of the potential project ideas in a bit more detail.



- ### Seoul Center 2.0 Proposal Highlights
- **Builds on successful experience of Seoul Center 1.0** in delivering 16 substantive technical assistance engagements, covering 10 EAP countries and 3 regional initiatives; as well as leveraging partnerships with several Korean institutions to enhance delivery
 - **Renewed vision for scaling up** through positioning and focus on comparative advantage
 - ❖ *Component 1:* Continue Support to EAP countries (and possibly beyond) -- **\$19.2 million** for 5 years (a scale up of 20% from current \$16 million)
 - ❖ *Component 2 (NEW):* Establish a Financial Stability and Soundness Focus – responding to Government interest in stronger technical presence in Korea -- **\$17.2 million** for 5 years (4 IRS, 3 LRS - **benchmarking Vienna & Malaysia F&M Hubs**)
 - **Focus / Value-Add:** Will 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 SC 1.0 support); (iii) growing interest in learning from Korea’s experience in this area of comparative advantage; (iv) renewed focus of F&M through a dedicated global solutions group on Financial Stability and Integrity

SEOUL CENTER 2.0: ENHANCED PARTNERSHIP AND KNOWLEDGE

Building upon the successes and lessons of the first full year of operations, the Seoul Center will ramp up its efforts to develop a comprehensive work program on partnership, knowledge transfer and knowledge generation to leverage the Korean partners' experience, expertise and institutional capacity. Some of the elements of this program under discussion include:



- **More effective communication** of the results of the projects supported with KTF, especially highlighting the value-added by participation of Korean institutions (e.g. dedicated website, audio-visual materials, brochures, smart lessons notes, etc.)
- **Preparing for a financial stability and soundness focus**
 - Foundation report on financial stability in Asia (in collaboration with KIF, BOK, FSC, FSS)
 - Collaboration with the Korea Sharing Program to update and develop the modularized lessons notes on the financial sector
 - Flagship series of events on topical areas of financial stability (Non-performing loans, early warning systems, etc.)
- **Partnership event** to bring major clients, F&M teams, and Korean partners together, to share the results of F&M's and Korea's support for each country, and discuss challenges and opportunities for future engagements
- **Enhanced collaboration with other F&M Hubs** to learn from one another and pursue joint research and operations
- **Joint activities for the WBG and MOSF** in monitoring and evaluation, knowledge sharing, advocacy missions, and with other key partners as appropriate

A detailed work plan is being prepared and will be discussed with MOSF and other partners.

ANNEXES

ANNEX 1. STRENGTHENED COMMUNICATION WITH MOSF

The following is a list of the meetings held between the Seoul Center and MOSF during 2016, which is evidence of the strengthened communication between the two since the placement and operation of the Seoul Center in Korea.

| Date | MOSF Participants | F&M Participants | Purpose |
|---------|--|---|--|
| Jan. 7 | E. Hong (Analyst) | Youjin Choi Jisun Kim (GOKMU) | Informal meeting for introduction |
| Feb. 16 | Y. Kim (DDG) K. Park (DD) E. Hong (Analyst) | Sebastian Molineus Sameer Goyal Youjin Choi | Reaffirmation of partnership Discussion on the strategy of the Seoul Center (first mention of the Financial Stability idea) (Director Park's visit to the Korea Office) |
| Mar. 17 | J. Park (Dir) | Sameer Goyal Youjin Choi | Short briefing on Seoul Center |
| May 26 | S. Choi (DD) E. Hong (Analyst) | Youjin Choi | Presentation of KTF projects, Seoul Center work program and plans Q&A for better understanding |
| Jul. 27 | J. Park (Dir) S. Choi (DD) J. Park (DD) E. Hong (Analyst) | Sameer Goyal Wansup Kim (CMU) Kwang Chul Ji (CMU) | Presentation and discussion of Seoul Center 2 nd phase plans |
| Aug. 17 | Y. Kim (DDG) J. Park (Dir) J. Park (DD) E. Hong (Analyst) | Sameer Goyal Youjin Choi | (Korea Office group meeting) Review of Seoul Center progress and presentation of 2 nd phase plans |
| Aug. 31 | J. Park (Dir) J. Park (DD) E. Hong (Analyst) | Youjin Choi Kwang Chul Ji (CMU) | Explanation of funding proposals (Vietnam, Laos, Philippines) Briefing on KTF financials |
| Sep. 21 | Y. Kim (DDG) J. Park (DD) E. Hong (Analyst) | Sameer Goyal Youjin Choi Wansup Kim (CMU) | Presentation and discussion of Seoul Center 2 nd phase plans |
| Nov. 14 | J. Kim (Dir) S. Choi (DD) | Sameer Goyal Youjin Choi Wansup Kim (CMU) | Presentation and discussion of Seoul Center 2 nd phase plans |
| Nov. 15 | S. Choi (DD) M. Kim (DD) J. Chang (Analyst) | Youjin Choi Wansup Kim (CMU) Min Jae Kang (CMU) Soyoun Jun (CMU) | Informal meeting for introduction, for the new MOSF team |

ANNEX 2. RESULT CHAIN OF KTF-FUNDED PROJECTS

Completed projects

| PROJECT | PROCESS / ACTIVITIES | OUTPUTS | INTERMEDIATE OUTCOMES | OUTCOMES |
|--|---|---|--|--|
| Indonesia Crisis Simulation Framework | 1) Prepare a policy note with recommendations to improve the effectiveness of the Financial System Stability Forum (FSSK), 2) Provide technical inputs through a series of inter-agency workshops to prepare operational manual, 3) Organize a crisis simulation exercise | 1) Policy note with recommendations to improve the effectiveness of the Financial System Stability Forum (FSSK), 2) Inter-agency workshops and inputs for operational manual, 3) Crisis simulation exercise | Build the capacity of the Indonesian financial authorities to respond effectively to a financial crisis, by (i) strengthening interagency coordination; (ii) improving systemic risk analysis; (iii) clarifying resolution options; and (iv) enhancing crisis preparedness and legal / regulatory framework | A robust financial safety net to improve both crisis prevention and management |
| China Financial Reform Strategy Report | 1) Prepare strategy report and technical notes to support the Chinese financial authorities' decision-making, 2) Organize a workshop to discuss and set a roadmap for implementation of the recommendations | 1) Main report and 12 technical notes with recommendations, 2) one-week workshop to discuss the recommendations | Equip the Chinese financial authorities with better understanding of their financial sector and an actionable financial reform strategy | Transition to a more efficient, balanced, inclusive, and stable financial sector |
| China Financial Consumer Protection & Financial Literacy | 1) Design a demand-side questionnaire, according to CBRC's needs, to understand Chinese financial consumers' consuming behavior and attitude towards financial services and trainings; 2) Select a consulting firm to conduct a household survey across China; 3) Participate in and monitor the training of enumerators and translation of English questionnaires; 4) Produce a reporting outline based on the survey results; 5) Design legal framework for consumer protection in financial services | 1) Demand-side survey database on Financial Consumer Protection and Financial Literacy System; 2) Report on Strengthening Financial Consumer Protection in China: A Demand-Side Assessment ; 3) Report on Institutional and Legal Framework for consumer Protection in Financial Services | 1) Enhance the CBRC's capacity to better understand financial consumers' needs; 2) Enhance CBRC staff's ability to design questionnaires based on international standards and adapting to the Chinese needs; 3) Enhance the authorities' capacity to set up an effective Financial Consumer Protection and Financial Literacy System | Better protection of the interests of financial consumers; promoting financial access and competition; and maintaining a healthy financial market conducive to social stability as a whole |
| Thailand: Solvency Modernization and Risk Based Capital for the Insurance Sector | 1) Capacity building process for the OIC to strengthen the RBS and RBC framework for the insurance industry; 2) Conduct assessment of the current state of the capacity of the OIC, the current RBS legal framework and data availability, and quality in the OIC and in the insurance industry | 1) Technical assistance to strengthen and improve the solvency capital regime for insurers in the areas of RBC, Asset-Liability Management, Enterprise Risk Management, and stress testing mechanisms; 2) Training on actual on-site examinations for one life- and one non-life insurer | 1) Strengthen the supervisory capacity and tools of the OIC; 2) Assist the OIC to improve RBS and dynamic solvency regimes (RBC) for the insurance industry | Modernized solvency regimes that better reflect and measure the risks that insurers are exposed to |



Ongoing projects

| PROJECT | PROCESS / ACTIVITIES | OUTPUTS | INTERMEDIATE OUTCOMES | OUTCOMES |
|---|---|--|---|---|
| National Risk Assessment ASEAN | Self-assessment of the countries using the National Risk Assessment Tool developed by the World Bank; assistance to authorities of the requesting authorities of the CLMV and ASEAN member states. Such assistance will cover legislative drafting, capacity building activities and policy advice | Risk assessment reports derived from running the NRA tool, training on evaluation methodology best practice, policy advice | Some of the ASEAN countries: 1) Have a report that identifies and analyzes the proceeds of crime in the country and the key vulnerabilities of law enforcement agencies to investigate and prosecute financial crime; 2) Officially adopt concrete time-bound action plan endorsed by the government through appropriate processes; and 3) 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 | Improved effectiveness to detect illicit financial flows, investigate and prosecute financial crimes such as corruption, tax evasion, and fraud |
| Basel II Pillar 2 Implementation Toolkit | Development of a supervisory toolkit and testing in parallel with discussions with | Supervisory toolkit (Basel II Pillar 2 toolkit) for the use of banking supervisors | Help banking supervisors improve the effectiveness of Basel II implementation | Achieve a higher level of compliance with international standards on capital adequacy |
| Myanmar: Scaling Up Financial Services for the Poor | <ul style="list-style-type: none"> 1) Pillar 1: Modernizing Financial System Infrastructure; 2) Pillar 2: Financial Institution Reform and Development; 3) Pillar 3: Digital Financial Services and Expanding Depth of The Financial System; 4) Pillar 4: Legal and Regulatory Framework Reform | <ul style="list-style-type: none"> 1) Development of CBM-Net and related environment; 2) Recommendations for strategies for state-owned banks; 3) Recommendation for CBM and MOF to finalize the Financial Sector Development Strategy; 4) Seminar for CBM and MOF on upgrading legal and regulatory framework for CPFL and design of implementation roadmap; 5) Recommendations on how to amend and upgrade key laws and regulations; 6) Training for the supervisory staff on off-site and on-sight supervision, etc. | <ul style="list-style-type: none"> 1) A more safe, secure and reliable payment system is in place and operational New Credit Reporting System established and operational; 2) Transformation of SOBs into financially-sustainable institutions, with appropriate MOF performance monitoring, and improved policy framework and coordination for overall financial sector development; 3) Government framework for FCPFL strengthened, and innovative financial products developed for the underserved; 4) Strengthened legal, regulatory and supervisory framework as indicated by increased compliance with international standards and practices | <ul style="list-style-type: none"> 1) Increased percentage of adults with access to financial services; 2) Improved financial infrastructure and payments system; 3) Improved capacity of financial institutions to provide efficient access to financial services; 4) Strengthened legal and regulatory framework for the financial sector and improved consistency with international standards |
| Cambodia: Financial Sector Development TA | <ul style="list-style-type: none"> 1) Pillar 1: Enhancing and Maintaining Financial Stability; 2) Pillar 2: Increasing System Efficiency; 3) Pillar 3: Promoting Inclusion and Consumer Protection | <ul style="list-style-type: none"> 1) Financial corrective action framework; 2) Training on risk-based and consolidated supervision; 3) Financial crisis management framework; 4) Regulatory framework for deposit insurance; 5) Amendments of NBC Law; 6) Stakeholder strategy-setting to develop a NPS; 7) Assessment report of financial infrastructure and needs; 8) International good practice guidance on insurance and microfinance; 9) Consumer protection framework, etc. | <ul style="list-style-type: none"> 1) Stronger prudential regulation for the banking sector; 2) Stronger capacity for financial crisis prediction; 3) Stronger capacity for financial crisis management; 4) Increase awareness of potential benefits and risks involved in developing a deposit insurance system for Cambodia; 5) Improved Legal framework and Prakas improved for banking and central bank; 6) AML/CFT system strengthened in line with recommendations of 2016 National Risk Assessment | <ul style="list-style-type: none"> 1) Strengthen financial supervisory capacity and improve the enabling environment for financial services in Cambodia; 2) Reduce the transaction costs of finance services by improving financial infrastructure; 3) Strengthen bank and non-bank financial markets; 4) Reform the payments system and inter-bank market that will reduce the cost of financial intermediation and improve market efficiency |

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|---|---|--|--|--|
| <p>Mongolia: Financial Sector Development Support Program</p> | <p>(i) Strengthen legal and regulatory frameworks, 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 authorities to manage stolen assets.</p> | <p>(i) Support for revision of banking, securities and insurance regulation and legislation and related capacity development; (ii) Reports and policy noted on governance for SFIs and SOEs; (iii) Capacity building for strengthening the asset declaration and asset recovery systems and development of an investigation manual; (iv) Diagnostic reports and policy notes on clearing and settlement processes and procedures; (v) Assessment of Mongolia's remittance market; (vi) TA to strengthen legal and regulatory framework on National Payment System; (vii) Financial capability technical assistance and related capacity building; (viii) TA to strengthen legal and regulatory framework for insolvency resolutions and develop related institutional capacity.</p> | <p>(i) Strengthened policy, legal and regulatory framework for the financial sector and improved consistency with international financial sector standards. (ii) Enhanced consumer protection and improved financial capability. (iii) Strengthened oversight of SFIs and SOEs, and improved capacity at MOF; (iv) Increased capacity to use asset declarations to prevent and combat corruption, counter money laundering and recover stolen assets. (v) A more efficient, safe and reliable national payment, securities settlement and remittance systems; (vi) Strengthened insolvency regime and increased confidence of lenders to provide financing.</p> | <p>Sound, diversified and inclusive financial system in Mongolia with (i) stronger financial sector stability, (ii) more developed non-bank financial sector and (iii) improved financial infrastructure and financial capability</p> |
| <p>Vietnam: Capital Markets and NBF Development</p> | <p>A. Insurance 1) Design and implement an information system required for risk-based supervision, 2) Review the insurance laws/regulations and supervisory framework, 3) Provide training and knowledge exchange/transfer</p> <p>B. Pension 1) Develop regulatory and supervisory framework for private pension schemes, 2) Provide capacity building for VSS and relevant stakeholders in investment management and governance, 3) Provide training and knowledge exchange/transfer</p> <p>C. Government Bond Market 1) Review the implementation of the Vietnam Bond Market Development Roadmap (2012), 2) Strengthen the legal framework for the government bond market, 3) Develop policies to broaden the investor base for government bonds, 4) Develop policies to improve the supply and support new product development for institutional investors, 5) Develop policies to promote the development of the secondary market operation</p> <p>D. Securities 1) Review the current Securities Law and prepare for the promulgation of the next generation of Securities Law, 2) Strengthen SSC's supervisory capacity</p> | <p>A. Insurance 1) Technical notes, advisory services, inputs to inform ISA/MoF on regulations/supervisory function and ICT system design and an implementation roadmap, 2) Training focused on risk-based supervision (RBS) and IT and data management</p> <p>B. Pension 1) Technical notes, advisory services, inputs for MoF, MOLISA, and VSS on public and private pension framework, 2) A technical review of the investment policy and the VSS institutional capacity and ICT system for investment operations, 3) PROST modeling of VSS's liability structure, 4) Training (workshops, learning/exchange with peer countries) for VSS staff in funds investment</p> <p>C. Government Bond Market 1) Technical note on Roadmap 2012-2016; recommendations to develop phase 2 of implementation, 2) Technical note on the Public Debt Law and/or comment on the draft revision; review of Decree 01/2007 and/or comment on the draft revision, 3) Advice and inputs on (i) policy framework for institutional and retail investors, (ii) guidelines on the development of variable rate bonds, and (iii) development of repo markets and market-making practices</p> <p>D. Securities 1) Technical note with recommendations on selected policy issues, 2) Inputs to support the formulation of the revised Securities Law, 3) Training programs and operating manual for SSC staff on licensing and supervision of securities companies & collective investment schemes; supervision of public companies and securities issuances; secondary market surveillance and regulation; and investigation & enforcement</p> | <p>A. Insurance 1) Improved ISA/MoF understanding and experience of the ICT infrastructure and legal/supervisory framework for RBS, 2) Improved institutional capacity to undertake necessary legal/supervisory and ICT reforms</p> <p>B. Pension 1) Improved understanding and institutional capacity to undertake the necessary legal/supervisory reforms, 2) Improved perception/ understanding of investments diversification and fund governance, independence and oversight, and changes needed</p> <p>C. Government Bond Market 1) Contribution towards improved functioning of the bond market in Vietnam, 2) Increased demand and broadened investor base for government bonds, 3) Improved supply and development of new, relevant bond products, 4) Improved secondary market operation</p> <p>D. Securities 1) Strengthened SSC's and relevant stakeholders' capacity to improve the legal/regulatory framework for the securities market, 2) Enhanced supervisory capacity of SSC</p> | <p>A. Insurance Enhanced operational autonomy of ISA/MoF to support the development of a modern risk-based regulatory and supervisory framework for insurance</p> <p>B. Pension 1) Strengthened capacity of MoF and MOLISA to develop public and private pension schemes, and to adhere to guidelines for safe and productive investment of pension assets, 2) Strengthened capacity of the VSS to develop a clear governance structure and investment strategy, 3) Improved capacity of MoF in supervision and regulation of public and private pension schemes; improved capacity of VSS in management of the public pension fund</p> <p>C. Government Bond Market 1) Improved liquidity of the government bond market, 2) Improved reliability of government bonds</p> <p>D. Securities 1) Strengthened legislation and critical regulations for securities market development, 2) Improved and expanded access to capital investment through the securities market</p> |

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| <p>Philippines Financial Development and Inclusion</p> | <p>A. Monitoring and measurement system for NSFI implementation: Support design and implementation of the results framework and monitoring mechanism, and data management system for NSFI implementation</p> <p>B. SME Finance: Identify specific reforms and instruments (guarantees, special purpose funds) to improve access to finance for SMEs</p> <p>C. Cooperative Development Assess data gaps in cooperative sector and enhance the Cooperative Development Authority capacity in cooperative oversight</p> <p>D. Financial Education 1) Stock-taking of existing financial education programs provided by various agencies, 2) Developing a systematic approach for implementation of financial education programs</p> <p>E. Strengthening bank resolution mechanism and deposit insurance capacity: Provide support to the PDIC for strengthening bank resolution mechanism</p> | <p>A. Monitoring and measurement system for NSFI implementation: Monitoring and measurement system for NSFI implementation</p> <p>B. SME Finance: Report and recommendations for improving design and advisory support on the specific reforms and instruments for SMEs and agricultural sector</p> <p>C. Cooperative Development 1) Assessment report on data gaps in cooperative sector, 2) Recommendations for enhancement of Cooperative Development Authority capacity in cooperative oversight</p> <p>D. Financial Education 1) Report on stock-taking of existing financial education programs, 2) Recommendation for developing a systematic approach for the implementation of financial education programs and policies across agencies</p> <p>E. Strengthening bank resolution mechanism and deposit insurance capacity: 1) Implementation of the enhanced bank resolution framework, 2) Procedures for improving the deposit insurance capacity</p> | <p>A. Monitoring and measurement system for NSFI implementation: 1) A robust and comprehensive results and monitoring system for tracking, measuring, and evaluating national NSFI progress, 2) Improved policy design and implementation for prioritization of reforms</p> <p>B. SME Finance: Improved instruments for SME finance and reduced financing constraints reported by firms</p> <p>C. Cooperative Development 1) Improved stakeholder understanding of the cooperative sector development, 2) Enhanced performance of cooperatives in undertaking reforms</p> <p>D. Financial Education Increased scalable delivery of financial education</p> <p>E. Strengthening bank resolution mechanism and deposit insurance capacity: Enhanced operational procedures for PDIC to contribute to financial sector stability and soundness</p> | <p>A. Monitoring and measurement system for NSFI implementation: More effective implementation of the NSFI</p> <p>B. SME Finance: Increased SME finance</p> <p>C. Cooperative Development: Increased lending to cooperatives to improve financial access in agriculture and fishery sector</p> <p>D. Financial Education: Increased outreach of financial education programs</p> <p>E. Strengthening bank resolution mechanism and deposit insurance capacity: More effective bank resolution and stronger capacity of deposit insurance</p> |
| <p>Lao PDR: Financial Sector Development</p> | <p>1) Pillar I: Enhancing Financial Stability Develop a set of comprehensive financial soundness indicators (FSIs), Integrate the indicators into the supervisory process</p> <p>2) Pillar II: Upgrading the Legal and Regulatory Framework (i) Review and advise on the amendments of the Commercial Banking Law and the BOL Law, and conduct technical assistance (TA), (ii) Conduct TA to upgrade some prudential regulations, (iii) Revise and strengthen accounting and auditing standards to ensure they are consistent with international standards</p> <p>3) Pillar III: Just-in-time Technical Assistance e.g. Deposit Insurance, SOB Reform, Financial Inclusion</p> | <p>1) Pillar I: Enhancing Financial Stability (i) Capacity building sessions that give BOL a functional CAELS based FSI system that BOL staff are able to operate, interpret, and update, (ii) Operation tools including a manual explaining the significance of each indicator and guidance on linking directly to source data templates, (iii) Financial Sector diagnostic completed and report published</p> <p>2) Pillar II: Upgrading the Legal and Regulatory Framework (i) Set of recommendations on amendments of legislation, (ii) Workshops and seminars to the technical experts and lawyers of BOL, (iii) Set of recommendations for upgrading top priority prudential regulations, (iv) Set of recommendations to revise the accounting framework</p> <p>3) Pillar III: Just-in-time Technical Assistance Timely TAs in response to client requests that make a systematically important contribution to the PDO</p> | <p>1) Pillar I: Enhancing Financial Stability More effective financial sector monitoring</p> <p>2) Pillar II: Upgrading the Legal and Regulatory Framework (i) Improved consistency with international standards to regulations related to the Commercial Banking Law and the BOL Law, (ii) Endorsement of Roadmap for full adoption of IFRS by systemic commercial banks</p> <p>3) Pillar III: Just-in-time Technical Assistance Increased client capacity and improved policy dialogue with clients which are key to achieving the PDO</p> | <p>1) Enhanced financial sector stability,</p> <p>2) Strengthened legal and regulatory framework for a more stable and inclusive financial sector, Compliance with international standards of auditing and accounting,</p> <p>3) Contribution to the development objective and future areas for programs for the development of financial sector</p> |

Seoul Center for Financial Sector Development 2.0

Financial Stability and Soundness Focus

Sample of Work Program/ Projects

These sample project ideas were prepared to illustrate the types of potential engagements that the Seoul Center's Financial Stability and Soundness focus may explore, once the necessary funding and other pre-conditions are met. Please note that these ideas have not been reviewed for feasibility nor have been endorsed by F&M management. We provide these solely to facilitate the preliminary discussions with MOSF and other stakeholders for them to better understand the kind of work we envision. The actual work program of the Seoul Center will be determined by client demand, fit with Korean expertise and availability of experts, alignment with WBG Country Partnership Framework and F&M strategy, availability of relevant staff, and the size of funding to be granted by MOSF.

1. Building Capacity to monitor vulnerabilities, identity and address issues

The Case for Early Warning Systems (EWS)

- **Context:** The economies in the East Asia and Pacific region are showing increased vulnerabilities to the emerging risks such as rapid credit growth, deterioration of firm profitability, downward pressures on asset quality, and weak financial safety nets, which is also more or less a global trend. After the global financial crisis there has been much more interest in WBG client countries to establish early warning systems. An early warning system cannot predict financial crises but can serve as a “flag-raising” mechanism through which the authorities can identify and monitor the vulnerabilities and risky trends in their economies and financial systems.
- **Relevant Korean expertise and experience:** Following the Asian crisis in 1997, the Korean authorities have developed several Early Warning Systems. The Korea Center for International Finance (KCIF)'s Early Warning System for currency crisis was developed as early as 1999 and has been adding new developments and revising models since then. The Financial Supervisory Service (FSS)'s Early Warning System for the financial sector was developed in 2004 and has been operating since. There is also a National Early Warning System in place in Korea since 2005, encompassing other sectors such as energy, commodities, real estate, and labor markets, in addition to the KCIF and FSS models.
- **WBG F&M expertise and experience:** F&M has several experts focusing on macro-financial monitoring, financial stability indicators, systemic risk, and crisis management on a global basis. F&M's regional experts have detailed knowledge on certain regions and economies. Working together in this matrix structure, the WBG brings the global perspective to the local client, providing customized advisory services and analytics.
- **Suggested Outputs:** The Seoul Center can collaborate with WBG experts and Korean partners such as KCIF and FSS to provide knowledge transfer, policy advice, and/or technical assistance on Early Warning Systems for WBG client countries.
 - **Knowledge generation and transfer:** case study of Korean experience in EWS and its evolution; conduct a review of the client's early warning framework or related efforts and provide

recommendations for the framework to be strengthened leveraging lessons from Korea's experience and more aligned with global best practices

- **Policy advice and Technical assistance:** work together with the client to develop or upgrade EWS; leverage Korean institutions for providing technical assistance and advise as appropriate.

2. Addressing Banking Sector Stability

Resolution of Non-performing loans (NPLs)

- **Context:** The rapid build-up of non-performing loans (NPLs) is a common and chronic issue in the East Asia and Pacific economies, which typically have weak institutional frameworks and low supervisory capacity to handle NPLs in a preemptive manner. Lack of reliable data also makes the risk assessment more difficult. NPLs are problematic as they make it difficult for banks and other financial institutions to generate new loans and advance the economic development. As such, the EAP client countries have a large need for NPL management and resolution.
- **Relevant Korean expertise and experience:** Following the Asian crisis in 1997, the Korean authorities set up the Korea Asset Management Corporation (KAMCO) which has played an important role in NPL resolution and corporate restructuring. KAMCO disposed of many distressed assets through a number of innovative methods, including by issuing asset-backed securities (ABS), which launched an important new market in Korea.
- **WBG F&M expertise and experience:** F&M has experts focusing on NPL resolution and debt restructuring on a global basis. This is also one of the core areas of the Vienna Financial Sector Advisory Center (FinSAC), which the Seoul Center can benchmark. F&M's regional experts have detailed knowledge on certain regions and economies. Working together in this matrix structure, the WBG brings the global perspective to the local client, providing customized advisory services and analytics.
- **Suggested Outputs:** The Seoul Center can collaborate with WBG experts and Korean partners such as KAMCO to provide knowledge transfer, policy advice, and/or technical assistance on NPL resolution for WBG client countries.
 - Knowledge transfer: introduce the Korean experience, lessons learned, and implications to the client country
 - Policy advice: analyze the client's NPL situation, review their regulations including provisioning and related efforts, provide recommendations to better manage the NPLs
 - Technical assistance: work with the client on loan resolution and provide a toolkit for NPL resolution

3. Strengthening Supervisory and Regulatory Frameworks

Enhancing data management for financial supervision

- **Context:** The modern financial supervision relies heavily on the data provided by financial institutions and the financial markets. This is a common weakness in many East Asia and Pacific economies, leading to incomplete and unreliable data for the supervisory authorities. Thus EAP client countries are in great need for ICT systems that will ensure a better quality and quantity of data collection and management.

- **Relevant Korean expertise and experience:** Korea being a global leader in ICT, the Financial Supervisory Service (FSS) and the Bank of Korea (BOK), among other authorities, are operating sophisticated and well-functioning data management systems which have come a long way to reach the current status.
- **WBG F&M expertise and experience:** F&M has experts in financial regulation and supervision, and regional experts who have knowledge on the data gaps of the clients. There are also experts in the ICT area that F&M could collaborate with. Working together in a matrix structure, the WBG brings the global perspective to the local client, providing customized advisory services and analytics.
- **Suggested Outputs:** The Seoul Center can collaborate with WBG experts and Korean partners such as BOK and FSS to provide knowledge transfer, policy advice, and/or technical assistance on financial data management for WBG client countries.
 - Knowledge transfer: introduce the Korean experience, lessons learned, and implications to the client country
 - Technical assistance: assess the client's situation and existing data system, provide recommendations on how to improve the system or introduce better systems

4. Building financial integrity

Capacity enhancement to address Anti-Money Laundering and Combating the Financing of Terrorism issues

- **Context:** Transnational organized criminal activity, corruption, the illegal trade in natural resources and the laundering of the proceeds of crime generate illicit financial flows that undermine good governance, financial sector stability, and economic development. This is also true in many EAP countries and there is a growing concern on AML/CFT issues.
- **Relevant Korean expertise and experience:** Korea Financial Intelligence Unit (KoFIU) is the leading body in Korea that tackles the AML/CFT issues and improves transparency in financial transactions. KoFIU is also working closely with the Financial Action Task Force (FATF) through its Training and Research Institute (TREIN) that they have jointly established with the FATF and the Busan Metropolitan City.
- **WBG F&M expertise and experience:** F&M has experts in financial integrity (including the Stolen Asset Recovery Initiative (StAR)), who often times work on a regional basis to look into cross-border flows of the proceeds from criminal activities.
- **Suggested Outputs:** The Seoul Center can collaborate with WBG experts and Korean partners such as KoFIU to provide knowledge transfer, policy advice, and/or technical assistance on financial data management for WBG client countries.
 - Knowledge transfer: introduce the Korean experience, lessons learned, and implications to the client country
 - Policy advice: review the AML/CFT framework of client jurisdictions and provide policy advice in line with FATF international standards
 - Technical assistance: conduct workshops on NRA to assist client jurisdictions to carry out their self-assessments of AML/CFT risks, provide support to clients to prepare operating procedures
Support for TREIN: work with KoFIU to fully operationalize TREIN, provide WBG expertise to support their work program (details to be discussed)

<http://blogs.worldbank.org/psd/learning-korea-story-korea-s-credit-guarantee-agency>

Submitted by Simon Bell On Mon, 10/17/2016



Image: CC Pixabay

South Korea today has the fourth largest economy in Asia, is a member of the OECD's "Rich Club," and is part of the G20. Despite sharp economic shocks emanating from the Asian financial crisis in the late 1990s, the global financial crisis in 2008, and the more recent slowdown in the Chinese economy – Korea has bounced back and continues to grow.

So it's hard to imagine that some 70 years ago, Korea's future looked very bleak – and akin to many of the excruciatingly difficult post-conflict environments that we face today.

To briefly summarize Korea's post-World War II history: [a 1947 report on Korea commissioned by U.S. President Truman concluded](#).^[1] "South Korea, [as] basically an agricultural area, does not have the overall economic resources to sustain its economy without external assistance Prospects for developing sizeable exports are slight The establishment of a self-sustaining economy in South Korea is not feasible." Then the Korean War compounded these problems – resulting in massive damage to both the north and the south – with destroyed infrastructure, a loss of skilled workers, a million South Koreans killed, and as much as one-quarter of the country's population refugees.

We have many lessons to learn from Korea – particularly as our institution, the World Bank, increasingly focuses on post-conflict and fragile environments.

Although South Korea is known for its large scale "Chaebols," which have dominated much of its political and economic life – less well known is the considerable support that the government has

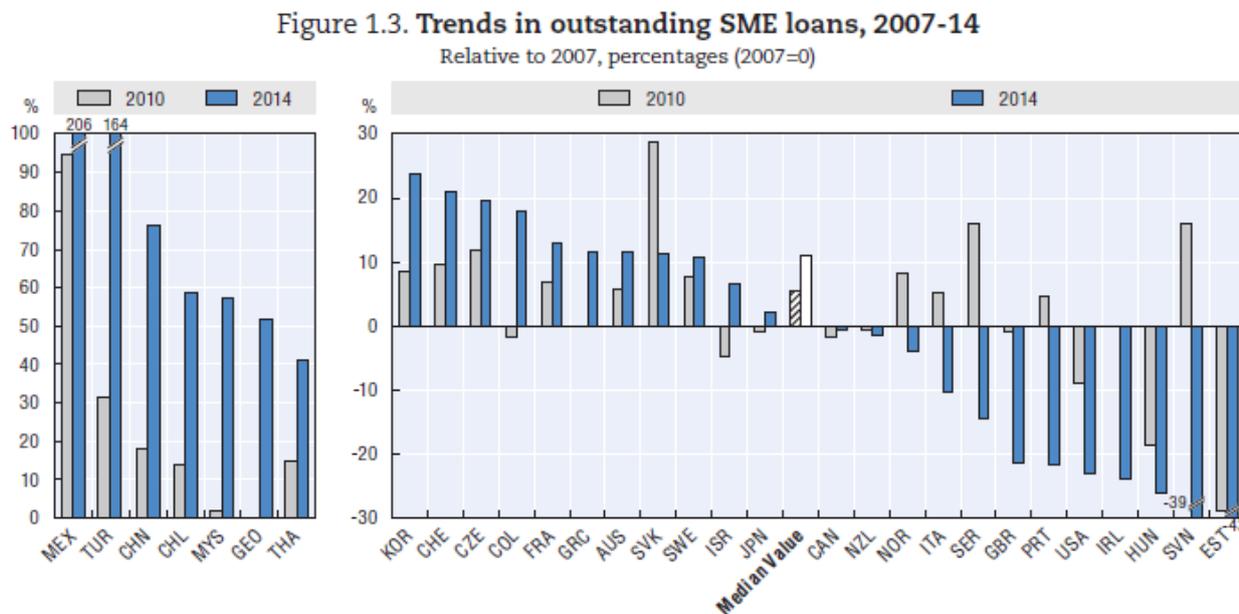
provided to small and medium scale enterprises (SMEs). As in most countries, [Korean SMEs play a pivotal role in the national economy, accounting for 99% of all enterprises](#)^[2] (3 million SMEs), over 80% of all employees (10.8 million employees), and almost 48% of total national production.

A main policy tool for supporting Korean SMEs has been Korea’s [Credit Guarantee Agency](#)^[3] (KODIT), which is one of the largest credit guarantee schemes (CGSs) in the world – guaranteeing a portfolio of around \$44 billion.

I visited Seoul in May this year to give a Key Note Address at KODIT’s 40th anniversary. The visit was timely as credit guarantee schemes are capturing increasing interest around the world as bank lending to SMEs struggles to return to pre-2007 crisis levels. By contrast, according to the OECD, [Korea has experienced a healthy growth in SME lending since 2007 – boosted by the support provided by credit guarantees](#)^[4]. The two graphs below from the OECD’s “2015 Score Board” show the high sustained levels of SME lending in Korea – as well as the significant overall size of KODIT.

Unlike many SME support schemes that governments are now keen to push – including directed lending programs, subsidized interest rate schemes, or central bank breaks on reserve requirement holdings for commercial banks – [credit guarantee schemes](#)^[5] are considered more market friendly as they combine a subsidy element with market-based arrangements for credit allocation. The best of [these credit guarantee schemes are designed to increase overall levels of lending to SMEs](#)^[6], reduce their collateral requirements, and reduce the interest rate charged on such loans.

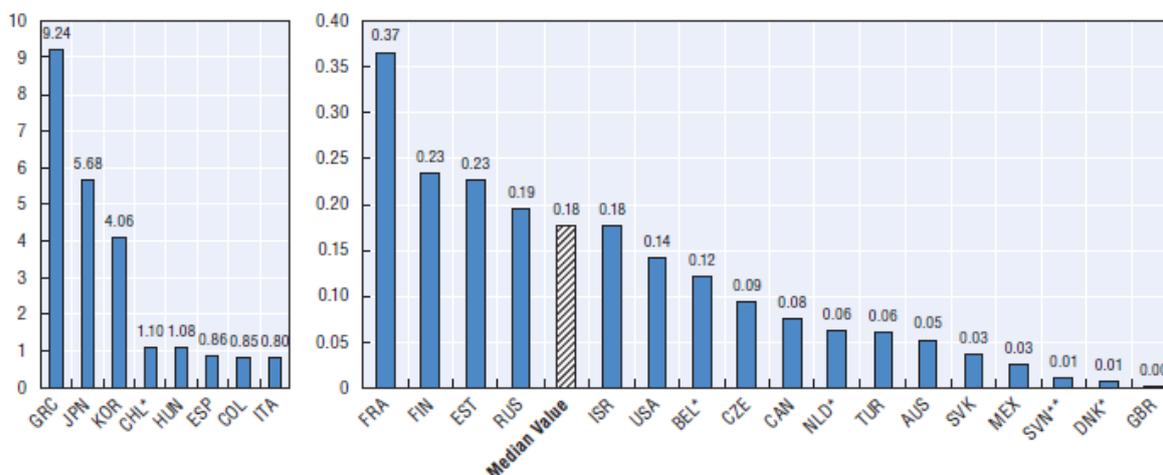
Figure 1: Trends in Outstanding SME Loans, 2007-14
Relative to 2007, percentages (2007=0)



Source: [OECD's Scoreboard](#) [7]

Figure 2: Government Loan Guarantees for SMEs, 2014
As a percentage of GDP

Figure 1.21. Government loan guarantees for SMEs, 2014
As a percentage of GDP



Notes: 1. The median value refers to all depicted countries in both graphs. *Countries where 2014 data is unavailable make use of 2013 data. 2. Slovenia uses 2012 data.

Source: Data compiled from the individual country profiles.

Source: [OECD's Scoreboard](#) [7]

This is but one area where Korea has excelled and demonstrated how to provide prudent, yet effective, support to a key segment of the national economy. The World Bank's ongoing relationship with the Government of Korea and the establishment of an office in the country will help us leverage this real-world experience so Korea can share its own phenomenal economic growth story with the rest of the world and bring lessons from the real-world interventions that have made this success story possible.

Tags:

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