DIFFERENCE MAKER

A Story of Seoul Center Korea Trust Fund Impact in the East Asia and Pacific Region

TEN-YEAR PARTNERSHIP BETWEEN THE REPUBLIC OF KOREA AND THE WORLD BANK’S FINANCE, COMPETITIVENESS & INNOVATION GLOBAL PRACTICE
DIFFERENCE MAKER

A Story of the Seoul Center Korea Trust Fund Impact in the East Asia and Pacific Region

Looking Back, Forging Ahead
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FOREWORD

We are pleased to share this booklet to showcase financial sector reforms in developing economies of the East Asia and Pacific region. The progress portrayed herein was made possible by the Korea Trust Fund, a partnership of the Republic of Korea and the World Bank.

The stories in this booklet span a wide-range of reforms and interventions – from improving risk-management in Cambodia’s real estate sector to supporting Central Banks of remote Pacific Island Nations in maintaining financial stability during the Covid-19 pandemic.

The common theme across all examples is the close collaboration of external partners with reform-minded domestic counterparts, deploying technology, analytics and innovation to strengthen the integrity and resilience of the region’s financial systems.

More work remains but the achievements documented in this booklet illustrate that real progress is possible with the right tools and support. We hope they will provide inspiration for future sector leaders and the next generation of interventions and financial reforms in the region.

We note the commitment demonstrated by World Bank country teams and client country counterparts in achieving meaningful results in strengthening the financial sectors in East Asia and the Pacific region.

We hope that these stories will encourage all of us to persevere in pursuing collective action to make a difference in the developing countries of East Asia and the Pacific and to work toward a brighter future for all.

Hassan Zaman
Regional Director
Equitable Growth, Finance, and Institutions
East Asia and Pacific
World Bank

Kyunhee Kim
Director General
Development Finance Bureau
Ministry of Economy and Finance
Republic of Korea
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The *DIFFERENCE MAKER, A Story of the Seoul Center Korea Trust Fund Impact in the East Asia and Pacific Region* was prepared by the Seoul Center for Finance and Innovation led by Stuart Yikona (Program Manager), with input from Soohyang Lee (Financial Sector Specialist), Joohyun Lee (Consultant), Finance, Competitiveness, and Innovation (FCI) Global Practice, the Seoul Center team, FCI East Asia and Pacific task teams of the programs supported by the Korea Trust Fund, under the overall guidance of Zafer Mustafaoglu, Practice Manager, FCI East Asia and Pacific.

The Seoul Center team would like to thank all the FCI task teams who supported and contributed to documenting the success stories of fruitful partnership of the World Bank and client country counterparts, undergirded by the Seoul Center Korea Trust Fund. Without their support and cooperation of the country counterparts, this project would not have seen the light of day.

Many thanks to Mike Edwards who reviewed the final draft booklet. His input was helpful in enhancing the quality of the booklet.

Finally, a special thanks to the Government of Korea, through the Ministry of Economy and Finance, for their generous financial support that made the stories shared in this booklet possible.
INTRODUCTION

The Republic of Korea's astonishing economic development commenced shortly after the end of the Korean war. In 1953, Korea had a gross domestic product per capita of US$67, and within 60 years it developed from an aid recipient to a high-income country. Its gross domestic product per capita increased rapidly from US$1,027 in 1960 to US$32,730 in 2021.

Today, Korea is the world's 10th largest economy based on gross domestic product, a key development partner of the World Bank Group, an important contributor to the International Development Association, the fund established to support the world's poorest countries, and a unique international donor.

Since 2012, the Ministry of Economy and Finance of Korea has contributed US$37.4 million toward the Korea Trust Fund managed and implemented by the Seoul Center for Finance and Innovation. The Trust Fund has supported financial sector development in the East Asia and Pacific region, contributing to 57 reforms throughout 2012–2022. To borrow from the words of Robert F. Kennedy, Korea's partnership with the World Bank Group and the Seoul Center has sent forth a ripple of hope that has made a huge difference in the developing economies of the East Asia and Pacific region.¹

Over the past decade, the East Asia and Pacific region has experienced significant economic growth and development. This has been especially evident in the financial sector. Nevertheless, many challenges remain. Risks such as excessive credit growth, asset bubbles, high levels of household and corporate debt have emerged, increasing the vulnerability of the financial sector to shocks. Consequently, ensuring the stability and resilience of the financial sector is crucial for sustainable economic development in the region.

When it comes to financial inclusion, despite the good progress made in many developing countries in the region, there are still significant gaps across the region. A large portion of the population in some countries in the region especially in rural areas and among vulnerable groups, still lack access to formal financial services such as savings account and payment systems. This hampers their ability to save, invest and participate in the formal economy, limiting their economic opportunities and potential growth.

Against this backdrop, with the support of the Korea Trust Fund, the World Bank has made a significant impact in enhancing the financial sector in the East Asia and Pacific region. Cambodia saw the development of a risk-based supervision program for the casino and real es-

¹ Robert F. Kennedy, University of Cape Town, Cape Town, South Africa, June 6, 1966, when he said, "Each time a man stands up for an ideal, or acts to improve the lot of others, or strikes out against injustice, he sends forth a tiny ripple of hope, and crossing each other from a million different centers of energy and daring those ripples build a current which can sweep down the mightiest walls of oppression and resistance."
tate sectors, and a financial literacy program that included a successful radio show and viral YouTube song. Indonesia established crisis management protocols and legal frameworks to prevent and handle financial crises, while Lao PDR strengthened its deposit insurance system significantly with three reforms adopted. In Mongolia, the second National Risk Assessment was supported, leading to the removal of Mongolia from the ‘grey list’ of the anti-money laundering and combating the financing of terrorism framework. The Philippines enacted the Financial Consumer Protection Act, with technical assistance on the Implementing Rules and Regulations provided. The Pacific Islands improved their central banks’ and prudential authorities’ knowledge and implemented good international practices to build their capacity for supervision and financial safety nets. Vietnam received assistance in improving its bond and capital market through support to its supervisory framework.

These selected stories speak to the positive impact that the Seoul Center’s partnership with the Ministry of Economy and Finance has had within the recipient countries. The booklet presents these in detail.
LOOKING BACK
CAMBODIA

Financial integrity and financial literacy

(i) CASINO AND REAL ESTATE FINANCIAL INTEGRITY SUPPORT PROJECT

CHALLENGE

In February 2019, the Financial Action Task Force, the organization that sets international standards on anti-money laundering and combating the financing of terrorism, made the decision to put Cambodia on the list of jurisdictions that fell short of effectively implementing the international standards. The Financial Action Task Force report on Cambodia clearly stated that “Cambodia should continue to work on implementing its action plan to address its strategic deficiencies; including... by implementing risk-based supervision for real estate and casinos....” Without any anti-money laundering and combating the financing of terrorism supervision framework in place for the casino and real estate sectors, the Ministry of Economy and Finance of Cambodia requested the World Bank’s assistance to develop supervisory tools and build capacity in risk-based supervision for the casino and real estate sectors.

APPROACH TO SOLVING THE CHALLENGE

In the absence of an anti-money laundering and combating the financing of terrorism supervision framework for casinos, the World Bank worked with the Department of Gambling and Real Estate in the Ministry of Economy and Finance to develop several instruments to be used in the risk-based supervision of the casinos, including (a) standard operation procedures; (b) assessment worksheet template for off-site and on-site risk-based supervision; (c) casino and real estate assessment worksheet; (d) static assessment worksheet; (e) record of industry breaches template; (f) standard administrative templates, for example, on-site visit cover letter, request for information letter, and so on; and (g) outline of industry training program.

The World Bank’s technical assistance included sharing of knowledge on risk-based supervision, how to identify high-risk casinos to optimize limited supervisory resources, how to use the new supervision tools, enhancing anti-money laundering knowledge, ensuring that officials did the hard work of completing standard operating procedures, supporting documentation, completing off-site analysis of all 136 casinos, and examining all high-risk casinos. These tools are being used and adapted for the real estate sector for all 107 real estate operators and 52 real estate agents.
RESULTS ACHIEVED

With our technical assistance support, the Cambodian authorities, officials from the Department of Gambling and Real Estate, were able to conduct and complete their casino risk assessment to risk profile all 136 casinos and all real estate entities (107 real estate operators and 52 real estate agents). They completed and finalized the standard operating procedures.

Using these tools, the department identified 20 high-risk casinos, 22 high-risk real estate developers, and 16 high-risk real estate agents nationwide. As of June 2020, using the new supervision tools developed in 2019, the authorities had finished on-site supervision of all high-risk operators, 20 high-risk casinos, 22 real estate developers, and 16 real estate agents.

IMPACT OF REFORMS

The work completed so far has been recognized by the Financial Action Task Force as good and significant progress on the part of Cambodia. This technical assistance project has had a significant development impact in Cambodia’s financial sector, starting from nothing in place to a reasonable risk-based supervision framework in both the casino and real estate sectors. The World Bank could recall the first meetings where some Ministry of Economy and Finance officials did not understand their tasks under the law regulating anti-money laundering matters in Cambodia (the Anti-Money Laundering and Combating the Financing of Terrorism Act).

The World Bank put a lot of effort in building their capacity, starting from reviewing the Anti-Money Laundering and Combating the Financing of Terrorism Act, and linking it to their day-to-day work. The on-site visits completed by June 2020 to all high-risk casinos and real estate entities demonstrated the Ministry of Economy and Finance officials’ increased understanding, enhanced skill set, capacities, and their confidence to continue future mandates by themselves. Indeed, the new Non-Bank Financial Service Authority has continued with annual on-site and off-site supervision of all the high-risk casino and real estate operators. Moreover, the standard operating procedures and supervisory guidelines are up-to-date and effective and were highly commended by the Financial Action Task Force during a visit to Cambodia in January 2023.

BENEFICIARIES

The beneficiaries were the Department of Gambling and Real Estate Supervision of the Cambodia Ministry of Economy and Finance and the Cambodia Financial Intelligence Unit.

MOVING FORWARD

Due to fast megatrends in technology and rapid changes in the financial system which create new emerging risks in financial sector, the Royal Government of Cambodia has requested support to enhance its capacity related to virtual asset activities and their service providers.
(ii) ‘LET’S TALK MONEY’ PROGRAM

CHALLENGE

Cambodia has experienced an unprecedented credit growth in the past decade especially the rapid expansion of the microfinance institutions sector. Concurrently, an over-indebtedness has emerged and shown signs of vulnerability for individuals and households in Cambodia. This excessive borrowing is mainly due to a low level of financial literacy knowledge among Cambodian people and families. As evidenced, the Credit Bureau of Cambodia showed a decline in small loan size (under US$500), but a strong increase in the loan size bucket of US$5,000–30,000. On average, loan sizes have grown four times faster than gross national incomes; Cambodia is an outlier in the growth of loan size compared to income.

APPROACH TO SOLVING THE CHALLENGE

The intervention of the World Bank under the Korea Trust Fund in 2016/17 to support financial consumer capability was aligned with the National Bank of Cambodia’s own ‘Let’s Talk Money’ campaign. In line with these efforts and taking lessons from World Bank Group projects in other countries, the project targeted (a) social media and (b) popular culture to reach out to a wider audience in a friendly and effective way, and the World Bank shared concepts and
analytical work with microfinance investors. Moreover, in 2017, a survey was conducted to measure the extent of household indebtedness.

RESULTS ACHIEVED

With the Korea Trust Fund’s support, the World Bank provided technical assistance to the National Bank of Cambodia producing a series of radio shows and a YouTube song related to financial management and its challenges for individuals and households. The first initiative was called ‘Let’s Talk Money’, a radio show that was broadcasted nationwide thrice a week for 12 weeks from December 2016 to February 2017 on Women’s Media Centre FM102 and Facebook. The show aired live on Thursday at 11:00 a.m. Phnom Penh time on FM102 and Facebook (https://www.facebook.com/radiofm102), with re-airs on Saturday at 11:20 a.m. and Tuesday at 2:20 p.m. Visiting guests included popular psychologists, advice columnists, and wedding planners. Through Women’s Media Centre, the show reached out to young women across Cambodia advocating for them to take control of their household finances and to make sensible financial choices. But the messages also resonated with men. The radio show was run by Nana, the Disc Jockey of the program who is a prominent Khmer radio personality with over 500,000 Facebook followers. The show’s messages resonated far and wide among Cambodians. It raised sensitive questions about household finances and money management and provided practical answers to difficult money-related questions facing any Cambodian family. Following the show’s takeoff, a song was produced transitioning from talking about money to singing about money. Cambodia’s most popular young performer, Oun, was invited to sing about ‘Luy’, which means money in Khmer. The song highlights the singer’s own experience, the mistakes he made, and the lessons he learned. Keeping the messages light and funny, he sang about managing money, spending no more than what you make, avoiding unnecessary borrowing, and saving money.

IMPACT OF REFORMS

At the end of the ‘Let’s Talk Money’ radio show in February 2017, it had attracted more than 1 million nationwide radio listeners and got an average of 4,000 Facebook views per show. In May 2017, the ‘Let’s Talk Money’ song in a video show was posted on Facebook and YouTube and became an overnight sensation throughout the country. By June 2017, the video reached over 1 million viewers, a high figure compared to other popular songs in Cambodia.

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BENEFICIARIES

Target audience were women radio listeners, youngsters especially those in the 18–35 age group, YouTube viewers, and students.

MOVING FORWARD

The National Bank of Cambodia has developed an impact assessment program to improve its ‘Let’s Talk Money’ Program for wider audiences. A number of educational materials have been developed to continue with the effort of financial literacy.
FINANCIAL SECTOR SAFETY NET LAW
CHALLENGE

While the Government of Indonesia’s decision in 2011 to establish the Financial Services Authority provides an opportunity for improved coordination in supervision across the financial sector, it is accompanied by significant risks, particularly given the ongoing global financial crisis and its impact on the global economy. As a result, managing risks and uncertainties during the transition is a critical task for the authorities. From a risk management perspective, it would be reasonable to assume that the quality of supervision may be affected during the transition process as supervisory resources in the Capital Market Supervisory Agency and Financial Institution and Bank Indonesia will be diverted to address transition issues. At the same time, it is also normal that some of the regulated entities in each sector will need to be under intensive supervision. Apart from these, risks arising from the environment or external factors cannot be ruled out.

APPROACH TO SOLVING THE CHALLENGE

The World Bank focused on strengthening the capacity of financial sector authorities to prevent, manage, and resolve financial crisis, thereby contributing to the promotion of a sound and stable financial sector in Indonesia. In particular, the World Bank worked on the institutional development and capacity building for the Fiscal Policy Office within the Ministry of Finance, which served as the Secretariat for the Financial Sector Stability Committee and established the Financial Sector Policy Center. Working together with Bank Indonesia, the Indonesian Deposit Insurance Corporation, and the Financial Services Authority, the Fiscal Policy Office led the reforms of the overall legal, regulatory, and institutional frameworks supporting financial system stability as well as strengthening crisis management protocols.

Specifically, the World Bank provided knowledge sharing on the drafting of the Crisis Management Protocol as well as assisted the Government of Indonesia in developing the template for the Crisis Management Protocol and was involved in the series of drafting process organized by the Ministry of Finance. The World Bank also participated in several discussions and provided technical inputs to the Ministry of Finance counterparts as they were preparing the Financial Safety Net Law of Indonesia.
RESULTS ACHIEVED

The Crisis Management Protocol was available for the first time in Indonesia by mid of 2014. Also, a series of technical discussions were held to prepare the Financial Sector Safety Net Law, which resulted in the final passage in 2016 of Law No. 9 of 2016 on ‘Prevention and Resolution of Financial System Crisis’.


In addition, a knowledge sharing session from the Korea Deposit Insurance Corporation (KDIC) on bank resolution as well as asset management and recovery was provided to the Indonesia Deposit Insurance Corporation in December 2017.

IMPACT OF REFORMS

Currently, Indonesia has the mandate to formalize the coordination forum as the Law No. 9 of 2016 on ‘Prevention and Resolution of Financial System Crisis’ provides a stronger legal framework for the four key institutions in financial sector oversight (the Ministry of Finance, Bank Indonesia, Financial Services Authority, and Indonesia Deposit Insurance Corporation) in preventing and handling financial system crises. This law has transformed the Financial System Stability Coordination Forum into the Financial System Stability Committee. This mandate includes the coordinated monitoring and maintaining of financial system stability, the resolution of a systemic financial crisis, and the resolution of problems of a systemic bank, during either normal or systemic financial crisis conditions.

To coordinate the efforts by the four institutions, the law established the Financial System Stability Committee which consists of the Minister of Finance as the coordinator concurrently serving as a member, the Governor of Bank Indonesia, the Chairman of the Board of Commissioners of the Financial Services Authority, and the Chairman of the Board of Commissioners of the Indonesia Deposit Insurance Corporation as members. According to the law, the Financial System Stability Committee is supposed to be assisted by a Secretariat. The first activity supported by the Korea Trust Fund in 2013 for the Fiscal Policy Office of the Ministry of Finance contributed to the initiation of the current Financial System Stability Committee setup.

Ministry of Finance Regulation No. 92/PMK.01/2017 was issued in July 2017 on ‘Organization and Procedure of Financial System Stability Committee’, prescribing that the Financial System
Stability Committee Secretariat is required to be established within a year as a unit at the Ministry of Finance, reporting to the Minister of Finance as the coordinator of the committee and administratively positioned below the Secretary General. In 2017, the World Bank delivered a note on the establishment of the Financial System Stability Committee Secretariat, and in 2020, the World Bank started to contribute to the effort in strengthening the technical capacity of the Financial System Stability Committee Secretariat.

**BENEFICIARIES**

The reform benefited the Financial System Stability Coordination Forum, consisting of the Minister of Finance, Bank Indonesia, Indonesia Financial Service Authority, and Indonesia Deposit Insurance Corporation.

**MOVING FORWARD**

The World Bank’s Programmatic Advisory Services and Analytics is aimed to increase the depth, improve the efficiency, and strengthen the resilience of the financial sector. The Government of Indonesia has thus requested for continued support to strengthen the capacity of the Financial Sector Stability Committee Secretariat in financial crisis preparedness and mitigation, to assist the Financial Services Authority’s efforts on resolution of the largest mutual insurance company and reform of the insurance sector overall, and to undertake climate change-related risk assessment over the financial sector. Indeed, a good foundation has been laid with the passage and enactment of Financial Sector Development and Strengthening Omnibus Law No. 4 of 2023, which was enacted on January 12, 2023, a process that was led by the Ministry of Finance Financial Sector Policy Center.
STRENGTHENING THE DEPOSIT INSURANCE SYSTEM

CHALLENGE

The Lao Deposit Insurance Organization was established on September 23, 1999, and is tasked with protecting the rights and interests of depositors. However, even after over 20 years of existence, it still lacks sufficient capacity to carry out its deposit insurance mandate.

APPROACH TO SOLVING CHALLENGE

With support from the Korea Trust Fund, the World Bank has been engaged with the Deposit Protection Office since 2017. The funding allowed the World Bank to hire the former Head of the Philippines Deposit Insurance Corporation to assess and advise the Deposit Protection Office. The work began by undertaking a self-assessment of the Deposit Protection Office against the international deposit insurance core principles.

This assessment identified extensive gaps and helped inform the development of a technical assistance program to address these gaps and bring the Deposit Protection Office up to international standards. In 2019–2020, the World Bank and the Deposit Protection Office prepared an investment lending project, the Financial Safety Net Project (US$35 million, approved on March 30, 2020), with the objective of strengthening the financial and institutional capacity of the Deposit Protection Office to fulfill its deposit insurance mandate. The project identifies key actions to strengthen the capacity of the Deposit Protection Office and, upon completion of these actions, capitalizes the deposit reserve fund. The Korea Trust Fund enabled the provision of technical assistance to support the Deposit Protection Office to undertake necessary reforms.

RESULTS ACHIEVED

As of end 2022, the project had satisfactorily completed 10 of the 21 actions and disbursed US$5.938 million into the deposit insurance reserve fund. The three reforms are (a) adoption of a Code of Ethics to improve the Deposit Protection Office’s corporate governance, (b) adoption and implementation of a Memorandum of Understanding between the Bank of Lao PDR and the Deposit Protection Office on information sharing, and (c) development and adoption of new Regulations on Adjusted Premiums. Moreover, the Korea Trust Fund has supported several workshops that have been instrumental in achieving these reforms.
IMPACT OF REFORMS

The reforms adopted thus far (see ‘Results Achieved’) have marginally improved the Deposit Protection Office’s capacity to carry out its deposit insurance mandate. For example, the implementation of the Memorandum of Understanding between the Bank of Lao PDR and the Deposit Protection Office has put in place the structure and flow of information between the two agencies. It allows the Deposit Protection Office to evaluate risks in the system and anticipate possible bank failures. Even at this early stage of implementation, the ‘results-based’ project design has incentivized the Deposit Protection Office to be more proactive in undertaking reforms to address the various gaps identified in the assessment against the international deposit insurance core principles.

BENEFICIARIES

Project beneficiaries include the Deposit Protection Office as well as households and small and medium enterprises that have deposits in the banking system. The economy will also benefit from increased financial sector stability due to a strengthened financial safety net.
MOVING FORWARD

Over the medium and long term, the project is preparing the Deposit Protection Office (financially and institutional capacity) to deal with potential bank failures and system vulnerabilities. As noted above, to date only 3 of the 21 reforms have been adopted, but several further reforms are close to completion or are expected to be completed within the next six months to two years. Together, adoption and implementation of the project’s performance-based conditions will substantially increase the capacity of the Deposit Protection Office to carry out its deposit insurance mandate. The World Bank intends to apply for an additional round of the Korea Trust Fund financing to continue to support these efforts.
MONGOLIA

FINANCIAL STABILITY AND INTEGRITY

ASSESSING THE RISK OF MONEY LAUNDERING AND TERRORISM FINANCING

CHALLENGE

Mongolia completed its first National Risk Assessment in 2016. However, the Mutual Evaluation Report of Mongolia published by the Asia Pacific Group on Money Laundering in 2017 indicated that the National Risk Assessment was focused on the identification of threats with limited analysis undertaken. In addition, Mongolia was included in the list of jurisdictions with strategic anti-money laundering and combating the financing of terrorism deficiencies or the so-called ‘grey list’ by the Financial Action Task Force in October 2019.

Therefore, to strengthen Mongolia’s anti-money laundering and combating the financing of terrorism framework by effectively implementing the Financial Action Task Force Recommendations, it was crucial for Mongolian authorities to properly identify threats and vulnerabilities in the anti-money laundering and combating the financing of terrorism system, so that appropriate policy measures could be taken based on the up-to-date risk assessment.

APPROACH TO SOLVING THE CHALLENGE

The World Bank provided technical assistance to Mongolia to conduct the second National Risk Assessment under the Korea Trust Fund. A working group to conduct the risk assessment was established by Decree No. 20 of the Minister of Finance on January 31, 2020. In addition, 11 sub-working groups to assess the money laundering and terrorism financing risks and vulnerabilities of each regulated sector, including banks, securities, insurance, nonbank financial institutions, and designated nonfinancial business and professions, were established by Decree No. 90 of the Minister of Finance on April 27, 2020.

Thus, sub-working groups consisting of 128 members from a total of 52 public and private sector institutions conducted the National Risk Assessment based on the World Bank risk assessment tool throughout 2020–2021. Also, considering the growing interest and evolving trends in the virtual asset sector in Mongolia, an additional sub-working group with 29 officers from 12 government agencies was established to assess the money laundering and terrorism financing risks in the virtual asset sector.
Throughout the project, World Bank experts provided numerous training sessions and detailed guidance on assessing each regulated sector, the type of quantitative and qualitative data to be collected, sources to be used, tools to analyze collected data, and methods to evaluate identified risks. Based on the criteria specified in the World Bank tool, each sub-working group collected around 160 types of quantitative and qualitative data through statistics bulletins, interviews, focus group discussions, surveys, questionnaires, books and articles by academic scholars, and reports by government authorities and private sector institutions. Moreover, each sectoral risk assessment sub-report was reviewed by the World Bank experts and comments and suggestions to improve the quality of the analysis were shared with the working group.

**RESULTS ACHIEVED**

This National Risk Assessment project was a great capacity-building exercise and instrument for all stakeholders in the private and public sectors and helped Mongolia advance the nationwide understanding of money laundering and terrorism financing risks, threats, and vulnerabilities. Moreover, the National Risk Assessment process enabled Mongolian authorities to expand the application of a risk-based approach to implement anti-money laundering and terrorism financing measures and adopt more elaborate individual and sectoral risk assessment procedures. The knowledge and understanding gained from the project have been crucial for Mongolian authorities to demonstrate significant progress in improving the anti-money laundering and combating the financing of terrorism regime and address technical deficiencies identified by the Financial Action Task Force and the Asia Pacific Group. During this project, Mongolia was able to get off the ‘grey list’ within a year in 2020.

In the Mongolia’s Follow-Up Report of 2021, the Asia Pacific Group welcomed Mongolia’s active approach in identifying and assessing the money laundering and terrorism financing risks at the national level and implementing a risk-based approach as specified in the Financial Action Task Force Recommendations. Based on the National Risk Assessment outcomes, technical compliance rating of Recommendation 1, which requires countries to assess their money laundering and terrorism financing risks and apply a risk-based approach, was upgraded from ‘Partially Compliant’ to ‘Largely Compliant’.

Thus, 38 out of 40 Financial Action Task Force Recommendations were rated as ‘Largely Compliant’ or ‘Compliant’ as of 2021. Moreover, as part of effectively implementing the technical compliance requirements of Financial Action Task Force Recommendation 15, which requires assessing the risk in adoption of new technologies, the Parliament of Mongolia approved the Law on Virtual Asset Service Provider and made amendments to other relevant laws on December 17, 2021. As a result, a legal and regulatory framework has now been established covering the virtual asset sector in Mongolia.
BENEFICIARIES

Beneficiaries of the program were the following: Financial Information Unit of Mongolia, National Counter-Terrorism Council, Ministry of Finance, Bank of Mongolia, Financial Regulatory Commission, Ministry of Justice and Home Affairs, Ministry of Foreign Affairs, General Intelligence Agency, Independent Authority Against Corruption, General Prosecutor’s Office, National Police Agency, Judicial General Council, Supreme Court, Customs General Administration, General Department of Taxation, General Authority for State Registration, General Executive Agency of Court Decision, Mongolian Bankers Association, Mongolian Institute of Certified Public Accountants, Mongolian Chamber of Notary, Mongolian Bar Association, and private sector representatives.

MOVING FORWARD

In accordance with the Financial Action Task Force Recommendations and Anti-Money Laundering and Combating the Financing of Terrorism Law of Mongolia, the draft Anti-Money Laundering and Combating the Financing of Terrorism National Strategy and Action Plan were successfully developed based on the outcomes of the National Risk Assessment project. This development policy document sets strategic objectives for Mongolia of improving the effectiveness of its Anti-Money Laundering and Combating the Financing of Terrorism Framework using the risk-based approach in the medium and long term, so that the Mongolian authorities would be able to effectively allocate their limited resources and thus mitigate the potential risks through appropriate countermeasures.
PHILIPPINES

SUPPORTING FINANCIAL CONSUMER PROTECTION FOR A STABLE AND INCLUSIVE FINANCIAL SYSTEM

CHALLENGE

A well-functioning, stable, inclusive, and resilient financial system requires a high degree of trust among the key stakeholders as well as reassuring of consumers that they are protected in cases of fraud or abusive behavior by certain financial sector actors. In the Philippines, there has been important progress on financial inclusion in recent years, with 51 percent of adults having access to a formal account with a financial institution in 2021. However, this is well below some of its peers in the region, such as Malaysia (88 percent) or Thailand (96 percent). Among the leading causes often cited for the relatively low levels of financial inclusion in the Philippines are the low levels of financial education and literacy and a lack of trust in financial institutions.

APPROACH TO SOLVING THE CHALLENGE

Recognizing the need to provide protection to consumers of financial products and services, including those delivered through digital channels, the Government of the Philippines enacted the Financial Consumer Protection Act in May 2022. The World Bank supported the government in advancing this reform through a policy-based lending engagement and importantly its implementation by providing technical assistance on the Implementing Rules and Regulations to the country’s central bank, the Bangko Sentral ng Pilipinas, based on international best practices.

These two important reforms have been supported under the Philippines Financial Sector Reform Development Policy Loan series, whose overarching goal was to support reforms aimed at (a) promoting financial sector stability, integrity, and resilience; (b) expanding financial inclusion for individuals and firms; and (c) catalyzing climate and disaster risk and sustainable finance.

Indeed, while the first Development Policy Loan supported the passage of the Financial Consumer Protection Act, a second Development Policy Loan supports the adoption of the Implementing Rules and Regulations to support the effective implementation of the Financial Consumer Protection Act. The Financial Consumer Protection Act aims to strengthen the

4 Up from 34 percent in 2017, according to World Bank’s Global Findex Database.
mandate and powers of financial sector regulators to effectively implement financial consumer protection and market conduct supervision to promote responsible business conduct, market discipline, and consumer trust in the financial sector.

The Financial Consumer Protection Act sets out the responsibilities of Bankgo Sentral ng Pilipinas-supervised institutions and their board and senior management, guidelines on the consumer protection risk management system, consumer protection standards, affordability and suitability mechanisms, and enforcement actions, among others. In addition, the Implementing Rules and Regulations expand the scope and strengthens the current Bankgo Sentral ng Pilipinas regulation on financial consumer protection. This will help the effectiveness of the Financial Consumer Protection Act in protecting the consumers of financial services.

RESULTS ACHIEVED

The first important result of the World Bank support to the Philippines government was the enactment of the Financial Consumer Protection Act on May 6, 2022, which strengthened the mandate and powers of the financial sector authorities. It helped the financial sector authorities regulate and supervise financial consumer protection in the market, resolve financial consumer complaints, and address existing gaps. Indeed, the Financial Consumer Protection Act set out overarching obligations on providers across the Philippines' financial sector and an express financial consumer protection mandate supported by rulemaking, market conduct surveillance and examination, enforcement, and consumer redress mechanisms which include mediation and adjudication. The measure provided the authorities with an improved
basis for addressing risks and issues facing consumers in the Philippines, including new and changed consumer risks in a digital context.

Moreover, to support the effective implementation of the Financial Consumer Protection Act, the timely issuance of the Implementing Rules and Regulations for Bangko Sentral ng Pilipinas-supervised institutions was essential. The Implementing Rules and Regulations established the guidelines for Bangko Sentral ng Pilipinas-supervised institutions to institutionalize consumer protection as an integral component of corporate governance, culture, and risk management. This facilitated managing consumer risks and potential harms to financial consumers, preventing unfair business practices, achieving fair and beneficial consumer outcomes, and empowering consumers. The Financial Consumer Protection Act’s Implementing Rules and Regulations covering all financial products and services of all Bangko Sentral ng Pilipinas-supervised institutions has been issued through Bangko Sentral ng Pilipinas Circular 1,160 dated November 28, 2022.

**IMPACT OF REFORMS**

As a result of the reform, 75 percent of universal and commercial banks are expected to have in place a written manual (or an equivalent document) covering the Consumer Protection Risk Management System and the Financial Consumer Protection Assistance Mechanism by the end of 2023, with the Bankgo Sentral ng Pilipinas strengthened Implementing Rules and Regulations to implement financial consumer protection effectively. When in place, these will support the implementation of the Financial Consumer Protection Act to further build consumer trust in the financial system.

**BENEFICIARIES**

The key beneficiaries of this reform are consumers who participate in the financial sector, as they are better protected because of this reform. Moreover, universal and commercial banks are also beneficiaries of this reform, as the increased trust in the financial system will benefit their business as well. Last but not least, the financial sector regulators and supervisors also benefit from this reform, as it is likely to contribute to the stability and integrity of the financial sector in the Philippines.

**MOVING FORWARD**

To support government efforts in expanding financial inclusion for Filipinos, the Financial Sector Reform Development Policy Loan series, with the support of the Korea Trust Fund, is promoting innovative reforms on the introduction of the open finance regulatory framework to foster innovation and competition in the financial sector by allowing the development of new business models as well as new service providers, improving the quality of credit information system to de-risk lending to small and medium enterprises, and strengthening the insurance sector regulatory framework to help provide adequate risk coverage to individuals and firms.
THE PACIFIC ISLANDS

CAPACITY BUILDING IN PRUDENTIAL SUPERVISION AND FINANCIAL SAFETY NETS

CHALLENGE

Many of the Pacific Island countries are dependent on tourism, agricultural exports, and remittances, with Australia and New Zealand being the main export markets and sources of remittances. These important sectors in the Pacific Island countries’ domestic economies have been badly affected by COVID-19, and this has affected economic activity, small and medium enterprises’ financial viability, and banks’ asset quality, liquidity, profitability, and soundness.

Importantly, many Pacific Island countries have limited fiscal capacity to address the flow-on effects from COVID-19 and potential natural disasters; in some cases, Pacific Island countries already operate with significant structural deficits and sizeable levels of public sector debt and external debt. If government finances come under stress, the government’s credibility as a backstop for the financial system, including for bank deposits, will quickly become fragile.

The banking sector in the Pacific Island countries remains at risk from the impact of the pandemic on domestic banks, including some development banks with commercial operations, and the foreign banks from countries that are likely to struggle with the economic impact. This is especially a risk for Papua New Guinea, Fiji, Samoa, and Tonga, given the extent to which domestic banks and nonbank lenders have a major share of total banking system assets. Fiji, Samoa, and Tonga, among others, are also at some risk to the extent that parent banks of subsidiaries and branches in their jurisdictions come under capital pressure, such as Bank South Pacific. Cross-border contagion risk is therefore important and needs to be factored into the financial system impact.

There is also a vulnerability in all Pacific Island countries in terms of recovery and resolution capacity and financial safety nets. None of the Pacific Island countries have robust recovery planning frameworks in place. Few, if any, of the countries have what would be regarded as a satisfactory capacity for the early detection of risks and the structured approach to remediation required for situations of emerging stress in banks. The absence of bank recovery plans compounds the problem. Resolution frameworks in all the Pacific Island countries are below the international standards. Financial safety nets are also largely nonexistent in the Pacific Island countries. Formalized deposit insurance frameworks are generally nonexistent.
These vulnerabilities may lead to financial instability. The presence of Australian banks in some of the Pacific Island countries may help reduce these risks. However, the cross-border operations of some local banks across the Pacific extend contagion risks in the region.

**APPROACH TO SOLVING THE CHALLENGE**

With closed borders and no mission travel, the World Bank supported the Pacific Island countries’ central banks and prudential authorities to address the impact of COVID-19 on the financial sector and maintain stability through two channels: a quantitative and a qualitative channel. First, confidential data was collected regularly and the financial sector vulnerability assessments was conducted to capture the early signs of growing stress. Data of the individual Pacific Island countries were analyzed and benchmarked, and observations were shared with the countries for their comments and actions.

Second, deep-dive papers on topics related to COVID-19 and financial stability were drafted and discussed during workshops to build capacity for the central banks and prudential supervisors. The objective of the papers was to share emerging international good practices, tailored to the needs of the Pacific Island countries considering the COVID-19 operational circumstances. The following papers were prepared: Financial Sector Surveillance during COVID-19, Interactions between Micro and Macroprudential Policy, Stress Testing during COVID-19, Early Intervention, Recovery Planning, and Resolution and Financial Safety Nets.

**RESULTS ACHIEVED**

The analysis and benchmarking of prudential data and financial stability indicators in the region provided the participating authorities with useful insights into trends in the region and areas for attention. Asset quality indicators across countries were highlighted as the COVID-19 forbearance measures have the potential to mask existing vulnerabilities.

Central banks and prudential supervisors of Fiji, Papua New Guinea, Cook Islands, Samoa, the Solomon Islands, and the Federated States of Micronesia attended all the workshops and contributed to the discussions by asking questions and sharing experience.

**IMPACT OF REFORMS**

The activities described above have contributed to the building of capacity of the staff and management of the relevant agencies. This has enabled the Pacific Island countries’ prudential authorities to expand their knowledge and implement more focused supervision and to adopt good international practices in dealing with the impact of COVID-19 on the financial sector. The knowledge and understanding gained will also assist with a more prudent and gradual unwinding of the extraordinary COVID-19 measures.
BENEFICIARIES

The beneficiaries include the Bank of Papua New Guinea, Reserve Bank of Fiji, Cook Islands Financial Supervisory Commission, Central Bank of Samoa, Central Bank of the Solomon Islands, Banking Board of the Federated States of Micronesia.

MOVING FORWARD

We expect there will be requests for technical assistance from individual countries.
CHALLENGE

Vietnam has experienced three decades of significant economic growth. Vietnam’s financial sector is largely dominated by banks, which have been playing a strong role in financing the economy; however, as Vietnam is now in the middle-income status, the country’s economy and its real sector increasingly require more sophisticated financial services and risk mediation. To this end, strides have been made in capital market development and the government has undertaken required policy actions, particularly in the development and deepening of the government bond market, while the stock market expanded because of equitization of state-owned enterprises, among other things.

Nonetheless, Vietnam’s capital markets still lag its regional peers and could potentially play a bigger role in providing long-term financing for its development. This is particularly pertinent since Vietnam graduated from IDA and needs to rely more on domestic resource mobilization in a sustainable manner. To reach its full economic potential, the near-term development of deep and liquid capital markets will require modernizing the market, meeting the international standards, and strengthening domestic markets through diversification of instruments and investors, primarily nonbank financial institutions, to ensure the future competitiveness of the Vietnamese economy.

APPROACH TO SOLVING THE CHALLENGE

The program took a pragmatic approach in supporting the authorities in four main gap areas where assistance was needed: (a) bond market development, (b) pension and insurance, (c) securities market regulatory and supervisory framework, and (d) anti-money laundering. The bond market development work was aimed at improving the reliability of government bonds as a source of funding for the government and as a pricing benchmark for other financial market instruments, including corporate bonds whose regulatory framework development is also supported by the program.

The pension and insurance work were aimed at improving the environment for these nonbank financial institutions in their operations, particularly related to investment policy and supervision. The securities market supervisory framework was focused on improving the regulatory and supervisory capacity of the authority on the back of the growing complexity of the market.
Lastly, the anti-money laundering area was focused on supporting the national risk assessment toward implementation of anti-money laundering and counter-terrorism financing in Vietnam. The assistance for all these areas was centered around capacity building on policies, regulations, and supervision, provided through knowledge sharing, assessment and technical notes, and practical advice on specific issues and challenges faced by the authorities.

RESULTS ACHIEVED

On the legal and regulatory side, most notable results are (a) the establishment of implementing regulations under the Law on Public Debt (2017), including Decree 95/2018 on issuance and trading of government debt instruments and related circulars, (b) Decree 163/2018 on issuance and trading of corporate bonds in private placement market (later amended by 153/2020 pursuant to new Law on Securities), and (c) the new Law on Securities (2019) which was informed by the work on securities market regulatory and supervisory work.

These legal and regulatory frameworks provide a stronger foundation for operations and supervision of the capital market as well as strengthening of investor protection which in turn will increase reliability of the capital markets as savings and funding sources for development. The pension work resulted in a new roadmap for sustainability of Vietnam public pension and social security fund in 2021. In addition, the first national risk assessment on money laundering and terrorism financing risks and vulnerabilities was finalized in 2019.
IMPACT OF REFORMS

The impact of the program can be most observed in the growth of the bond market and gradual improvement in the capital markets in general. The size of bond market, relative to GDP, increased from 37 percent (2017) to 43 percent (2020). The corporate bond market especially recorded substantial growth, by increasing to 15.1 percent to GDP in 2020 from 6.2 percent in 2017, indicating an improved access to funding from the capital markets for the corporate sector. The government bond market value increased from VND 69 trillion (approximately US$3 billion) in 2017 to VND 83 trillion (approximately US$3.6 billion) in 2020, although its relative size to GDP declined from 31 percent to 28 percent, reflecting the government's debt management control.

The average maturity of government bonds increased from 6.0 years (2017) to 7.4 years (2019), with average maturity of bonds issued during 2019 being 13.4 years. Cost of funding declined; for example, 5-year and 10-year government bond yields declined from 5.5 percent and 5.9 percent in 2016 to 1.2 percent and 2.4 percent in 2020, respectively. The Vietnam public pension fund actively participates in the government bond market and intends to enter the corporate bond market once permitted. Overall, these indicators demonstrate an improved access to bond markets as a source of funding for the government and the corporate sector, reducing heavy reliance on the banking sector to provide long-term financing. It is hoped that these positive changes will soon extend into the other areas, such as the equity market and private pension.

BENEFICIARIES

Beneficiaries of the program were Vietnam's Ministry of Finance, the State Securities Commission, and the State Bank of Vietnam.

MOVING FORWARD

The success in a few targeted areas in the past years has motivated a broader engagement of the capital market and non-bank financial institutions development program. Development partners, such as the Swiss Secretariat for Economic Affairs, and Australia's Department of Foreign Affairs and Trade now contribute more to this capital market development program. Meanwhile, there is a new area that requires attention where the Korean financing and technical support are most needed. The COVID-19 pandemic has threatened the inclusive financial sector development, as many people may be falling back into poverty. On the back of Vietnam's National Financial Inclusion Strategy (2021), the support has been shifted into the implementation of the strategy, including broadening of the payment services and digitalization of financial services, coupled with continued support on the enhancement in the anti-money laundering and combating the financing of terrorism good practices.
FORGING AHEAD
A FEW FINAL THOUGHTS

The partnership with the Korean government in the past decade has seen significant reforms and progress in the financial sectors of many developing economies of East Asia and Pacific. Korean taxpayer resources have been put to good use and made a tangible difference. The support of the Korean government was made available to the World Bank Group in the aftermath of the global financial crisis of 2008–2009, when resources were scarce and advice on strengthening the resilience of the region’s financial sectors in high demand. With US$37.4 million disbursed since 2012, the Korea Trust Fund’s impact across diverse financial sector-related projects of the East Asia and Pacific region has been evident as demonstrated by the impact assessment report of 2023.

Looking ahead, there is a continued need for innovative solutions to meet the diverse challenges of our time which range from managing the digital transformation of developing economies to promoting sustainable finance to address climate risks. These issues will require continued financial support and benefit from a deepening of the partnership between Korea and the World Bank Group.
Korea has ranked on the top of Bloomberg’s Global Innovation Index for many years (2014–2019 and 2021) and is recognized as one of the most innovative countries. Learning from Korea’s experience of transitioning into an innovation-driven economy will be an important aspect of enhancing the partnership with the World Bank Group. Thus, a sustained engagement with Korean institutions to identify policy lessons from Korea’s successful transition to a developed economy would strengthen the World Bank Group’s capacity to deliver quality operations and advisory services to client countries in East Asia and Pacific.

Furthermore, country needs are larger today than during the pre-COVID period given the adverse impacts of the pandemic on households and firms, with spillover effects on the financial and nonfinancial sectors and associated risks to financial stability. Consequently, it is critical to understand the crisis as an opportunity to accelerate economywide digitalization, supporting innovation-driven green growth and climate resilience.

The partnership established in 2011/12 has been productive and mutually beneficial to Korea and the World Bank. We look forward to continuing this partnership to support client countries in the region and beyond.