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**INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY**

COUNTRY ENGAGEMENT NOTE

FOR THE

KINGDOM OF CAMBODIA

FOR THE PERIOD FY2016 - 2017

April 27, 2016

**Southeast Asia Country Management Unit
East Asia and Pacific Region**

**International Development Association
International Finance Corporation
Multilateral Investment Guarantee Agency**

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of December 23, 2015)

Currency Unit = Cambodian Riel (KHR)

KHR 4,048 = US\$1

GOVERNMENT FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	IEG	Independent Evaluation Group
ASA	Advisory Services and Analytics	IFAPER	Integrated Fiduciary Assessment and Public Expenditure Review
ADB	Asian Development Bank	IFC	International Finance Corporation
ASEAN	Association of Southeast Asian Nations	ILO	International Labor Organization
CAS	Country Assistance Strategy	IPA	Independent Procurement Agency
CDC	Council for the Development of Cambodia	IMF	International Monetary Fund
CDCFC	Cambodia Development Cooperation Forum	IP	Inspection Panel
CEN	Country Engagement Note	JICA	Japan International Cooperation Agency
CMDGs	Cambodia Millennium Development Goals	JMI	Joint Monitoring Indicator
CPF	Country Partnership Framework	JSDF	Japanese Social Development Fund
CPP	Cambodian People's Party	LMAP	Land Management and Administration Project
DFID	UK Department for International Development	MBPI	Merit-Based Payment Incentive
DSA	Debt Sustainability Analysis	MEF	Ministry of Economy and Finance
FDI	Foreign Direct Investment	MIGA	Multilateral Investment Guarantee Agency
FM	Financial Management	NGO	Non-Government Organization
FSAP	Financial Sector Assessment Program	NPAR	National Program for Administrative Reform
FY	Fiscal Year	NPL	Non-Performing Loan
GDCCs	Government Donor Coordination Committees	NSDP	National Strategic Development Plan
GDP	Gross Domestic Product	ODA	Official Development Assistance
GGF	Good Governance Framework	PEFA	Public Expenditure and Financial Accountability
GMS	Greater Mekong Sub-region	PFM	Public Financial Management
		PFMRP	Public Financial Management Reform Program
		PRGO	Poverty Reduction and Growth Operation
		RGC	Royal Government of Cambodia
		SCD	Systematic Country Diagnosis
		TF	Trust Fund
		TPP	Trans-Pacific Partnership
		TWG	Technical Working Group

HEF	Health Equity Fund	WBG	World Bank Group
IDA	International Development Association	WTO	World Trade Organization
IDP	Industrial Development Policy		

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EXECUTIVE SUMMARY

INTRODUCTION

i. **This Country Engagement Note (CEN) presents the World Bank Group (WBG) partnership with Cambodia for the period FY2016-2017, aimed at supporting the country’s efforts to sustain inclusive and resilient growth and to continue reducing poverty and enhancing shared prosperity.** The CEN caps a decade that started with a comprehensive program of WBG support under the 2005-2008 Country Assistance Strategy, which was extended to 2011. Then followed a pause in new IDA financing from 2011¹, resulting from differences between the Royal Government of Cambodia (RGC) and the World Bank over the findings of the World Bank Inspection Panel (IP) on the application of safeguards in the IDA-supported Land Management and Administration Project (LMAP)².

ii. **The preparation of the CEN reflects several developments.** First, the Cambodian authorities have proceeded, with communities from the Boeung Kak Lake (BKL) area in Phnom Penh, to address the issues identified in the Inspection Panel Report on the LMAP project (see para. xiv). Second, despite the pause in new IDA commitments since 2011, the WBG has maintained an active presence in supporting investments in Cambodia—through the implementation of the existing, albeit gradually declining, portfolio of active IDA-financed projects; the Bank’s administration of trust funds (TF), with commitments by other development partners totaling US\$181 million in FY16; and continued selective IFC private sector financing. The performance of the ongoing IDA portfolio has been satisfactory: there has been no problem project since 2014, and 8 out of the 10 projects evaluated by IEG during FY12-15 were found to have achieved their development objectives. Third, the WBG has continued providing substantial knowledge support, including both Trust Fund and Bank budget financed analyses and advice, as well as IFC advisory services, throughout and after the period of the last CAS. Recent knowledge work such as the WB poverty assessment revealed continued high development needs, and discussions with the authorities and development partners confirmed their demand and broad support for a move toward renewed full IDA engagement to help meet those development needs, including through new IDA financing commitments. Fourth, the WBG and other development partners face critical knowledge gaps in some key development areas—such as energy, forestry/natural resources management, tourism, skills/technical education, decentralization—highlighting the value of CEN as a framework for strengthening knowledge to inform a future comprehensive Cambodia – WBG partnership (see paragraph xvii).

iii. **In 2014, Cambodia and the WBG started a dialogue towards renewed full WBG engagement, and agreed to proceed with the preparation of a CEN as a bridge to a planned subsequent CPF.** In June 2015, the World Bank Group (WBG) carried out consultations with a wide range of stakeholders to exchange views and perceptions on Cambodia’s development opportunities and pressing challenges, and ways to address them in the next two years³. The thematic focus of the discussions during the face to face consultations was around two key areas: (i) sustaining inclusive economic growth; and (ii) addressing

1 Cambodia mobilized about 45% of its IDA 15 allocation, and none of its IDA16 allocation.

2 Cambodia: Inspection Panel Report No. 53744-KH - March 31, 2010, and Bank management response

3 <https://consultations.worldbank.org/consultation/consultations-cambodia>

vulnerability and poverty. The WBG also carried out online consultations through the spring and summer of 2015.

CAMBODIA'S DEVELOPMENT STORY

iv. **Country Context: Political Developments, Peace and Stability.** With a population of 14.1 million, Cambodia enjoys a favorable geographic location in Southeast Asia, a valuable natural resources endowment, and a prominent cultural heritage⁴ including the complex of Angkor Wat. Three decades of war and instability, including the oppressive Khmer Rouge regime (1975-1979) left the country's fragile social, human, institutional, and physical infrastructure devastated. The Cambodian People's Party (CPP) has been in power since 1993 and has focused on achieving peace, security, and stability, as well as the delivery of infrastructure and rapid economic growth. Cambodia's political environment remains highly contested, with an emergence of voices from outside of government, including a vibrant CSO community. In the 2013 national elections, the CPP retained a reduced majority, with 68 out of 123 seats, while the opposition (CNRP) party won 55 seats, compared with 29 seats during the previous legislative period. After contesting the election results and not taking up its seats in parliament for one year, the opposition joined the parliament in August 2014.

v. **Cambodia's economic performance over the past 10 years has been impressive.** The economy grew by 7.8 percent on average per year during 2004-2014 and an estimated 7.0 percent in 2015, ranking among the 15 fastest growing economies in the world. GDP per capita increased more than fourfold over the twenty years since Cambodia emerged from conflict, from US\$253 in 1993 to around US\$1,090 in 2014. An initial peace and stability dividend and subsequently Cambodia's openness to trade were key drivers of the rapid growth. From the early 2000's, policies were enacted towards an export-led economy, particularly for garments/manufacture, tourism, and agriculture. Cambodia became a member of the World Trade Organization in 2004, and has benefitted from the "Everything but Arms" preferential trade access to the European Union since 2001.

vi. **Poverty also declined rapidly, although most formerly poor people remain vulnerable.** In 2004, 52 percent of the population, an estimated 6.6 million people, lived below the national poverty line. By 2012, only 17 percent of the population, or an estimated 2.6 million people, were below the national poverty line of US\$1.25 per day⁵. Cambodia also made progress in boosting shared prosperity. Consumption for the bottom 40 percent of the population grew at an annualized rate of 5.9 percent for the period between 2008 and 2012, compared to a 4.9 percent growth for the total population. The Gini coefficient fell from 32 to 28 during the same period. However, most households that escaped poverty are vulnerable to falling back into poverty. In 2012, it was estimated that a small shock of US\$0.35 per day would cause the national poverty rate to double.

vii. **Progress toward the Cambodia Millennium Development Goals (CMDGs)⁶ has been strong albeit uneven.** Progress has been strong on poverty reduction, primary education, child mortality, and HIV/AIDS, but is lagging in particular on maternal mortality and environmental sustainability. Cambodia's

4 Population, 2011 Cambodia Socio-Economic Survey (CSES), National Institute of Statistics, Ministry of Planning.

5 Efforts to estimate the poverty incidence under the \$1.91 in 2011 PPP for Cambodia have already started under the Cambodia Poverty Measurement TA (P156312) led by the poverty practice and in collaboration with DEC; this task is expected to be completed by end FY17.

6 The RGC adopted the CMDGs which include an expanded list of indicators measuring several elements of each MDG.

Human Development Index (HDI)⁷ improved rapidly by 18 percent over the 2000-2012 period, albeit from a low base. The level of the HDI at 0.58 in 2013 is still well below the East Asia and Pacific region average of 0.70. The government, in collaboration with development partners, is planning to launch the “localization process” of the SDGs, and to establish a monitoring mechanism that is integrated into the overall monitoring framework of the national development plan.

viii. **Gender: Under Cambodia’s Constitution, “men and women have equal rights in participation in political, economic, social and cultural life; equality in marriage and family; and employment and equal pay for the same work”.** Women dominate the labor force in some key sectors of the economy, accounting for 85 percent in the garment industry and 75 percent in agriculture. However, the gender wage gap remains substantial, with women earning around 30 percent less for the same work than men. Fewer than 18 percent of ministerial and secretary of state positions in all government ministries are held by women. At the commune level, women hold fewer than 18 percent of commune councilor positions. The gender gap has closed for primary and secondary education, but remains for higher education. Cambodia’s latest National Gender Strategy (2014-2018) was prepared with technical support from many development partners, including a World Bank report on Gender assessment in agriculture. The gender strategy identifies several key priorities including gender and health, women’s economic empowerment, leadership and decision-making. The planned projects under the CEN will address relevant gender gaps including for instance, in access to land and agriculture, in fishery and natural resources management, and health (see para. 73).

ix. **The economic outlook for Cambodia is projected to remain overall favorable in 2016-17, with some risks to growth.** The Cambodian economy continued its strong growth in 2015, at a rate of 7.0 percent, despite the global slowdown. Economic growth is projected at around 6.9 percent in 2016 and 6.8 percent in 2017. This favorable growth outlook is buttressed by a continued low debt distress rating, as set forth in a joint World Bank – IMF Debt Sustainability Analysis (DSA) concluded in September 2015. Downside risks to the outlook include a potential further appreciation of the US dollar, which could hurt Cambodia’s exports given its highly dollarized economy, a sharper than expected slowing of the Chinese economy, and protracted slow economic growth in Europe and Japan. The Trans-Pacific Partnership may have an impact on trade and investment in Cambodia, which will be important to analyze both to take advantage of opportunities and to manage risks.

x. **Shifting gears: success factors driving further growth and poverty reduction in the future will likely differ from those of the past two decades.** The “Everything-But-Arms” agreement with the European Union has facilitated the development of an export-oriented garment industry; however, new competitors e.g. Myanmar; new regional trade agreements (e.g., the Trans-Pacific Partnership); and increasing domestic wage pressures are emerging. Further trade and income growth and poverty reduction will increasingly depend on strengthened competitiveness and diversification of exports, which in turn will depend on investments in a better trained and skilled workforce, and in energy and infrastructure. The agriculture sector, which has been a key contributor to poverty reduction, is likely to face new challenges to sustain productivity growth, having so far relied largely on the expansion of cultivated areas, a process that has now reached physical and environmental limits. In Cambodia’s fixed exchange-rate regime, with

⁷ The HDI combines 4 indicators: Life Expectancy at birth; Mean years of schooling for adult aged 25 years; Expected years of schooling for children of school entering age; and income per capita.

high dollarization, the recent US dollar appreciation adds to pressures to strengthen external competitiveness.

CAMBODIA’S NATIONAL STRATEGIC DEVELOPMENT PLAN (NSDP) 2014-2018

x. **The new NSDP features “good governance” as a cross cutting theme, and includes four pillars: Agriculture; Physical Infrastructure; Private Sector Development and Employment; and Capacity and Human Resource Development.** It aims to reduce the incidence of poverty by at least one percent a year. The successful implementation of the NSDP will hinge, among other factors, on effective public sector and policy reforms to improve services delivery, including in public finance management, public administration, and decentralization. The Plan recognizes that as Cambodia approaches lower middle income status its access to grant financing will likely decline; thus, Cambodia will need to address the key challenge to improve the mobilization of domestic public revenue, and the efficiency and impact of public sector investment.

CAMBODIA-WBG PARTNERSHIP and LESSONS LEARNED

xii. **Governance issues have been a fundamental constraint to the achievement of development outcomes and the effectiveness of the Bank and other development partners’ financing support.** The last CAS provided support to enhance various dimensions of governance, including on both the supply and demand sides of governance, as well as to strengthen fiduciary aspects in Bank-financed operations. This multi-pronged governance thrust was employed in key thematic areas, including natural resources management, with a particular focus on land, and the nexus of public financial management (PFM), public administration reform (PAR), and decentralization and de-concentration (D&D).

xiii. **Implementation of the 2005-11 WBG CAS.** The 2005 WBG Country Assistance Strategy (CAS), initially covered FY05-08. The 2008 CAS Progress Report concluded that the CAS was still relevant and implementation performance was deemed satisfactory in most areas; the program was extended to FY11. The CAS focused on building and strengthening capacity in institutions and government systems and was structured around two pillars: Pillar 1 – remove the governance constraints to attaining the CMDGs; and Pillar 2 – support formulation and implementation of a government-led strategy and investment program for achieving the CMDGs. IDA commitments totaled just over US\$290 million for 15 investment projects approved during the extended CAS period. The IFC investment financing totaled a cumulative commitment of approximately US\$97 million, with a focus on the financial and infrastructure sectors. The IFC also provided more than US\$17 million of advisory services over FY06-mid FY15 across three main areas: agriculture (cashew and rice), access to finance, and trade and competitiveness. The CAS Completion and Learning Review (CLR) (Annex 3) provides a detailed qualitative review of the implementation of the CAS as well as of WBG assistance in the post-2011 period.

xiv. **Fiduciary issues affected the implementation of the CAS.** In 2006, disbursements were suspended under three IDA-financed projects following cases of mis-procurement. The suspension of disbursements was lifted in 2007, following adoption by the government of a Good Governance Framework (GGF) and the use of an Independent Procurement Agent (IPA) to handle procurement across the Bank portfolio. The IPA helped improve compliance and fiduciary performance, but substituted foreign for local expertise and limited the scope for the strengthening of the government’s own systems. After the phasing out of the IPA in 2013, extensive procurement training supported by the Asian Development Bank (ADB) and the World Bank, helped improve procurement capacity significantly. A large sample of almost 90

percent (in volume terms) of post-IPA procurement transactions managed by government officials in 2014 and 2015 were reviewed by the Bank, and the compliance was satisfactory.

xv. **The Inspection Panel Report on the LMAP project.** A 2010 World Bank Inspection Panel (IP) case on the LMAP project concluded that the eviction of residents in the Boeung Kak Lake (BKL) area of Phnom Penh in early 2009 violated the LMAP Resettlement Policy Framework. The RGC maintained that the LMAP RPF was not applicable and opted to address the resettlement of BKL families without Bank support. The RGC requested cancelation of the remaining IDA commitments under LMAP, and the Bank announced a pause in new IDA financing commitments to Cambodia. Cambodia proceeded to address the issues identified in the Inspection Panel Report on the LMAP project and, through the municipality of Phnom Penh, has been implementing a three-pronged compensation plan, including: (i) provision of land titles to 656 eligible families who have remained in the BKL area; (ii) provision of a flat outside of the BKL area to 498 families; and (iii) cash compensation to about 3,000 families. While implementation of both cash compensation and in-kind (provision of flats) compensation outside the BKL area has been completed, the provision of land titles to BKL residents has been slower than anticipated, but progress has been steady. As of early 2016, there remain 41 families who have yet to receive land titles, of whom 34 families have completed negotiations with the Municipality of Phnom Penh and await provision of land titles, and seven families are still negotiating over location and size of land titles. In addition, the Municipality is formulating livelihood support activities targeting poor communities in the Phnom Penh area, including in and around the area which was the subject of the LMAP Inspection Panel case.

xvi. **Lessons Learned.** First, short-term solutions to institutional constraints, such as the IPA, are not a substitute for long-term institutional building and should be complemented by significant and sustained support for long-term institutional development and capacity building in areas where reform minded champions are willing to engage and for building demand for governance reforms. Second, continued Bank involvement, even in challenging areas e.g. PFM reform, and through policy advice and analytical work, is critical to maintain continued dialogue and support reform efforts. Third, strong staff presence in the Phnom Penh office has been instrumental in facilitating effective and sustained focus on policy dialogue, implementation and quick adjustments to changed circumstances from the ground.

TOWARDS RENEWED FULL WBG ENGAGEMENT

xvii. **CEN Objectives.** The overarching objectives of the CEN are in line with Cambodia's development priorities: (i) support Cambodia's export driven economy in improving its business climate and addressing competitiveness bottlenecks; (ii) improve service delivery to (a) address vulnerability which concerns an increased share of the population, and (b) generate opportunities for the poorest to build assets and develop income earning opportunities; and (iii) deepen the WBG knowledge base, including through a SCD, for the future engagement in Cambodia.

xviii. **CEN Program.** The planned CEN program reflects the results of the in-country consultations and requests by the authorities for WBG investment financing and advisory support. The investment financing envisaged under the CEN is focused significantly on Cambodia's priority areas where the WBG has been active and helping to improve development outcomes. The Bank supported investment program includes seven projects for funding under IDA17, totaling about US\$250 million. All but one of the seven projects draw from the recent WB portfolio of projects—including two projects whose preparation had begun but put on hold due to the pause in new IDA financing, and four projects that directly follow and build on successful recently completed projects in the areas of health, roads, social land, and disaster management. These new projects will complement the Bank's existing portfolio that is exclusively funded through TF,

including on basic education, trade, PFM, Voice and Accountability, and cash transfer pilot. The CEN program also includes a Systematic Country Diagnostics (SCD) and select analytic and advisory services requested by the authorities focused on (i) trade/investment promotion; (ii) macroeconomic/financial sector management, public sector management; (iii) and social infrastructure. IFC plans to continue/expand its engagement through investments and advisory services with projected funding amounts of US\$200 million and US\$10 million, respectively, covering the financial sector; manufacturing, agribusiness and services; infrastructure; and, trade and competitiveness. MIGA stands ready to provide support as demand arises, particularly as part of a WBG approach and with a focus in the finance, manufacturing, agribusiness and services, and infrastructure sectors. New WBG-funded operations will address gender issues; for instance, all four projects presented to the Board along with the CEN include gender-focused results indicators or specific gender action plans to address gender issues identified during project preparation. Also, WBG funded projects will be climate screened, and some projects such as the Road Asset Management Project II, by supporting climate proofing and resilience of roads, and some analytic work such as the planned support for the development of the irrigation master plan, are expected to have a positive climate impact. Other important development areas where there are significant knowledge gaps (e.g. energy, natural resource management, tourism, skills/technical education, and decentralization) will be considered in the upcoming SCD and the planned subsequent CPF.

xix. **The planned WBG engagement program with Cambodia carries high risks.** Notwithstanding recent progress, strong implementation support of the WBG-supported projects, and of the overall CEN program, in a participatory manner together with stakeholders, will be key to managing the Cambodia-WBG relationship. The proposed CEN program is designed to mitigate risks both through portfolio balancing and through specific measures, drawing on lessons learned, to address fiduciary/governance and safeguards risks. The CEN program manages exposure to complex safeguard issues by continuing to offer support for strengthening country systems, as well as by close monitoring of safeguards by project and country teams, including through enhanced implementation support. Moreover, all Bank-funded projects include Good Governance Frameworks, and the RGC's strengthened Standard Operating Procedures (SOPs) for all externally financed projects, including a revised FM and Procurement Manual with detailed procedures, anti-corruption measures, conflict of interest, and disclosure measures. The World Bank's recent reviews of the implementation of the GGFs and SOP show that compliance on procurement, FM and disclosure elements has been strong.

I. INTRODUCTION

1. **This Country Engagement Note (CEN) provides a framework for the partnership between Cambodia and the World Bank Group (WBG) during FY2016-2017.** The CEN caps a long period of rapid economic growth and poverty reduction. The number of poor declined from 6.6 million to 2.6 million between 2004 and 2012. WBG engagement in Cambodia during this last decade started with a comprehensive program of support under the 2005-2008 Country Assistance Strategy (CAS), which was extended to 2011. Implementation of this CAS was assessed in 2008 as satisfactory overall, but encountered numerous fiduciary and governance challenges, which led to the appointment of an Independent Procurement Agent (IPA) to handle procurement until December 2013. Then followed a pause in new IDA financing from 2011⁸—resulting from differences between the Royal Government of Cambodia (RGC) and the World Bank over the findings of the World Bank Inspection Panel on the application of safeguards in the IDA-supported Land Administration and Management Project (LMAP)⁹—while project implementation and analytic and advisory services for Cambodia continued.

2. **During the pause in new IDA financing commitments since 2011, the Bank has maintained an active presence in Cambodia.** The World Bank has continued disbursements under the ongoing IDA-funded portfolio of projects. The Bank also administered a broad range of Trust Funds provided by Cambodia’s development partners and carried out analytical work funded by both trust funds and its own budget. IFC maintained its investment programs and continued to provide advisory services. During this period, the Bank supported Cambodia in addressing governance issues. This has included intensive training and technical assistance on procurement, with positive results, and support under a Bank administered Trust Fund for the set-up of a robust PFM system at the central level. The RGC also proceeded to resolve the issues identified in the Inspection Panel Report on the LMAP project. Through the municipality of Phnom Penh, the government has engaged with affected residents in the Boeung Kak Lake (BKL) area to implement a compensation plan. Implementation of the compensation plan has been slower than anticipated, but progress has been steady (para 56). The municipal authorities have also been formulating an urban masterplan for Phnom Penh to address key determinants of urban poverty. The government is seeking donor support including from the Bank, to implement this masterplan. In light of these developments, by 2015, Cambodia and the WBG agreed on in-country consultations to be carried out toward the preparation of a CEN.

3. **Preparation for a renewed full partnership started in 2015, including broad in-country stakeholder consultations.** In the summer of 2015, the WBG carried out extensive country-wide consultations with public sector, private sector, and civil society stakeholders on Cambodia’s priority development challenges and opportunities, to help inform the preparation of the CEN. Taking into account feedback from the consultations and subsequent discussions with the government, the planned CEN program aims at (i) supporting Cambodia’s export driven economy in improving its business climate and addressing competitiveness bottlenecks; (ii) improving service delivery to address vulnerability and to promote income earning opportunities for the poorest; and (iii) framing WBG engagement beyond the CEN period, through a planned SCD.

⁸ Cambodia mobilized about 45% of its IDA 15 allocation, and none of its IDA16 allocation.

⁹ Cambodia: Inspection Panel Report No. 53744-KH - March 31, 2010, and Bank management response

II. COUNTRY CONTEXT

A. Cambodia's Development Story

Political Development, Peace and Stability

4. With a population of 14.1 million, Cambodia enjoys a favorable geographic location in Southeast Asia, a valuable natural resources endowment, and a prominent cultural heritage¹⁰ including the complex of Angkor Wat. Three decades of war and instability, including the oppressive Khmer Rouge regime (1975-1979), left the country's fragile social, human, institutional, and physical infrastructure devastated. The Cambodian People's Party (CPP) has been in power since 1993 and has focused on achieving peace, security, and stability, as well as the delivery of infrastructure and rapid economic growth. Cambodia's political environment remains highly contested, with an emergence of voices from outside of government, including a vibrant CSO community. In the 2013 national elections, the CPP retained a reduced majority, with 68 out of 123 seats, while the opposition (CNRP) party won 55 seats, compared with 29 seats during the previous legislative period. After contesting the election results and not taking up its seats in parliament for one year, the opposition joined the parliament in August 2014.

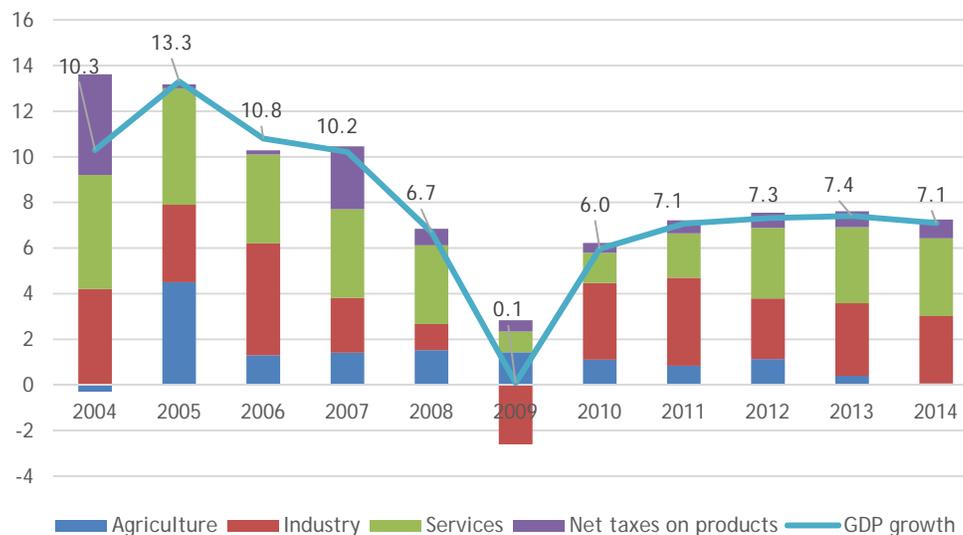
High Economic Growth

5. **Cambodia ranks among the most rapidly growing economies in the world in the last 10-15 years.** The economy grew by an average annual rate of 7.8 percent in 2004-2014, and an estimated 7.0 percent in 2015. GDP per capita increased by more than fourfold in two decades, from US\$253 in 1993 to around US\$1,090 in 2014. The main drivers of growth have been garment manufacturing, agriculture, tourism and, more recently, construction and real state. Economic growth eased in the aftermath of the 2008 global crisis, while remaining strong at 7.2 percent in 2010-2014, on average. Industry has sustained pre-crisis levels, along with an increasing contribution of construction in 2012-2014. Services which suffered the impact of the global crisis mostly in 2009-2011 are showing signs of recovery in 2013 and 2014 (Table 1). The contribution of agriculture to GDP growth has declined, from an average of 1.7 percentage points in 2004-2007 to 0.7 percentage points in 2010-2014.

6. **High economic growth has been facilitated by openness to trade and improvements in the business environment.** Cambodia accessed the ASEAN community in 1999, became a member of the World Trade Organization in 2004, and has continued to benefit from the "Everything but Arms" preferential trade access to the European Union. In a context of rapidly increasing levels of dollarization, the government policy of fixed exchange rate arrangement between the local currency and the US dollar stabilized prices. It maintained macroeconomic stability, thanks to an improved fiscal discipline, and foreign direct investment inflows increased. Pursuing market-oriented policies, the government has improved the business incentives, including through favorable tax incentive policies and the establishment of Special Economic Zones (SEZ). Increasing use of electricity, access to mobile telephony and internet, and financial sector deepening have also been among the growth-enabling factors.

¹⁰ Population, 2011 Cambodia Socio-Economic Survey (CSES), National Institute of Statistics, Ministry of Planning.

Table 1: Contribution to real GDP Growth (in percent)



Source: World Bank staff calculations based on data from Cambodia's National Institute of Statistics.

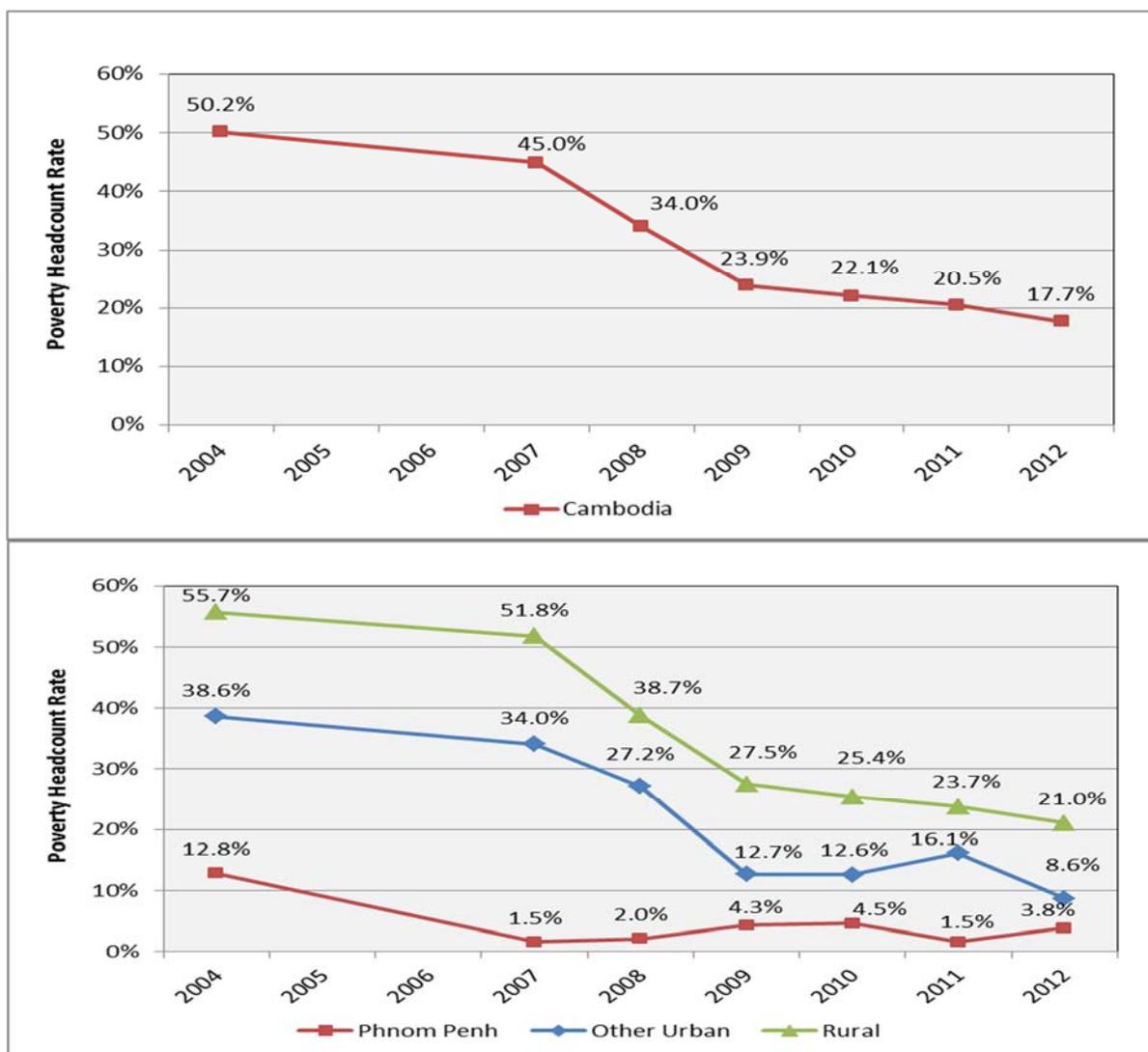
Significant Poverty Reduction and Rapid Human Development

7. **Cambodia's economic growth has moved millions above the poverty line and boosted shared prosperity.** Between 2004 and 2012, the poverty incidence under the national poverty line of US\$1.25 per day¹¹ declined from 50.2 percent to 17.7 percent of the population (Figures 1a and 1b). Consumption for the bottom 40 percent of the population grew at an annualized rate of 5.9 percent for the period between 2008 and 2012, compared to a 4.92 percent growth for the total population. The Gini coefficient fell from 32 to 28 during the same period, a significant change for such a stable indicator. Most of the poverty reduction occurred between 2007 and 2009, when the headcount poverty rate declined by twenty percentage points. The main driver of the reduction was the increase of agricultural incomes, following a significant hike in the price of rice, the main agricultural product of Cambodia. However, the poverty incidence still remains high among rural households, with nine out of ten poor living in rural areas.

8. **While the poverty incidence has declined, vulnerability remains high.** Most households that escaped poverty did so by a small margin, leaving them highly vulnerable to falling back into poverty again; a small reduction in consumption, resulting from a shock, can drag these vulnerable populations back into poverty. In 2012, it was estimated that a negative small shock of US\$0.35 per day would cause the national poverty rate to double. This underscores the fragility of progress made in fighting poverty, given the lack of a comprehensive social protection system against climate (e.g. El Niño phenomenon), price, or macroeconomic shocks. Cambodia's Human Development Index for 2013 (UNDP) of 0.58 still remains well below the East Asia Pacific average of 0.70, and below the medium income countries average of 0.63.

¹¹ Efforts to estimate the poverty incidence under the \$1.91 in 2011 PPP for Cambodia have already started under the Cambodia Poverty Measurement TA (P156312) led by the poverty practice and in collaboration with DEC; this task is expected to be completed by end FY17.

Figures 1: Poverty Headcount Rates Cambodia: 2004-2012



Source: World Bank staff estimation using CSES data

9. **Progress toward the Cambodia Millennium Development Goals¹² (CMDGs) has been strong albeit uneven (Table 2).** The MDG targets have been achieved in most areas, such as poverty reduction, child mortality, and in maternal mortality. The country has made significant progress in combating HIV/AIDS, but the incidence and rate of death from TB remain high. Targets have been nearly achieved in primary education, with near universal enrolment, but progress in areas such as gender equality and environmental sustainability is mixed; and the level of the HDI still remains among the lowest in the sub-region. The government, in collaboration with development partners, is planning to launch the “localization process” of the SDGs, and to establish a monitoring mechanism that is integrated into the overall monitoring framework of the national development plan.

¹² The RGC adopted the CMDGs which include an expanded list of indicators measuring several elements of each MDG.

Table 2: Progress toward the Cambodia Millennium Development Goals

CMDG	Indicators	Baseline		Latest Year		% Change	2015 Target
		Value	Year	Value	Year		
1. Eradicate extreme poverty and hunger							
Reduce extreme poverty by half	Proportion of population living below US\$1.25/day (%)	44.5	1994	17.7	2012	-60	19.5
Reduce hunger by half	Proportion of population below minimum level of dietary energy consumption (%)	32.1	1991	14.2	2015	-56	NA
2. Achieve Universal Primary Education							
Universal Primary Schooling	Net enrolment ratio in primary education (enrollees/100 children)	82	1997	94.1	2015	15	100
3. Promote gender equality and empower women							
Equal girls enrolment in primary school	Ratio of girls to boys in primary education	0.84	1994	0.93	2013	11	1
Women's share of paid employment	Share of women in wage employment in nonagricultural sector	41.1	2000	40.9	2012	0	50
Women's equal representation in national parliaments	proportion of seats held by women in national parliament (single or lower house only)	5.8	1997	20.3	2015	250	NA
4. Reduce child mortality							
Reduce mortality of under 5 year old by two third	Under 5 Mortality rate (deaths of children/1000 births)	117.5	1990	35	2014	-70	65
5. Improve maternal health							
Reduce maternal mortality by three quarters	maternal mortality ratio (maternal deaths/100,000 births)	1200	1990	170	2014	-86	250
Access universal reproductive health	Contraceptive prevalence rate (% of women 15-49, married or in union, using contraception)	12.6	1995	56.3	2014	347	60
	Unmet need for family planning (% of women aged 15-49, married or in union with unmet need for family planning)	33	2000	12.5	2014	-62	NA
6. Combat HIV/AIDS, malaria and other diseases							
Halt and begin to reverse the spread of HIV/AIDS	HIV incidence rate (no. of new HIV infections/year 100 people aged 15-49)	0.08	2001	0.01	2013	-82	0.4
Halt and reverse spread of TB	Incidence rate and death rate associated with TB (no. of new cases/100,000 population)	584	1990	400	2013	-32	NA
	Incidence rate and death rate associated with TB (no. of deaths/100,000 population)	207	1990	58	2014	-72	50
7. Ensure environment sustainability							

Reverse loss of forests	Proportion of land area covered by forest (%)	73.3	1990	57.2	2010	-22	60
Halve proportion without drinking water	Proportion of population using an improved drinking water source (%)	23	1990	76	2015	230	50
Halve proportion without sanitation	Proportion of population using an improved sanitation facility (%)	3	1990	42	2015	1300	30
Improve lives of slum dwellers	Proportion of urban population living in slums (%)	78.9	2005	55.1	2014	-30	NA
8. Develop global partnership for development							
Internet Users	Internet users per 100 inhabitants	0	1990	9	2014		NA
9. Demining							
Annual number of civilian casualties reported due to mines	Annual number of civilian casualties reported due to mines	1691	1993	241	2009		0
ERW contaminated area	Percentage of contaminated area cleared	11	2000	2009	45		100

Sources: United Nations MDG Country Progress Snapshot - Cambodia (August 2015)

(<http://mdgs.un.org/unsd/mdg/Data.aspx>), Annual Progress Report on MDGs, RGC (December 2013), and WHO/UNICEF Joint Monitoring Program-Cambodia (June 2015)

10. **Gender: Under Cambodia’s Constitution, “men and women have equal rights before the law and enjoy equal participation in political, economic, social and cultural life; equality in marriage and family; and employment and equal pay for the same work”.** Women dominate the labor force in some key sectors of the economy, accounting for 85 percent in the garment industry and 75 percent in agriculture. However, the gender wage gap remains substantial, with women earning around 30 percent less for the same work than men. Fewer than 18 percent of ministerial and secretary of state positions in all government ministries are held by women. At the commune level, women hold fewer than 18 percent of commune councilor positions. The gender gap has closed for primary and secondary education, but remains for higher education. Cambodia’s latest National Gender Strategy (2014-2018) was prepared with technical support from many development partners, including a World Bank report on Gender assessment in agriculture. The National Gender Strategy aims at improving women’s access to finance, promoting opportunities for improved technical training and skills, greater access to public services, and social protection. It also aims to increase the number of women in public service.

Recent Macroeconomic Developments

11. **Economic growth remains strong, with garments and construction and real state offsetting the sluggish agriculture.** While remaining strong, growth for 2015 has eased slightly, at 7.0 percent, below 7.1 percent achieved in 2014. The performance of the garment sector improved in 2015, while signs of moderation and weaknesses persist in the tourism and agriculture sectors. Cambodia’s real growth is projected to remain healthy at 6.9 percent in 2016. Increased business and consumer confidence and the anticipation of opportunities arising from the regional integration under the ASEAN Economic Community (AEC) have been fueling a boom in construction and real estate. Inflation edged up to 2.8 percent year on year by end-2015, from 1.2 percent at the end of 2014, driven by rising food prices.

12. **Despite US dollar appreciation, garment exports remain resilient in a context of economic recovery in Europe.** Current account deficit narrowed to an estimate of 10.8 percent of GDP in 2015, compared to 11.9 percent in 2014 in a context of accelerating garment exports, low international oil prices and slowdown in imports. Current account deficit has been financed by large FDI inflows, at around 10 percent of GDP in 2014 and 2015. Gross international reserves further improved in 2015, reaching US\$5.6 billion or 4.5 months of prospective imports, compared to US\$4.6 billion (4.1 months of imports) in 2014. Under the fixed exchange rate regime, the Cambodian Riel versus the US dollar exchange rate has remained stable and stood at CR 4,008 per US dollar in February 2016.

13. **Fiscal performance has been improving as substantial revenue growth and contained expenditures continue to curb the overall fiscal deficit.** While the grant component of government revenues is expected to shrink as Cambodia will be graduating to the lower middle income group, the authorities have been able to strengthen the overall fiscal position by strengthening revenue collection and containing spending. Domestic revenue increased from around 12.4 percent of GDP in 2011 to an estimate of 17.5 percent in 2015, thanks to the implementation of a successful Revenue Mobilization Strategy (RMS). Total revenue collection including grants would have reached an estimate of 19.4 percent of GDP in 2015, while spending would have remained contained at 21.4 percent of GDP, similar to 2014, despite increasing wage spending. Overall government deficit including grants would have risen to about 2 percent of GDP in 2015, compared to 1.3 percent in 2014, due to a decreasing grant component.

14. **Broad money growth continues with the rapid expansion of the banking and financial sector.** Following its expansion which peaked with a growth rate of 29.9 percent in 2014, the growth of broad money primarily driven by foreign currency deposits, decelerated to 14.7 percent at the end of 2015. There has been heightened competition among banks, resulting in a significant drop in the short-term US dollar lending rate since 2012. The interest rate spread has therefore narrowed substantially. Credit to the private sector remained strong in 2015, at 27.0 percent year-on-year, from a 28.4 percent year-on-year increase in 2014. Private sector deposits growth, however, moderated to 16.6 percent by end-2015, compared with 30.6 percent in 2014. The construction and real estate sector has received an increasing share of lending, capturing 20 percent of total domestic credit by October-2015, compared to 16 percent in 2010, but below the peak of 23 percent in 2008.

15. **Enhanced financial inclusion but with significant risks.** Rapidly expanding credit, with particular concentrations in construction and real estate, poses risks, while information deficiencies and a large 'shadow bank' market make it difficult to quantify risks more precisely. As more people shift to formal savings, there is need to build a financial safety net, underpinned by strong prudential supervision, regular information-sharing between Government and regulators, and a back-up arrangement from the Government budget. At the household level, several years of rapidly expanding microfinance and bank credit enabled Cambodia to make quick progress in extending financial services to the poor and to rural areas. The number of people reporting to have a financial account increased six-fold from 2011 to 2014, reaching 23 percent¹³; however, micro-credit

¹³ Source: Last Global Findex Survey of 2014 which is conducted every 3 years.

markets may be over-heating, and several anecdotes suggest rising risks of indebtedness for poor with limited financial literacy, and the need to strengthen financial intermediaries.

16. **Cambodia’s debt distress rating remains low.** A joint 2015 World Bank – IMF Debt Sustainability Analysis (DSA)¹⁴ projected all debt burden indicators to remain below the respective thresholds. Results also indicate that debt sustainability continues to be vulnerable to growth, exports, and fiscal shocks, and to a materialization of contingent liabilities. This calls for continued structural reforms to increase the economy’s resilience against external shocks, and to mobilize fiscal revenues.

Growth Outlook

17. **The economic outlook for Cambodia is projected to remain favorable in 2016-2017, with some downside risks.**¹⁵ With Europe and the United States as the main destinations for Cambodian garment exports, economic growth is expected to remain resilient, at a 6.9 percent rate in 2016. Downside risks to the outlook include a potential further appreciation of the US dollar, which could hurt Cambodia’s exports, slower growth in the US and Europe, a sharper than expected slowed down of the Chinese economy, and the fast expansion of domestic credit. Contrary to other countries, further slowdown in China would mainly affect Cambodia through the foreign direct investment and tourism channels, rather than through trade.

B. Opportunities and Challenges for Sustaining Development Results

Shifting Gears

18. **The factors driving Cambodia’s economic growth in the future will likely differ from those that fueled it in the past two decades.** Trade preferences, large grant funding, cheap labor, and generous fiscal incentives for investors have been among the key growth-enabling factors in the past. Several of these factors are unlikely to be sustained in the medium to long term. This Section discusses key challenges and opportunities for trade, manufacturing, tourism, agriculture, and construction which are likely to remain the main sources of economic growth over the near to medium term.

Trade

19. **Cambodia will benefit from diversifying its export markets and becoming less dependent on trade preferences such as with the E.U.** The “Everything-But-Arms” agreement with the European Union has facilitated the development of an export-oriented garment industry, but new competitors such as Myanmar or new regional trade agreements such as the Trans-Pacific Partnership, are emerging. It will be important for Cambodia to assess implications of the new or upcoming trade agreements, explore new export markets such as Eurasian markets and the Chinese market, and maximize benefits from the establishment of the ASEAN Economic Community (AEC). Addressing key constraints to enhanced competitiveness for exports, and establishing a sustainable incentive framework for investments, both foreign and domestic, to take advantage of the single market and production base under the AEC, will also be important.

¹⁴ “Cambodia - Staff Report for the 2015 Article IV Consultation. Debt Sustainability Analysis”. Supplement 1. SM/15/253. The International Monetary Fund and The World Bank. Washington DC, October 1, 2015.

¹⁵ “Improving Macroeconomic and Financial Resilience”. Cambodia Country Economic Update. The World Bank. Phnom Penh, April 11, 2016.

Manufacturing

20. **The new Industrial Development Policy (IDP).** Cambodia's business environment remains unfavorable¹⁶, although significant progress has been achieved over the last few years from a low base. Attraction of foreign direct investment has largely relied on a very generous tax regime¹⁷. Recognizing that the fiscal cost of existing tax incentives may not be sustainable, the authorities have established the new Industrial Development Policy (IDP) 2015-2025. The IDP and the upcoming revision of the Investment Law set out directions for policy to maintain Cambodia as an attractive investors' destination. The IDP provides a roadmap to boost investment and broaden the manufacturing base. It aims to (i) reduce electricity cost for industry sector and business, (ii) improve transportation and logistics, (iii) increase labor productivity through skill training along with levels of minimum wage that take into account key parameters such as productivity, cost of living, and export competitiveness, and (iv) develop special economic zones.

Tourism

21. **The tourism sector in Cambodia has been affected by security concerns within the sub-region.** While international tourism receipts have grown in all regions of the world, the growth of tourism in Cambodia has started to ease since 2014, after experiencing double-digit growth since 2010. Growth of tourist arrivals was 6.1 percent in 2015 (reaching 4.8 million visitors) down from 6.9 percent in 2014. An integrated strategy involving all levels of government, local communities, the private sector and Cambodia's neighbors can help strengthen tourism prospects. Recent initiatives with Thailand include a "Two Kingdoms-One Destination" campaign, along with newly established direct flights to relevant countries. Coordinating these strategies with basic infrastructure, especially road links, will be critical.

Agriculture

22. **Cambodia's agricultural GDP grew by an exceptional 5.3 percent per year on average during 2004-2012, among the highest agricultural growth rates in the world, driven by rising agricultural commodity prices and open market policies.** Unlike many other exporting countries such as Vietnam and India that proceeded with export restrictions during the 2008 global food price spike, Cambodia favored the transmission of the global food price spike into the domestic market thus making investments in agriculture and farmland expansion more profitable. In addition, the rice subsector benefited from improved access to overseas markets notably in the E.U.'s "Everything but Arms Agreement", but also through an open cross-border trade with neighbors for both paddy and rice.

23. **With global food prices having been declining and the land frontier diminishing, Cambodian agriculture is losing its two major growth drivers.** The economics of Cambodian agriculture still remain favorable¹⁸ but the recent slowdown in agricultural GDP growth (to 1.6 percent in 2013 and 1.0 percent in 2014) may signal a potential longer-term decline of agricultural growth. With global food prices gradually declining and the global rice market becoming more competitive with the reentry of Thailand and Myanmar, rice production in Cambodia –the main cropping activity- appears to be stalling. Expansion of agricultural lands which contributed over

¹⁶ Cambodia's ranking in the 2015 Doing Business is a low 127th out of 189 countries.

¹⁷ This includes a 9-year tax holiday, and reduced corporate income tax, among others.

¹⁸ Domestic Resource Cost analyses show that despite rising labor costs and prices of farm inputs, the agriculture value added from most crops exceeds the costs of domestic factors of production (land, labor, and capital).

half of the growth in 2004-2012 is reaching its sustainable limit, while agricultural labor is becoming scarcer (owing to out migration and competition from garment manufacture¹⁹) and thus more expensive.

24. **Further increases in farm productivity and enhanced overall competitiveness are critical to sustaining high growth in agriculture.** On the policy front, a continuing private sector friendly business environment will be essential, including less burdensome regulations on the supply of farm inputs (including from imports), especially of seeds and fertilizer. Much remains to be done to enhance the design and implementation of public investment programs. Areas with high potential impact include (i) irrigation; (ii) the development of agribusiness; and (iii) the integration of small farms with the agribusiness industry and into modern food value chains.

Construction and Real Estate

25. **Over the last few years, construction has been the most dynamic engine of growth but associated risks need to be managed.** Growth in the real estate sector was 9.9 percent in 2013, 25.9 percent in 2014, and 12 percent in 2015, largely financed by foreign direct investment, and focused on modern high-rise residential and commercial buildings in Phnom Penh. Risks associated with the construction and real estate boom are increasing. Urban land and housing prices rose and credit expanded rapidly. A recent effort to improve coordination between public institutions regulating the banking sector, the construction sector and urbanization, and the real estate service sector with collaboration by major construction firms and real estate developers is a welcome first step.

Cross Cutting Areas

26. **Financial sector: stability in the rapidly expanding banking sector is crucial.** Improved supervisory capacity and the establishment of a crisis management framework, supported by strengthened accounting and auditing practices with close inter-agency coordination, are necessary to strengthen resilience against external volatility and to avoid a potential construction and real estate sector bubble. The World Bank has engaged with the government towards the improvement of banking supervision by helping to establish: (i) a framework for policy formulation on financial stability; (ii) a framework for crisis management; and (iii) an appropriate level of systemic protection (or public safety net). Results are encouraging, and the government has requested further support from the Bank to consolidate achievements to date. In close collaboration with the Bank, the IFC will continue engaging with financial institutions in the areas of (i) credit infrastructure, especially credit information and movable financing; (ii) digital and mobile financial services; (iii) strengthening both bank and non-bank sectors such as capital market and insurance services; and (iv) developing financial education for financial access to improve integrated financial literacy and financial consumer protection in the formal education.

27. **Transport Connectivity and Logistics: Transport infrastructure is one of the Pillars of Cambodia's current development plan.** Although Cambodia has achieved remarkable progress in the Logistics Performance Index (LPI)²⁰ thanks to important progress on trade facilitation (See Box 1), it still faces major transport inefficiencies owing to a lack of a coherent transport connectivity plan, and a cost effective infrastructure maintenance strategy. The government has engaged with several donors to prepare and implement a connectivity master plan. The IFC has

¹⁹ About half a million unskilled workers, mostly from rural areas, are currently employed in the garment sector.

²⁰ Cambodia improved its ranking in the LPI from 129th to 83rd out 160 countries between 2010 and 2015.

supported infrastructure development in Cambodia, including as an investor of the international airports at Phnom Penh and Siem Reap. It will explore opportunities to address the missing links between railway and port quays by bringing to bear its experience in airport project in Cambodia, and PPP approach in the region.

Box 1: Trade and Competitiveness

In 2009, Cambodia was seeking to implement trade reforms that would bring it into conformity with the commitments and obligations it had made upon joining the World Trade Organization five years earlier. Customs procedures were complex, opaque and slow and Cambodia was struggling to integrate into the regional value chains that stretched from China to Malaysia.

To increase its regional integration through implementation of border reforms and formulation of new legislation, the Royal Government of Cambodia and development partners agreed on a technical assistance program, the Trade Development Support Program (TDSP), supported by a Bank-administered multi-donor TF. Under the TDSP, Government agencies and officials crafted proposals for projects that would create reforms to trade and competitiveness, using TDSP funding resources.

The results have been impressive. Cross border procedures have been fully automated, the time and costs of starting a new business have decreased, sanitary and phyto -sanitary standards have improved, and foreign investment has become more diversified, particularly in the special economic zones, where textile industries have given way to more sophisticated light manufacturing industries, with an impact on the value and diversity of Cambodia's exports, leading to Cambodia's better integration into regional value chains.

Light manufacturers, for example, are integrating their production facilities across borders to link factories in Thailand, Cambodia and Vietnam. An increasing trend is for initial production to take place in Thailand or Malaysia, final assembly to take place in Cambodia, and shipping of final goods from Vietnam in a process known as 'Factory Asia.' Transparent and efficient cross border procedures have allowed this seamless disaggregation of production to take place across national boundaries.

28. The legacy of the government's focus on building the maximum number of roads in the shortest period of time, following the Cambodia's conflict period, has generated massive needs for maintenance. Although the government's greater focus on road asset management and optimization of expenditure has led to a steady improvement in the quality of roads over the past decade, funding remains scarce and the need for cost-effective management and maintenance continues to grow. A planned Bank-funded follow-on project to the recently completed Road Asset Management Project (RAMP) is expected to implement an expanded pilot to test the efficacy of performance based contracting (PBC) for road maintenance. If the PBC prove to be cost effective, the government intends to scale it up to about 40 percent of all outsourced maintenance contracts, leading to a steady flow of work for private contractors and domestic employment opportunities.

29. Electricity: the electricity access rate in Cambodia is among the lowest in East Asia, and the high cost of electricity is among the top constraints to private sector development. Cambodia recently made remarkable improvement on electricity access from 24 percent in 2012 to 55 percent in 2015 following a 140 percent increase in supply capacity from 825MW to 1,986MW during the period, of which 21 percent are supplied from neighboring countries. However, more efforts are needed as even where electric power is available, it is unreliable. Blackouts are common. Furthermore, the poor are hardest hit, as rural customers

generally pay higher tariffs (often five times higher) than their urban counterparts. Further expansion of electricity capacity and coverage, including from renewable sources such as solar, requires significant capital investments, along with a policy and regulatory framework conducive to improved efficiency. The Government is committed to encouraging private sector participation in generation and distribution and expanding the national transmission grid. This is a potential engagement area during the CEN for the IFC to help identify regional power/energy opportunities which could help meet the Government's objective of lower energy cost, and access by all villages by 2020.

C. Containing Risks to Vulnerable Populations while Further Reducing Poverty.

Governance and Public Service Delivery

30. **Cambodian citizens are demanding more equitable and effective access to basic public services and income earning opportunities.** Poverty reduction in Cambodia has been impressive but remains fragile, with about two thirds of the population currently either still poor or vulnerable/near poor. Cambodia faces a critical double challenge of both continuing to increase public revenues and ensuring their effective and efficient use for programs that benefit all Cambodians and especially the poor. Access to grant funding for development assistance has gradually declined, as Cambodia is reaching lower middle income status²¹. Thus, increased domestic revenue mobilization will be critical to help ensure adequate level of public investments. Addressing constraints to improved delivery of public services will also be important. Still weak governance and institutional development, compounding Cambodia's post-conflict legacy, and capacity constraints in many sectors have long been recognized as important bottlenecks. Since 2014, the government has endeavored to address this challenge, recognizing the importance of reforms in Public Finance Management (PFM), Public Administration (PAR), and Decentralization and De-concentration (D&D) in an integrated manner for achieving improved delivery of service.

31. **Building on progress to date, much remains to be done to improve governance for effective delivery of basic services.** Priority actions include: (i) expand system functionality of the FMIS (FMIS Phase II) to line ministries and sub-national levels of government which would realize the full benefit of the system; (ii) implement the national PAR 2015-2018 in the areas of performance management and pay, particularly in key social sectors, to support improvements in service delivery; (iii) review options for fiscal decentralization under the National Program for Subnational Democratic Development; (iv) pursue the implementation of the RGC's Revenue Mobilization Strategy; and (v) assess the impact on service delivery of social accountability initiatives²². The following discusses priority issues in key thematic areas that are critical to addressing vulnerability and poverty, including social services, Climate change/Disaster management, rural infrastructure, social protection, and livelihood support for remaining poor.

21 During 2005-2010, the average grant component of total ODA for Cambodia was 75%; during 2012-14, it reduced to an average of 59%.

22 The government adopted the Strategic Plan on Social Accountability for Sub-National Democratic Development in 2013. It includes tasks by service providers e.g. communes, health centers and schools, and civil society (facilitated by NGOs) to increase public knowledge of government spending and service provider performance, and engage citizens in dialogue with government to enhance the quality of service delivery. The 3-year, Implementation Plan for the Social Accountability Framework (I-SAF) is currently being financed by a group of donors including the Bank.

Social Services

32. **Education: Cambodia has improved education access, but sustained efforts will be key to improving outcomes.** Early Grade Reading tests in school year 2014-2015 showed that only 49 percent of Grade 3 children read at the national standard, while the measure at 6th grade remains largely unchanged at just 50 percent. Since 2012, there appears to be a new momentum toward improving education outcomes. With the support of key development partners (including JICA, ADB, EU, UNICEF, NGO and the World Bank), together with a Bank-administered Multi-donor Trust Fund from the Global Partnership for Education (GPE), the Government is moving forward with a Results Based approach to strengthen financial management in the sector and to support teacher training. To complement the ongoing GPE-funded basic education project, the government has requested IDA funding to improve outcomes in lower secondary education. The education budget significantly increased to 17.1 percent of the national budget in 2015 (16.2% in 2014). National Assessment System (NAS) has been institutionalized, and its results are used to inform policy planning.

33. **Health: the health system is entering a period of consolidation and strengthening.** Considerable progress has been made in the past seven years (2008-2015) on both improved health outcomes and strengthening of the health system. The national health budget has more than doubled in real terms since 2007, but there remains much room to improve the efficiency of, and outcomes generated by, that spending. Inequities persist across health outcomes: in 2014, child mortality was 76 deaths per 1,000 live births for the poorest quintile compared to 19 in the wealthiest. Child malnutrition remains high and in 2014, 32 percent of children under five, approximately 500,000 children, were stunted. Sixty percent of total health spending is out of pocket, which is one the highest rates in the region. Health equity funds (HEFs) have reached national coverage since 2015 covering approximately 3 million people, yet approximately 6.3 percent of the population experience catastrophic spending²³ and 3.1 percent incur debt to pay health expenditures. The impact is even greater for the elderly and disabled for whom 8.6 percent and 13.4 percent incur catastrophic spending respectively. Over the past year, the government has worked closely with donors to prepare the Third Health Strategic Plan (2016-2020) – HSP3. The Ministry of Economy and Finance has also promoted improvements in efficiency and quality of health services and the increased use of RGC PFM systems. Australia, Korea, Germany, and the United States intend to contribute to a World Bank-administered Multi-donor Trust Fund that will support a new, five year, Health Equity and Quality Improvement Project (H-EQIP).

Climate Change and Disaster Risk Management

34. **The RGC (NSDP 2014-2018) has set out an extensive set of actions relating to disaster preparedness and coordination measures, and has sought support from the Bank.** A preliminary financial risk assessment for Cambodia, conducted by the World Bank, estimated expected annual economic losses of US\$74.2 million a year due to natural disasters, or the equivalent of 0.7 percent of the country's GDP. The World Bank supported an emergency recovery loan in FY11 informed by a post disaster needs assessment carried out by the Bank following the devastating Typhoon, *Ketsana*, in 2009. The project financed rehabilitation of rural infrastructure including roads, water and sanitation facilities. A Bank-funded follow up to this project will place emphasis on strengthening the resilience of roads and other rural infrastructure. The project will build on the achievements in disaster risk management (DRM) coordination and information

²³ Catastrophic health spending refers to a share of health expenditures exceeding 40 percent of total non-food expenditures of a household.

systems that were supported under the previous project. In addition, opportunities to strengthen the financial resilience of the government, through the development of a disaster risk fund, will also be explored.

Rural Infrastructure

35. **Rural Roads: Cambodia’s 40,000 km of rural road infrastructure provides important links among the country’s predominantly rural populations.** However, many of these roads are regularly submerged by flood waters cutting off communities, reducing economic activity and incurring significant repair costs to the government. Flooding in 2011 and 2013 damaged 4,470 km and 1,557 km of rural roads with costs of US\$111 million and US\$44 million, respectively. Similar flood impacts were recorded in 2014. The Government has requested Bank funding support for a project, as a follow on to the *Ketsana* emergency project, to rehabilitate and strengthen the resilience of rural infrastructure to future flood events.

36. **Water and Sanitation in Rural Areas: Cambodia’s access to water supply and sanitation remains below its regional peers, and the poor are most affected.** Only 21 percent and 42 percent of people enjoy piped water supply and improved sanitation, respectively²⁴. Among rural households, 1 in 25 of the poorest quintile enjoy piped water, and 8 in 10 are defecating in the open²⁵. Access to WASH facilities in schools is reported to be 58 percent, hampering girls’ school attendance. Poor water, sanitation and hygiene contributes to the high stunting rates in Cambodia of 33 percent²⁶. The Government, in coordination with Cambodia’s development partners, has developed a National Action Plan, to address the shortcomings in WASH service delivery in rural areas, and its integration with nutrition and social protection strategies and programs. The upcoming decentralization for rural sanitation and O&M of rural water supply facilities, is expected to build better accountability for WASH services, while leveraging commune and district financial and human resources. The private sector also has a critical role to play to further the expansion of piped service provision in rural growth centers, provided an adequate regulatory environment is established. In response to government’s request, technical assistance from the World Bank/WSP will be provided to help implement this agenda.

Social Protection

37. **The RGC has formulated a National Social Protection Strategy (NSPS) but has yet to build a comprehensive and operational social protection system.** Parallel initiatives, with funding support from donors include fee waivers for health services for the poor (Health Equity Funds), scholarships for poor children in lower secondary schools, food distribution, and modest welfare payments for some vulnerable groups (elderly, orphans, veterans etc.). In close collaboration with development partners, the government has launched three pilots operations: i) a maternal health and child nutrition cash transfer, funded by a TF from DFAT and administered by the World Bank; ii) a public works to promote Productive Assets and Livelihood, supported by World Food Program, and iii) a Single Window Services with support from the International Labor Organization. Under the ongoing maternal health and child nutrition cash transfer, the Bank will carry out an extensive impact evaluation with the view to help inform the operationalization of cost effective Social Protection delivery systems in Cambodia.

24 WHO/UNICEF Joint Monitoring Program, Progress on Water and Sanitation – Update 2015

25 Cambodia Socio-Economic Survey, 2013.

26 Demographic health Survey, 2014

Community Fishery, Social Land Concessions, and Income Opportunities for the Poor

38. **Fisheries, including inland fisheries, is an important contributor to Cambodia’s economy and to poverty reduction.** The sector benefits about thirty percent of the population; freshwater fish and aquatic animals from the Mekong contribute more than two thirds of the total protein intake for the Cambodian population. In 2012, the government revoked the concession of the inland fisheries licenses to the private sector and has been promoting, through the Fishery administration, community fisheries management with the establishment of community-based fisheries management organizations. However, inland fishery resources are threatened by basin development activities including hydropower dam construction, overexploitation arising from ineffective management and lack of alternative livelihoods; critical fish habitat degradation; and climate change. Cambodia lacks an effective fisheries management regime, including adequate monitoring, analysis, and management of its fishery stocks. The Government has sought investment funding from the World Bank, under the regional Mekong Integrated Water Resources Management program, to help sustain livelihoods of communities involved in fishery activities.

39. **Social Land Concession (SLC)** – The RGC’s SLC program aims at providing land tenure security to landless farmers to improve their livelihoods and food security. The Bank-funded Land Allocation of Social and Economic Development (LASED) project has successfully tested and established transparent and equitable procedures for distributing private state land to land-poor and landless beneficiaries. Important lessons learned under the LASED project include the importance of appropriate technical services e.g. extension delivery systems tailored to different agro-ecological conditions, to sustain the settlement of beneficiaries. The Government has requested a follow on project to address this sustainability issue.

40. **Livelihood Enhancement and Association of the Poor (LEAP)** – Lack of basic economic assets and income earning opportunities mean that most remaining poor will have difficulties moving up the economic ladder. Building and leveraging social capital has been tested by a Bank-funded pilot as a potentially effective means to address this need of the poor. The pilot successfully facilitated the establishment of self-help groups and their development to savings and credit groups. The RGC also intends to pilot test this model as a possible instrument to help implement the poverty reduction component of the Phnom Penh master plan. The RGC has requested Bank support to consolidate and scale up the LEAP’s early results.

III. GOVERNANCE, WBG CAMBODIA PARTNERSHIP, AND LESSONS LEARNED

A. Governance in Cambodia

41. **Since Cambodia emerged from conflict two decades ago, political stability and reduction of violence are significant governance achievements.** For several dimensions of governance represented in the Worldwide Governance Indicators (WGI)²⁷ such as voice and accountability and regulatory quality, Cambodia’s ranking is on par or above other countries at similar levels of development. However, for other critical dimensions of governance, notably government effectiveness, the picture is mixed and performance in some important aspects, such as public administration, is below par. Thus, overall, governance challenges and risks remain high.

27 The WGI framework defines governance as: “the traditions and institutions by which authority in a country is exercised. This includes (a) the process by which governments are selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them.” These three aspects are each measured by two WGI dimensions.

42. **Governance issues have constrained further improvements in development outcomes and the effectiveness of support from the Bank and other development partners.** The last CAS provided support to strengthen governance, on both the supply and demand side, as well as fiduciary aspects in Bank-financed operations. This broad governance thrust was employed in key thematic areas, including natural resources management, with a particular focus on land, and the nexus of public financial management (PFM), public administration reform (PAR), and decentralization and de-concentration (D&D).

Public Financial Management, Public Administrative Reform, and Decentralization & De-concentration

43. **In 2005, Cambodia’s PFM systems faced key challenges.** These included, *inter alia*, low revenue generation capacity leading to significant payment arrears and debt stress, cash-based payments creating inefficiencies and corruption risks, and slow budget execution and delayed financial reporting. The RGC initiated a multi-year PFM Reform Program (PFMRP) with a sequential focus on: (i) reliability and predictability of budget, (ii) accountable expenditure; (iii) affordable and prioritized policy linked to budget, and (iv) accountability for results. The Bank, with multidonor trust funds, has supported the PFMRP through the Public Financial Management and Accountability Project (2006-2013) and the Public Financial Management Modernization Project (2013-2017). The PFMRP has made substantial progress in strengthening the PFM systems at the central level (see Box 2).

Box 2: Addressing Governance and Anti-Corruption in Cambodia – The PFMRP

The RGC’s Public Financial Management Reform Program (PFMRP) highlights successes and challenges in addressing governance bottlenecks. On the positive side, the RGC leadership for this program has enabled a shift since 2005 from piecemeal efforts to a government-led, medium-term, phased program. Among the first achievements have been the consolidation of banking arrangements and the increasing use of the banking system for transactions (from very few prior to 2005 to nearly 100 percent of customs and treasury operations in 2014). Important improvements in domestic revenue generation and cash management have contributed to RGC’s track record in macroeconomic stability (which has been tested by the global crises). Although still low by international standards, total domestic revenues have increased from 11.3 percent of GDP in 2006 to 13 percent in 2010, is estimated to have reached over 19 percent in 2015. Internal Audit function has been established and continued to be strengthened in 35 ministries and State Owned Enterprises (EAP report 2015). Many audit reports have been produced over the years and their quality has improved over time with better records of follow-up activities of previous audit recommendations. A computerized custom system now covers 54 custom offices, which account for 99 percent of custom procedures. Basic functionality of a Financial Management Information System (FMIS) is currently operational at the Ministry of Economy and Finance (MEF), supporting day-to-day operations of participating departments. Some of these elements have reduced fiduciary risks for both government and donor funds as documented in the PEFA assessments (2010 assessment and preliminary findings of the 2015 assessment).

Lessons from this and other reform programs include that (i) sequencing and prioritization enables incremental and credible progress given the complexity of the changes and the limited capacity; (ii) flexibility, continuity and long-term commitment to reforms is critical as the pace of reform is “negotiated” and must allow policy-makers to maintain or develop the necessary consensus; and (iii) rigorous collection of evidence on the impact of these reforms is important to maintain support and learn from experience.

44. **The quality and effectiveness of public administration remains a key challenge, with limited progress during most of the previous CAS period.** In 2005, Cambodia’s civil service suffered from the absence of an effective incentive and performance management systems. Civil service pay levels, were low in relation to the cost of living and in comparison to external wage levels, while civil service employees usually waited two to three months to receive their salaries. Patronage networks in which resources were shared created an unofficial line of accountability. Furthermore, tools for human resource management were deficient. Starting in 2013, PAR has moved forward with the development and initial implementation of the National Program for Public Administration Reform (NPAR, 2015-2018). Incentives for civil servants have been improved to a certain degree, through restructuring of civil service salary scales and location-based allowances to encourage remote postings. Also, salary payments for civil servants are now timely and made through the banking system, with automatic tax withholding. And, a new performance management system has been introduced, although internal management capacity remains modest.

45. **Since the early 2000s, the RGC has pursued sub-national democratic development (SNDD) as a central plank for improved governance in Cambodia.** The RGC’s ‘Rectangular Strategy’ (2004) featured D&D (Decentralization & De-concentration) as crucial to strengthening governance. The government elaborated a Strategic Framework for Decentralization & De-concentration Reform in 2005 which set out reforms for the election of district, provincial, and commune councils and the creation of unified sub-national administrations to support these councils. The last WBG CAS included support for developing and strengthening institutions and processes of local governance. Bank support included a two-pronged approach. On the “supply side”, the Rural Investment and Local Governance Project (RILGP) provided investment and technical support to the budgetary and administrative framework of the new Commune Councils. Support on the “demand side” of governance included interventions to enable civil society to hold public officials accountable for the performance of their duties.

The Challenge of Addressing Fiduciary Risks

46. **Two World Bank reviews undertaken in the early 2000s, a Country Financial Accountability Assessment (2003) and a Country Procurement Assessment Review (2004), identified numerous fiduciary risks.** These included: centralized nature of the public expenditure management system; weak financial management practices; weak control over soft expenditures²⁸; inadequacies in the public accounting system; fragmented and inadequate procurement legal framework; limited procurement oversight; capacity weakness in internal and external audit quality as well as procurement; and high turnover of trained counterpart staff resulting in the continued need for consultant support for the majority of projects.

47. **At the start of the last CAS the World Bank and RGC engaged collaboratively in a broad agenda to strengthen governance.** In 2004–2005, the Bank undertook a Fiduciary Review (FR) jointly with the RGC and with the involvement of the Bank’s Department of Institutional Integrity (INT). The FR, as part of the Bank’s overall strategy to strengthen governance as well as its implementation support and fiduciary oversight, was designed to be a proactive instrument to assess and improve the effectiveness of fiduciary controls. For the four projects RGC identified for assessment, the FR confirmed that works, goods and services had been delivered and had

28 Soft expenditures refer to expenditures for items that by their nature are consumed when used and are therefore challenging to verify *ex post*. Examples of such expenditures include incremental operating cost (stationery, fuel, office expenses, and minor repairs) and workshop related costs.

contributed to the achievement of the projects' development objectives; but it also highlighted several weaknesses. The Bank and the RGC agreed to develop and implement measures to address the main issues identified, for broad application in the IDA-funded portfolio, including adopting Good Governance Frameworks (GGFs); revising and strengthening control in the Standard Operating Procedures (SOPs) for all externally financed projects; and training relevant staff in their use.

48. **Despite the promising early engagement, the subsequent handling of high profile, fiduciary issues strained Bank-RGC relations.** INT conducted a broader independent investigation and uncovered evidence of corruption, collusion and fraudulent practices on contracts in four ongoing Bank-financed projects. The Bank declared mis-procurement and suspended disbursements for three projects. The suspension of disbursements was lifted after RGC undertook the measures previously agreed on the basis of the FR, and an Independent Procurement Agent (IPA) was put in place for most procurement under IDA-funded projects.

49. **The RGC has taken steps to improve the enabling environment and procedures for procurement and public financial management.** A Public Procurement Law was enacted in January 2012, including provisions to combat fraud and corruption, complaints handling and code of ethics for Government staff. In May 2012, the RGC adopted stronger Standard Operating Procedures (SOPs) including a revised FM and Procurement Manual with detailed procedures, anti-corruption measures, conflict of interest, and disclosure measures. The World Bank's review of the implementation of SOPs shows that compliance on procurement, FM and disclosure elements has been high. The GGF implementation reviews during each project supervision mission have indicated that the compliance with the procurement, financial management and disclosure elements was generally high across all projects.

50. **The IPA helped improve compliance and fiduciary performance, but substituted foreign for local expertise and limited the scope for the strengthening of the government's own systems.** The IPA was phased out in November 2013, and this was followed by intensive capacity building on procurement. Since January 2014, intensive training by World Bank staff, ADB, and consultants have led to notable improvement in procurement performance. Intensive prior review of lower value contracts has been adopted to address risk and identify priority needs for capacity building. Since the IPA phase out, Bank financed procurement transactions amounting to US\$38 million have been carried out, and 89 percent of these transactions were prior reviewed by the Bank and the compliance level was satisfactory. Internal audit functions have also improved, with the establishment of Internal Audit Departments in 35 Ministries and State Owned Enterprises. Cambodia has also improved its accounting practices, adopted IPSAS cash basis for its public accounting, improved its cash management processes, introduced treasury single accounts, developed a modern and comprehensive chart of accounts. The RGC introduced Financial Management Information Systems (FMIS) and is also implementing Stage 2 of the PFM Reform Program which provides the backbone for core functions of increased financial accountability, improved internal controls, and greater transparency.

Land Issues in Cambodia and the Boeung Kak Lake (BKL)

51. **When Cambodia emerged from conflict, the land sector was considered one of the most challenging in the world, and significant challenges remain.** Massive internal displacement took place during the years of conflict while most land records including cadastral maps and title registers had been destroyed. Land grabbing emerged and resulted in numerous land disputes while there was little government capacity to manage and administer the land sector.

Although a small percentage of land had been distributed by the government to households in 1988 and to returnees from refugee camps in 1991, most people occupied and used land that was State Land.

52. In 2002, the IDA-financed Cambodia Land Management and Administration Project (LMAP) was approved, with the goal of supporting the first phase of the RGC's long-term plan to build a modern land management sector. The project helped establish a modern land administration system which resulted in the registering and titling of more than 1 million parcels of land. It also helped put in place key elements of the policy and regulatory framework. A key component of LMAP was the land titling program, which focused on systematic titling of entire “adjudication areas”. The Sras Chok Sangkat, near the center of Phnom Penh, was declared an adjudication area under the LMAP in May 2006. The commune included the Boeung Kak Lake (BKL) and its shoreline where, according to government census data, 4,250 families were resident. However, the BKL and its shores were recorded as a single block, with the owner listed as ‘unknown’.

53. The municipality of Phnom Penh signed a lease for the BKL area for 99 years in February 2007. In August 2008, the Government issued a Sub-Decree to convert the areas from State Public Land to State Private Land. BKL residents were told that they had to relocate and could accept one of three compensation / resettlement options offered by the private developer: land titles for eligible families in the BKL areas; a flat outside the BKL area; and cash compensation (see para 55 below).

54. In March-April 2009, a World Bank mission concluded that since the Sras Chok adjudication area was an area where LMAP was undertaking systematic land titling, the project Resettlement Policy Framework (RPF) should apply. Subsequently, while the RGC maintained that the LMAP RPF was not applicable, an IP Investigation Report on LMAP found that the evictions violated the LMAP RPF. The RGC opted to address the resettlement of BKL families without Bank support and requested cancelation of the remaining IDA commitments under LMAP, and the Bank decided to pause new IDA financing commitments to Cambodia²⁹.

55. The RGC has been addressing the issues of resettlement in the BKL areas. Through the municipality of Phnom Penh, the government has engaged with BKL residents to implement a three-pronged compensation plan including: (i) provision of land titles to 656 eligible families who have remained in the BKL area; (ii) provision of a flat outside of the BKL area to 498 families; and (iii) cash compensation to about 3,000 families. Following completion of both cash compensation and in-kind (provision of flats) compensation outside the BKL area, the provision of land titles to BKL residents has been slower than anticipated but progress has been steady. As of early 2016, while some protests continue, there remain 41 families who have yet to receive land titles, of whom 34 families have completed negotiations with the Municipality of Phnom Penh and await provision of land titles, and seven families are still negotiating over location and size of land titles.

56. In 2008, the IDA-financed Cambodia Land Allocation for Social and Economic Development (LASED) project was approved. Its goal has been to support the development and testing of procedures for allocation of State Private Land for Social Land Concessions (SLC) to the poor and landless. Participants in SLCs after 5 years become eligible to apply through normal

²⁹ For further background, see also the CAS CLR in Annex 3.

procedures for full individual private ownership. The LASED Project achieved significant development results. It developed procedures for the identification and distribution of SLCs which are now employed in the RGC SLC program, as well as directly funded the identification and distribution of more than 14,127 ha of Social Land Concessions to 4,697 poor and landless families.

B. Cambodia – WBG Partnership: implementation experience

Implementation of the CAS

57. **The FY05-11 WBG CAS aimed to build and strengthen capacity in institutions and government systems.** The CAS covered 6 thematic areas: (i) promotion of PSD for poverty reduction; (ii) improvement of natural resource management (NRM); (iii) improvement of service delivery, PFM and civil service performance; (iv) promotion of decentralization and civic engagement; (v) support to achieve the Cambodia MDG (CMDG); and (vi) support to underfunded sectors critical to the CMDG. IDA project financing was US\$292.3 million for 14 investment projects and one development policy operation; IFC investment financing totaled a cumulative commitment amount of about US\$97 million during the 2005-2011 period, focusing on financial and infrastructure sectors. In addition, the Bank carried out 67 AAA tasks and IFC provided advisory services for about US\$23 million to both the RGC and private sector clients, covering access to finance, regulatory and legal framework, and private sector support activities.

58. **The CAS emphasized partnerships around sector programs, and the Bank established multi-donor TFs in key areas.** The Bank played a key role among donors in policy dialogue, and leveraged US\$181 million (as of Q1 FY16) of TF from other donors. The CAS Progress report was prepared in 2008 jointly with the Asian Development Bank (ADB), the United Kingdom's Department for International Development (DFID), and the United Nations (UN), and concluded that the CAS was still appropriate and the program was extended to FY11. Notwithstanding the slower-than-expected progress, achievements under the CAS were significant. A qualitative review of achievements under the CAS, as well as the post-CAS period, is presented in the CAS CLR in Annex 3.

59. **Following the pause in new IDA commitments for Cambodia in 2011, the WBG adjusted its program to focus on project implementation and delivery of analytical services.** Fewer operations were approved compared with what had been anticipated in the CAS. Only US\$93 million were committed under IDA15 compared to an indicative envelope of about US\$260 million, and no IDA16 resources were committed. World Bank Group advice, technical assistance and the implementation of IFC financed, trust funded and ongoing projects became the focus. Additional emphasis was put on the implementation of existing IDA commitments and projects funded by Bank-administered Trust Funds, including in-depth thematic supervision combining physical and fiduciary reviews, continued monitoring and improvements to the Good Governance Frameworks (GGFs), and the continuation of the annual portfolio reviews jointly with the RGC, the Asian Development Bank (ADB), and JICA. This led to a gradual increase in disbursement from a low 13 percent in FY07 to over 20 percent in FY11. World Bank support also included timely delivery of analytical services—such as the 2009 Country Economic Memorandum, just-in-time notes on the global economic crisis, and the background paper underpinning the RGC's rice policy—which were well received by the government and helped inform subsequently implemented policies.

The 2012 – 2015 Post CAS Period

60. **Despite the pause on new IDA commitments since 2011, the WBG has maintained an active presence in Cambodia.** The portfolio of active IDA-financed projects gradually declined as previously committed projects closed, from 15 projects in FY12 to two projects in FY16 with a total commitment of US\$53 million, but the Bank's administration of trust funds (TF) has partially offset the decline in IDA lending. The share of the Bank's overall operations financed by TF increased from 33 percent in FY12 to 77 percent in FY16, including three stand-alone large RETFs and one co-financed RETF totaling US\$181 million of TF from other development partners. This enabled the Bank to remain engaged in some important development areas, particularly in public financial management, trade, health and other sectors such as land, education, governance.

61. **Overall portfolio performance has been satisfactory, with no problem projects currently.** The Cambodia portfolio has established a strong track record on disbursement, with a disbursement ratio consistently above 20 percent during FY12-FY15, and 25 percent in FY16. Out of the 10 projects evaluated by IEG during FY12-15, 8 projects were reported to have achieved their development objectives. There has been increasing focus on monitoring and evaluation in the portfolio particularly through greater rigor in the formulation of results frameworks and measurable indicators. M&E capacity building has been provided to counterpart ministries, implementing agencies and task teams focusing on design of results frameworks, routine monitoring functions.

62. **The IFC has implemented over the period a valuable advisory services program to improve the competitiveness of the rice value chain.** This program has supported the government's goal of promoting rice exports by helping the government to improve the agri-business environment (licensing and inspection revisions, streamlining export procedures), enhancing finance flows to agri-businesses and working with firms and industry bodies to export more high value rice. In its current phase, the program focuses on mainstreaming the Cambodian rice standards, improving the quality of inputs (especially seeds), upgrading rice milling capacity and mill management systems (including Food Safety systems), and export promotion and marketing in high value markets. To date, the program has been able to support clients to export in excess of US\$100 million of rice products, of which more than half is high-value fragrant rice.

63. **The IFC's investment activities in financial markets has also achieved notable results.** These investments have helped strengthen institutions and promote financing to rural and micro businesses, especially those in the agricultural sector. On advisory activities, the IFC achieved strong results, most notably with the adoption of regulation on the establishment of Credit Bureau and mobile banking. The successful launch of Credit Bureau is reflected in the significant improvement of Cambodia's ranking in the WBG Doing Business -Getting Credit Index- where Cambodia moved up 85 positions from 97th place in 2012 to 12th place in 2015.

Lessons Learned

64. First, short-term solution to institutional constraints, e.g. IPA, are not a substitute for long-term institutional building and should be complemented by significant and sustained support for long-term institutional development and capacity building in areas where reform minded champions are willing to engage and for building demand for governance reforms; second, continued Bank involvement, even in challenging areas e.g. PFM reform, and through policy advice and analytical work, is critical to achieve successful dialogue and support reform efforts; third, strong staff presence in the Phnom Penh office has been instrumental in facilitating effective

and sustained focus on policy dialogue, implementation and quick adjustments to changed circumstances from the ground.

IV. GOVERNMENT DEVELOPMENT PLAN

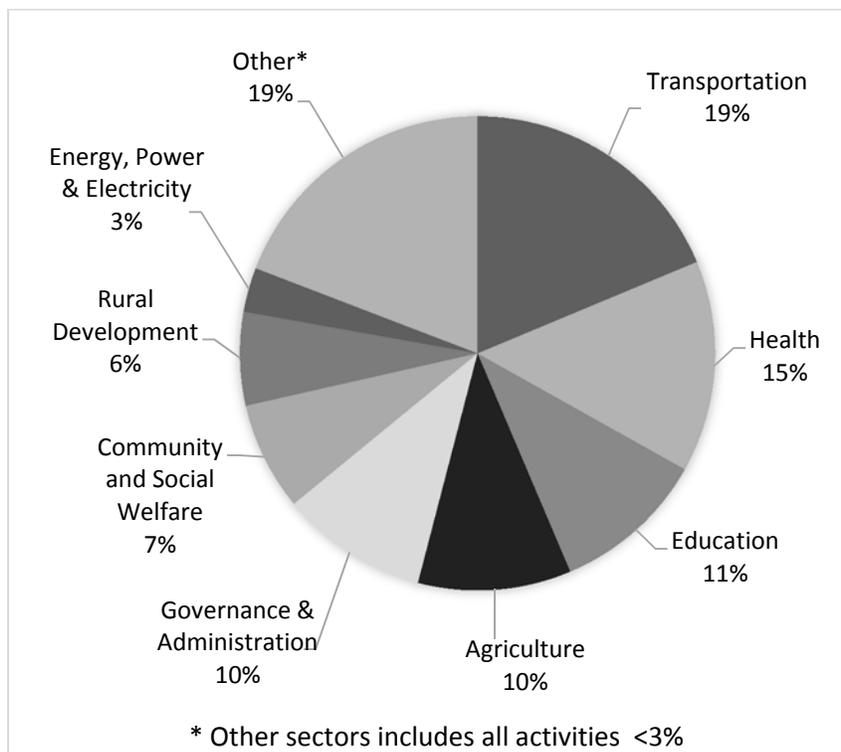
65. **The Rectangular Strategy for Growth, Employment, Equity and Efficiency, Phase III (RS III) outlines Cambodia's development priorities for 2014-2018.** The National Strategic Development Plan (NSDP) operationalizes the RS III. It considers good governance a core cross cutting theme and includes four pillars (corners of the rectangle): Agriculture; Physical Infrastructure; Private Sector Development and Employment; and Capacity and Human Resource Development. It aims to reduce poverty incidence by at least 1 percent a year during the 2014/18 period. A “Strategy for Development Cooperation and Partnerships, 2014-2018” has been formulated, in close consultation with development partners, and complements the NSDP. It outlines the formal interface between government, development partners, the private sector and civil society.

66. **The current NSDP reflects socio-economic changes in Cambodia and the country's progress towards lower middle income status.** The NSDP is expected to play an important role as a bridge for Cambodia's evolution from a largely traditional and rural economy to a more diverse and increasingly industrializing economy, and provides a wide range of short to medium term opportunities for development. It also acknowledges the important role of the private sector in Cambodia and aims to promote it further. The successful implementation of the NSDP will hinge on improvements in the effective delivery of public services. In this context, as Cambodia approaches lower middle income status, its access to grant financing will be increasingly limited, raising the importance of increasing the mobilization of domestic public revenues, and improving the efficiency and impact of public sector investment.

67. **Aid Coordination:** The Phnom Penh Declaration on Aid Effectiveness was signed by the RGC and DPs in October 2006, and Official Development Assistance (ODA) has been a critical part of Cambodia's development. An elaborate, three-tier, architecture of government-donor coordination has been in place including: (i) 19 Technical joint Working Groups (TWG) for RGC/DP (including civil society in some sectors) for periodic dialogue along key thematic issues and for monitoring the Joint Monitoring Indicators (JMIs) of the NSDP; (ii) a Government/Donor Coordination Committee (GDCC) that hosts annual meetings to discuss key thematic issues; and (iii) Cambodia Development Cooperation Forums (CDCF) that hosts meetings every two years to review overall progress. The Council for the Development of Cambodia (CDC) is the secretariat for this coordination process and the EU is the lead facilitator for the DPs, a function held on a rotational basis among donors. The Bank was the lead facilitator until 2012. Total ODA rose to an average of US\$1.3 billion during 2009-2015; however, it is projected to trend downward to about US\$1,167 million and US\$881 million in 2016 and 2017, respectively. The largest donors to Cambodia have been traditionally the EU including member countries, Japan, China, ADB, the US, the WB, and Australia. Recently, China has risen as the top donor (25 percent) followed by the EU, Japan, ADB, the US, Australia, Republic of Korea, and the WB. Allocations of donors' support are listed by sector in Figure 2³⁰.

30 <http://www.cdc-crdb.gov.kh/database/index.htm>

Figure 2: Average ODA Disbursement by Sector (2000-2015)



V. WORLD BANK GROUP ENGAGEMENT

A. Stakeholder Consultations and Country Survey

68. In June 2015, the World Bank Group (WBG) carried out consultations with a wide range of stakeholders to exchange views and perceptions on Cambodia’s development opportunities and pressing challenges, and ways to address them in the next two years³¹. The thematic focus of the consultations was around two key areas: (i) sustaining inclusive economic growth; and (ii) addressing vulnerability and poverty. The face-to-face consultations featured 17 meetings with 635 stakeholders, including government officials, elected local officials, parliamentarians, private sector, civil society representatives, development partners, and UN agencies. Participants for civil society consultation were selected by four NGO networks: the Cooperation Committee of Cambodia (CCC), NGO Forum, Community Peacebuilding Network, and Khmer Youth Association. Each network invited about 10-20 participants. The meetings were conducted in English and Khmer. Sub-national meetings were held outside Phnom Penh with around 380 commune and district council members and provincial officials from 18 provinces. The national-level government meetings were held in Phnom Penh with participants from ministries and other agencies including the Anti-Corruption Unit. The WBG also carried out online consultations through the spring and summer of 2015.

31 <https://consultations.worldbank.org/consultation/consultations-cambodia>

69. **Feedback from the consultations was broadly consistent across many stakeholder groups.** The common themes that emerged included:

- Agriculture / Irrigation: improve productivity, diversify production, improve value-added and competitiveness, develop irrigation master plan
- Industrial Development Policy (IDP): business climate, export promotion and diversification
- Transport connectivity / logistics: master plan development
- Governance / Anticorruption: strengthen prevention and policing
- Education / Skills: more than access, quality; more than general education, technical skills needed for employment
- Health: access for the poor, Health Equity Fund (HEF)
- Decentralization: service delivery closer to people, conditional grant facility
- Disaster Risk Management: risk assessment, mitigation
- Rural Infrastructure: roads, electrification, water supply and sanitation
- Land: tenure security, Social land concession (SLC)
- Livelihood Support: rural and urban poor

B. Planned WBG Program

70. **The planned CEN program is well aligned with Cambodia's development priorities.** It reflects the results of the in-country consultations and requests by the authorities for WBG investment financing and advisory support. They are focused on Cambodia's priority areas where the WBG has been active and has helped improve development outcomes. Given knowledge gaps, it leaves other important development areas (such as energy, forestry/natural resource management, tourism, skills/technical education, decentralization) for future consideration through the planned subsequent CPF.

71. **The CEN objectives.** The overarching objectives of the CEN, in line with Cambodia's development priorities, are: (i) to support Cambodia's export driven economy in improving its business climate and addressing competitiveness bottlenecks; (ii) to improve service delivery to (a) address vulnerability which concerns an increased share of the population, and (b) generate opportunities for the poorest to build assets and develop income earning opportunities.

72. **The planned CEN Program.** The planned World Bank financing program includes seven investment projects for funding under IDA17, totaling about US\$250 million. All but one of the seven projects on secondary education (para. 32) draw from the recent WB portfolio of projects: four projects directly follow and build on recently closed projects in road asset management (para. 28), social land concession (para. 39), health (para. 33), and emergency/disaster management (para. 34), respectively; and two projects (livelihood for the poor (para. 40), and regional Mekong/fishery (para 38) had been prepared few years ago, but their processing was on hold owing to the pause in new IDA funding. These new projects will complement the Bank's existing portfolio that with the exception of a higher education project that will close in FY 17 and a health project that will close in FY16, is exclusively funded through TF and is focused on basic education, trade, PFM, Voice and Accountability, and a cash transfer pilot. The CEN program also includes a Systematic Country Diagnostic (SCD) and selected analytical and advisory services requested by the authorities focused on (i) trade/investment promotion; (ii) macroeconomic/financial sector management, public sector management; (iii) and social infrastructure.

73. **Gender and climate change.** New WBG-funded operations under the CEN will include gender-focused results indicators or specific gender action plans to address gender issues identified during project preparation. For instance, among priority projects to be presented to the Board along with the CEN, both the LASED and Mekong Water Resources projects will help promote women’s economic empowerment by addressing access to, and ownership of, resources among women engaged in subsistence agriculture and rural livelihoods. LASED prioritizes female-headed households for the provision of land titles, and provides gender-sensitive agriculture and livestock extension services. The Mekong Water Resources project aims to give women more of an equal role and voice in the management of Community Fishery Organizations (CFO), through the development of Gender Action Plans for each CFO. The H-EQIP project will address social, cultural and economic factors contributing to low levels of awareness, access to information, and health care seeking behavior among women. It will also address barriers for women and children from ethnic to receive proper health services, including those related to language, traditions, customs, values, etc. Scaling up the use of health equity funds will also expand access of poor households to health care, in particular women-headed households who are often impoverished and heavily burdened by the cost of health services. In addition, WBG-funded projects will be climate screened, and some projects such as the Road Asset Management Project II, by supporting climate proofing and resilience of roads, and some analytic work such as support for the development of the irrigation master plan, are expected to have a positive climate impact. Other important development areas where there are significant knowledge gaps (e.g. energy, natural resource management, tourism, skills/technical education, decentralization) will be considered in the upcoming SCD and the planned subsequent CPF.

Planned New IDA-Supported Investment Projects
<p><u>FY16:</u></p> <ul style="list-style-type: none"> • Second Road Asset Management Project (RAMP2) • Health Equity and Quality Improvement Project • Second Land Allocation for Social and Economic Development Project • Mekong Integrated Water Resources Management Project-Phase 3 (MIWRM3) <p><u>FY17:</u></p> <ul style="list-style-type: none"> • Secondary Education Quality Improvement Project/TVET • Cambodia Disaster Risk Management (DRM) Project • Livelihood Enhancement and Association of the Poor (LEAP) Project

74. **IFC and MIGA will also remain engaged.** IFC plans to continue/expand its engagement through investments and advisory services with projected funding amounts of US\$200 million and US\$10 million, respectively, covering the finance sector, infrastructure, and trade and competitiveness. MIGA stands ready to provide support as demand arises, particularly as part of a WBG approach and with a focus in the finance, manufacturing, agribusiness and services, and infrastructure sectors.

VI. REALIZING OPPORTUNITIES FOR RESULTS AND MANAGING RISKS

75. **Through its country partnership during the CEN period, the WBG aims to help Cambodia achieve selected development results, strategically focused on key development priorities in areas where Cambodia has formally requested WBG support, drawing on WBG experience, including past experience in Cambodia, and reflecting the feedback and input from stakeholders during the consultations.** Depending on program implementation progress, the WBG and Cambodia may adjust the mix of analytical and advisory services and financing to seize development opportunities during CEN period. The CEN's key expected results (Annex 2) are:

- First, sustaining Cambodia's competitiveness-driven growth performance through (i) improved business climate by leveraging the ongoing Trade program including implementation of a National single Window; improved incentive framework for investors under the upcoming new Investment law; and more explicit consideration of implications of minimum wage setting on competitiveness in garment sector – the key expected result is an improvement in the Doing Business environment in Cambodia; and (ii) formulation of a productivity enhancing plan for agriculture production, and value chain development – expected results include the adoption of a strategy for irrigation development, more efficient resource allocations in agriculture by the public sector, and improved competitiveness of the rice processing industry.
- Second, enhancing development opportunities and resilience for an increased number of vulnerable populations, and targeted support for remaining poor through (i) improved delivery of public services leading to, in particular, improved access to quality health, education, rural water and sanitation – expected results include an increase in the proportion of vulnerable/poor populations serviced; and (ii) enhanced access to economic assets and income generating activities for poor populations – expected results include enhanced incomes from agriculture and fishing by beneficiaries of LASER II, LEAP, and fishery communities under the Mekong project.

76. **The planned WBG engagement program with Cambodia carries high risks.** Strong execution of the overall CEN program, in a participatory manner together with stakeholders, will be key to managing implementation risk for the CEN. The planned CEN program will be implemented flexibly and adapted to evolving country developments, opportunities, and risks as warranted. In addition, the CEN program design seeks to mitigate risks through portfolio balancing and specific measures, drawing on lessons learned, to address fiduciary-governance and safeguards risks:

- First, there are high environmental and social risks. The CEN program manages exposure to complex safeguard issues, by continuing to offer support for strengthening country systems, as well as by close monitoring of safeguards compliance, including through enhanced implementation support. In line with IDA17 commitments, the Bank will seek to mainstream consideration of climate change vulnerability and disaster risk management into its dialogue with the Government, and activities in the portfolio will be screened for these aspects.
- Second, fiduciary risks remain high. To address these risks, all Bank-funded projects include Good Governance Frameworks, and the RGC adopted strengthened Standard Operating Procedures (SOPs) for all externally finance projects, including a revised FM and Procurement Manual with detailed procedures, anti-corruption measures, conflict of

interest, and disclosure measures. The WBG will also continue support the RGC in strengthening its own fiduciary systems to achieve development results through, inter alia, PFM modernization, PER, strengthening public procurement, and reforming the civil service; and

- Third, there are important implementation and sustainability risks due to weak institutional capacity, particularly at the sub-national level. The CEN program mitigates these risks by focusing engagement in areas of shared priorities and with a strong implementation track record, as well as including capacity building support in the planned programs. Continued strong staff presence in the Phnom Penh office will also facilitate a strong focus on implementation, by enabling quick response to operational queries from government.

Table 3: Systematic Operations Risk-Rating Tool (SORT)

Risk Categories	Rating (H, S, M or L)
1. Political and governance	H
2. Macroeconomic	M
3. Sector strategies and policies	M
4. Technical design of projects or programs	M
5. Institutional capacity for implementation & sustainability	S
6. Fiduciary	H
7. Environmental and social	H
8. Stakeholders	S
Overall	H

Annex 1: Key Economic Indicators 2012 – 2018

Cambodia: Key Indicators	2012	2013	2014	2015e	2016f	2017f	2018f
Output, Domestic Demand and Prices							
Real GDP (% change yoy)	7.3	7.4	7.1	7.0	6.9	6.8	6.8
Domestic demand (% change yoy)	9.9	11.3	10.1	12.6	10.7	11.1	12.5
Consumer price index (eop, % change yoy)	2.5	4.6	1.2	2.8	3.0	3.5	3.8
Public Sector (% of GDP)							
Government revenues	14.1	14.5	16.9	17.5	17.6	17.8	17.9
Government expenditures	20.7	20.5	21.2	21.4	22.0	22.5	22.8
Government balance excluding grants	-6.6	-6.0	-4.3	-3.9	-4.4	-4.7	-4.9
Government balance including grants	-3.8	-2.1	-1.3	-2.0	-2.6	-2.9	-3.1
Foreign Trade, BOP and External Debt							
Trade balance (millions US\$)	-2,455.7	-2,598.4	-3,213.0	-3,217.1	-3,301.7	-3,552.6	-3,693.3
Exports of goods (millions US\$)	5,632.8	6,890.2	7,408.4	8,519.6	9,550.0	10,520.0	11,830.0
(% change yoy)	7.9	22.3	7.5	15.0	12.1	10.2	12.5
Key export (% change yoy) 1/	7.0	17.6	11.7	14.5	14.0	14.0	14.0
Imports of goods (millions US\$)	8,088.5	9,488.6	10,621.4	11,736.7	12,851.7	14,072.6	15,523.3
(% change yoy)	20.6	17.3	11.9	10.5	9.5	9.5	10.3
Current account balance (millions US\$) 2/	-1,376.0	-1,378.1	-1,969.9	-1,984.9	-1,884.3	-1,999.2	-2,332.7
(% GDP)	-9.7	-9.0	-11.9	-10.8	-9.3	-9.3	-10.0
Foreign direct investment (millions US\$)	1,697.9	1,826.1	1,676.9	1,802.7	1,652.9	1,747.7	1,780.0
External debt (millions US\$)	4,547.4	5,110.7	5,555.4	6,020.0	6,469.3	6,894.5	7,343.0
(% GDP)	32.1	33.3	33.4	32.8	32.0	32.2	31.6
Debt service ratio (% exports of g&s)	1.0	1.1	1.3	1.4	1.5	1.6	1.7
Foreign exchange reserves, gross (millions US\$)	3,463.0	3,642.5	4,657.9	5,672.1	6,398.7	6,847.7	7,258.9
(prospective months of imports of g&s)	3.7	3.5	4.1	4.5	4.7	4.6	4.1
Financial Markets							
Domestic credit (% change yoy)	29.6	28.6	28.4	27.0	25.8	25.0	24.5
Short-term interest rate (% p.a.)	11.6	11.3	11.5	11.7	12.0	11.8	11.5
Exchange rate (Riel/US\$, eop)	3,995.0	3,995.0	4,075.0	4,054.0	4,058.0	4,062.0	4,067.0
Real effective exchange rate (2010=100)	105.4	109.9	113.1	119.8	121.8	124.3	127.4
(% change yoy)	0.5	4.3	2.0	1.3	1.7	2.0	2.5
Memo: Nominal GDP (millions US\$)	14,188	15,362	16,623	18,363	20,191	21,412	23,244

Sources: Cambodian authorities, IMF, and World Bank staff estimates. Public sector fiscal figures from November 2015 IMF Article IV.

BOP estimates based in the latest customs data, may differ from National Bank of Cambodia.

1/ Garments ; 2/ Excluding official transfers

e = preliminary estimates ; f = forecast

Annex 2: Planned World Bank Group CEN Program – Indicative Activities and Milestones (FY2016-2017)

Pillar 1: Sustaining Inclusive and Competitive Economic Growth

Activities	Financing/ Instrument	Amount in US\$ million	WBG	Benchmark/Milestones	Status/ Approval FY
Focus Area 1.1: Improved Business Environment					
Trade Development Support Program (TDSP)	IPF/MDTF	15.5	WB	<ul style="list-style-type: none"> 2017 Logistic Performance Indicator (LPI) ranking improves. 2017 Doing Business Improved – Reduction of the distance to frontier the Trading across Borders indicator in Doing Business 2017. 	Ongoing
Trade Related Assistance Cambodia (TRAC)	PA/MDTF		WBG		Ongoing
Assessment of potential impact on Cambodia of TPP	ASA	BETF	WBG		Ongoing
Assessment of potential impact on Cambodia of EU-VN-VN TFA, EEU.	ASA		WBG		Ongoing
Trade Facilitation (National Single Window)	ASA		WB		New, FY17
Formulate and implement trade related policies.	ASA		WBG	<ul style="list-style-type: none"> Institutional and human capacity of selected agency (TTRI/MOC, GDCE/ASEAN/MEF) enhanced. 	FY17
Investment Law, Tax Incentive, Fiscal Incentives, and SEZ for Investors	ASA		WBG	<ul style="list-style-type: none"> 2017 Doing Business Improved –Reduction of the distance to the Starting New Business at the Ministry of Commerce. 	Ongoing
Cambodia Investment Policy	ASA/AS	1.16	WBG	<ul style="list-style-type: none"> 2017 Rationalizing the tax incentive regime for private investment and strengthening investor protection. Putting in place investment procedures that are simple, transparent and less time-consuming 	Ongoing
Cambodia Investment Climate Agribusiness	ASA/AS	2.9	IFC	<ul style="list-style-type: none"> Improved competitiveness of the rice sector in Cambodia by creating competitive environment in the input markets (seeds, fertilizers, and pesticides); improved food safety standards to be in line with 	Ongoing

Activities	Financing/ Instrument	Amount in US\$ million	WBG	Benchmark/Milestones	Status/ Approval FY
				international food safety practices; and addressed burdensome export procedures.	
Improve Business Environment and enhance private -public dialogue, will focus on (i) light manufacturing, including garments, (ii) agribusiness, and (iii) tourism.	ASA		WBG	<ul style="list-style-type: none"> Improved investment climate – ICA 2017 compared to ICA 2015. Increased FDI in manufacturing Mechanism for minimum wage setting in garment sector Branding and promote value chains of few identified agri-products (beside rice) Increase the number of tourist arrival. 	New, FY17
Focus Area 1.2: Enhanced Connectivity and Improved Competitiveness					
Higher Education Quality and Capacity Improvement Project	IDA/IPF	23.0	WB	<ul style="list-style-type: none"> 43 HEI assessed against accreditation standards. In-service training completed for secondary education teachers from 100 targeted schools. 	Ongoing
Secondary Education Quality Improvement Project/TVET	IDA/IPF	40.0	WB		New, FY17
Education Quality and Skills Assessment (PA P154789)	ASA/PA		WB		
Cambodia Economic Update MFM Modeling	ASA		WB	<ul style="list-style-type: none"> Cambodia Economic Update report is bi-annually disseminated. 	Ongoing
Aceda Education	Investment	13.0	IFC	<ul style="list-style-type: none"> Improved Cambodian higher education through the market opportunity by creating a solid and reputable commercial HEI superior quality of business, banking and finance programs at Bachelor and Masters Degree level. 	New, FY16
Cambodia National Risk Assessment Review (TA P156079)	ASA/TA		WB	<ul style="list-style-type: none"> National Risk Assessment Report completed; Action Plan to mitigate identified risks drafted; plan to develop risk based approaches to addressing AML/CFT measures prepared. 	Ongoing

Activities	Financing/ Instrument	Amount in US\$ million	WBG	Benchmark/Milestones	Status/ Approval FY
Financial Stability Analysis	ASA/TA		WBG	<ul style="list-style-type: none"> Formation of Financial Stability Team consisting of MEF and NBC – Dec 2017 	FY17
Life insurance – regulation & capacity building	ASA/TA		WBG	<ul style="list-style-type: none"> Improved supervisory function in financial sector by revising FSAP prudential indicators and conducting two new prudential indicators – Dec 2017 	FY17
Cambodia Credit Bureau	ASA/AS	1.19	WBG	<ul style="list-style-type: none"> Credit Reporting Services for legal entities developed and implemented Financial Consumer Protection Regime developed More data sources join the credit bureau stream (Telecom, utilities company..) 	Ongoing
Payment System	ASA/AS	0.5	WBG	<ul style="list-style-type: none"> National Payment Strategy and Payment Systems Oversight Framework adopted Assessment of the current status of the digital finance space for policy action completed Forum to allow public private dialogue on digital finance 	New, FY17
Cambodia Moveable Asset Financing	ASA/AS	1.12	WBG	<ul style="list-style-type: none"> Improve legal framework on secured transaction and strengthen the capacity of the collateral registry increasing access to finance based on movables lending Collateral management industry developed for inventory and warehouse finance 	
Cambodia MFIs	ASA/AS	1.75	IFC	<ul style="list-style-type: none"> A risk management framework implemented by microfinance institutions Sustainable transformation and expansion of Cambodia 's microfinance institutions Microfinance institutions capacity improved to expanded their service to the unmet financial needs 	
Investment in Banking/MFI Sector	Investment	Projected 150.0	IFC	<ul style="list-style-type: none"> To support clients' lending program to micro and SME borrowers, and to agri. sector 	Ongoing

Activities	Financing/ Instrument	Amount in US\$ million	WBG	Benchmark/Milestones	Status/ Approval FY
Investment in Infrastructure and Manufacturing Sector	Investment	Projected 37.0	IFC	<ul style="list-style-type: none"> Improved the infrastructure and manufacturing sectors in Cambodia. 	Ongoing
Second Road Asset Management Project (RAMP2)	IDA/IPF	60.0	WB	<ul style="list-style-type: none"> Launch of Performance-Based Contract (PBC) in road maintenance is very important (MEF and MPWT are ready to pilot it) 	New, FY16
Cambodia Rice Sector Support	ASA/AS	4.84	IFC	<ul style="list-style-type: none"> Improved competitiveness of the Cambodian rice export sector – contributing to an increase of 300,000 metric tons of annual national rice exports with a value of US\$180 million and increasing/improving sustainable farming practices opportunities for 30,000 farmers. 	Ongoing
Cambodia Agri Value Chain	ASA/AS		IFC	<ul style="list-style-type: none"> Improved competitiveness of the Cambodian Agri value chains 	New, FY`17
Formulation of Irrigation Master Plan	ASA/BB		WB	<ul style="list-style-type: none"> Master Plan jointly disseminated with RGC 	New, FY17
Urban and Spatial Planning	ASA/BB		WB	<ul style="list-style-type: none"> Report jointly disseminated by MLMUPC and MPP 	New, FY17

Pillar 2: Improving Public Services Delivery and Reducing Vulnerability

Activities	Financing/ Instrument	Amount in US\$ million	WBG	Benchmark/Milestones	Status/ Approval FY
Focus Area 2.1: Improving Service Delivery					
Second Health Sector Support Project (HSSP2)	IDA & MDTF/IPF	30.0 124.6	WB	<ul style="list-style-type: none"> Improved financial protection- reduction in out of pocket and catastrophic expenditures on health. Improved utilization of public health system. 	Ongoing
Health Equity and Quality Improvement Project	IDA & MDTF/IPF	30.0 50.0	WB		New, FY16
Health Programmatic Approach (PA)	ASA/PA		WB	<ul style="list-style-type: none"> Analytical work on HEF utilization and PFM undertaken- draft reports available. 	Ongoing
Global Partnership for Education (GPE) – Second Education Sector Support Project	GPE TF - RETF/IPF	38.5	WB	<ul style="list-style-type: none"> Improved national assessment and ME systems of 4 sub-sectors completed for early childhood, basic, secondary, and non-formal education. 	Ongoing
Early Childhood Care and Development for Floating Village Project (JSDF Grant)	JSDF/Small RETF	3.0	WB	<ul style="list-style-type: none"> Improved equitable access to ECE services. 	New, FY16
Resilient Rural Water Supply and Sanitation Services -Programmatic ASA	ASA		WB/Water	<ul style="list-style-type: none"> Master plan of new investment sites and competitive granting procedures for piped water standardized Licensed private operators increased to 200 with cost recovery tariffs National Action Plan (NAP) implementation: decentralization of rural sanitation (30 districts) and poor-inclusive delivery models for WSS services in flood prone area implemented (linked to DRM and LEAP) 	FY17
Strengthening public sector policies and institutions: <ul style="list-style-type: none"> Public Expenditure Review (PER) HR development for the Civil Service Public Procurement 	ASA		WB	<ul style="list-style-type: none"> PER jointly completed – 2018 budget informed Roadmap for ICT tool in civil service management (e.g. HRMIS) developed and implemented under the NPAR. PFM systems in education sector reviewed and action plan for improvement developed (This is related to PETS and PER). 	New, FY17

Activities	Financing/ Instrument	Amount in US\$ million	WBG	Benchmark/Milestones	Status/ Approval FY
				<ul style="list-style-type: none"> Procurement bottlenecks to service delivery identified in key sectors and action plan developed. 	
<ul style="list-style-type: none"> PFM Modernization Project 	MDTF- RETF/IPF	19.5	WB	<ul style="list-style-type: none"> Revenue performance improved with average increase of .5% between 2013 and 2017. 	Ongoing
<ul style="list-style-type: none"> PFM Modernization (PA P148103) 	MDTF/ASA		WB	<ul style="list-style-type: none"> Improved financial information for management purpose with a functional FMIS at MEF and provincial treasuries. 	
<ul style="list-style-type: none"> Social Accountability for Improved Service Delivery – Voice and Action: Social Accountability for Improved Service Delivery Project (P146160) 	JSDF/Small RETF	4.9	WB	<ul style="list-style-type: none"> Social Accountability Framework implemented in schools, health clinics and communes in at least 90 out of 143 rural districts. 	Ongoing
Focus Area 2.2: Reducing Vulnerability					
<ul style="list-style-type: none"> Cash Transfer Pilot Focused on Maternal and Child Health and Nutrition Project 	Small RETF	\$0.85	WB	<ul style="list-style-type: none"> Conditional Cash Transfer Impact Evaluation completed – Government decision to scale up nationally 	Ongoing
<ul style="list-style-type: none"> Cambodia Social Protection and Labor Programmatic ASA (P153091) 	ASA		WB		FY17
<ul style="list-style-type: none"> Second Land Allocation for Social and Economic Development Project (\$25 M) (follow up to project closed in FY16) 	IDA/IPF	25.0	WB	<ul style="list-style-type: none"> Targeted agriculture extension service delivery approach (FFS) launched in selected LASED communities. Priority (as per AWPB) rural infrastructure implementation launched/started. 	New, FY16
<ul style="list-style-type: none"> Cambodia Disaster Risk Management (DRM) Project (follow up to project closed in FY 15) 	IDA/IPF	60.0	WB	<ul style="list-style-type: none"> Strategic disaster risk management investments plans developed for select provinces. Design standards for rural all weather roads developed. 	New, FY17
	GPOBA/Small RETF	2.5	WB		New, FY17

Activities	Financing/ Instrument	Amount in US\$ million	WBG	Benchmark/Milestones	Status/ Approval FY
<ul style="list-style-type: none"> Combining the GPOBA Investment Grant (RETF USD 2.5 M) for piped water with the DRM project. 				<ul style="list-style-type: none"> Viability Gap Financing for private water piped supply, connecting 100,000 people of which 50% poor. 	
<ul style="list-style-type: none"> Livelihood Enhancement and Association of the Poor (LEAP) Project 	IDA/IPF	20.0	WB	<ul style="list-style-type: none"> Improve livelihoods of targeted poor households; this includes provision of targeted poor beneficiaries with access to finance and linking them to markets and key value chains for their livelihood activities; and support for creating and strengthening self-sustaining community-level institutions such as agriculture marketing cooperatives; its urban component will draw from the experience of the “<i>Self-Help Groups, and Savings and Social Capital model</i>” 	New, FY17
<ul style="list-style-type: none"> Mekong Integrated Water Resources Management Project- Phase 3 (MIWRM3) 	IDA/IPF	15.0	WB	<ul style="list-style-type: none"> Establishment of 50 Community Fishery Organizations Procurement of Key Hydro-Met Equipment 	New, FY17
<i>Cross-Pillar Engagement – Setting Out WBG Medium Term Engagement</i>					
Poverty Program: <ul style="list-style-type: none"> Cambodia Enhancement Of Poverty Analysis Capacity (P151424) 	Small RETF	0.35	WB	<ul style="list-style-type: none"> Draft of a National Strategy for Developing Statistics. 	Ongoing.
<ul style="list-style-type: none"> WB Poverty Update note using 2013 CSES data. 	ASA		WB	<ul style="list-style-type: none"> Government poverty updates note with the 2013 and 2014 CSES data. 	
<ul style="list-style-type: none"> Study on risk and vulnerability of the population of Cambodia. 	ASA		WB	<ul style="list-style-type: none"> Studies completed and presented both the WB colleagues and if possible, to government officials. 	New, FY17
<ul style="list-style-type: none"> Systematic Country Diagnosis (SCD) 			WBG	<ul style="list-style-type: none"> Advanced draft of the SCD. 	New, FY18

**Annex 3: Completion and Learning Review for Cambodia for 2005-2015
Including the 2005 - 2011 Country Assistance Strategy**

CONFIDENTIAL DRAFT, FEBRUARY 23, 2016

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I. INTRODUCTION

1. **This Country Assistance Strategy Completion and Learning Review (CASCLR) reviews the 10 years' experience of implementing the World Bank Group (WBG) program in Cambodia from FY05-15.** This period encompasses the FY05-08 World Bank Group Country Assistance Strategy (CAS. Report No. 32118-KH; Date: April 18, 2005), the FY08-11 extension of that CAS, and the FY11-15 period after the expiry of the CAS, when Cambodia and the WBG continued to implement the ongoing program without new IDA financing. The document provides a qualitative self-assessment of: a) the extent to which the CAS objectives were achieved; b) the WBG performance in terms of design and implementation of the program; c) the contribution to the corporate twin goals of eliminating poverty and boosting shared prosperity, even though the CAS predated the formulation of these goals; and d) lessons learned from implementing the CAS program and considered during preparation of the new Country Engagement Note (CEN).

2. **The CEN is the first WBG engagement strategy with Cambodia after the end of the extended CAS period in FY11.** For the 2005-2011 period, assessing the achievement of CAS objectives involves evaluating the status of indicators as of 2011, which poses significant data challenges. Also, no specified results framework exists for assessing the achievements of the Cambodia-WBG partnership during 2011-2015. It was therefore decided, in consultations among the East Asia and Pacific Region, Operations Policy and Country Services (OPCS), IFC's Country Framework Engagement Unit, MIGA and the Independent Evaluation Group (IEG), that a CASCLR would be prepared, but due to data limitations, the assessment would be of a qualitative nature, and would not present performance ratings. As a consequence, IEG's standard methodology cannot be applied to the CASCLR.

3. **The CASCLR draws on the WBG's 2005 Country Assistance Strategy (CAS) for the Kingdom of Cambodia (Report No. 32118-KH), discussed by the Board of Executive Directors on April 18, 2005, and the 2008 CAS Progress Report (CASPR - Report No. 43330-KH).** The CAS presented the WBG's four-year engagement plan through FY2008 to respond to the Royal Government of Cambodia's (RGC) comprehensive reform agenda. This agenda built on the Second Socio-Economic Development Plan (SEDP II) 2001-2005, the National Poverty Reduction Strategy (NPRS) 2003-2005, and the Rectangular Strategy for Growth, Employment, Equity and Efficiency (RS) to meet the *Cambodia Millennium Development Goals (CMDGs)*. In particular, the CAS supported the formulation and implementation of the 2006-2010 National Strategic Development Plan (NSDP) which replaced the SEDP II and NPRS, and operationalized the RS. Government and donors agreed to use this poverty-focused five-year NSDP as the common operational framework for development interventions, with the CMDGs as its mid-term M&E indicators. The CAS emphasized an overall governance focus given the weak institutional and governance environment in Cambodia, and was structured around two pillars: i) removing governance constraints in attaining the CMDGs; and ii) supporting the strategy and investments needed to attain the CMDGs.

4. **The report is based on the regular monitoring of progress in implementation of the CAS and the WBG-supported program** using the CAS results framework (See Annex 1), Implementation Status and Results (ISR) reports for the World Bank's (the Bank) portfolio of projects in Cambodia, Implementation Completion and Results (ICRs) reports prepared for

projects closed during the extended CAS period, and IEG evaluations. The report has benefited from dialogue and consultations with Government and other stakeholders in Cambodia, including country surveys conducted in 2011 and 2015.

II. SUMMARY OF KEY FINDINGS

5. **The WBG-RGC partnership contributed to the achievement of substantial development results during the CAS period, though progress was slow in some areas and fiduciary challenges were significant.** Out of 10 projects approved during the 2005-2011 CAS period and reviewed by the WBG's IEG, 8 received satisfactory level ratings in terms of achievement of outcomes and the quality of both overall Bank and Borrower performance. In addition, most CAS targets were either achieved or partially achieved during the extended CAS period. Private sector development was promoted through key improvements in the cost of Doing Business, particularly in foreign trade regulations and access to credit, and investments to enhance agricultural productivity. Access to education and health increased substantially, with the construction of more than 400 schools and the provision of Health Equity Funds (HEFs) to more than 2.6 million poor. Moreover, the RGC prepared its first government-led development agenda, setting priorities for donor-funded programs. Public financial management, the condition of the roads network and access to electricity all improved. There were some achievements in governance and transparency, particularly at the sub-national level, though these areas continue to pose challenges to the country's development.

6. **The CAS period witnessed a remarkable 60 percent drop in the poverty headcount ratio in Cambodia.** The CAS was discussed by the Executive Directors in 2005 when the country was still among the poorest in the world, with a per capita income of US\$430. High and pro-poor growth and falling inequality led to a fall in the proportion of Cambodians living in poverty from 50.2 percent in 2004 to 20.5 percent in 2011, exceeding the Millennium Development Goal of halving the proportion of poor (See Annex 2). However, the large majority of Cambodians who escaped poverty during this period remain in a highly vulnerable situation, as their income did not rise far above the poverty line. Poverty reduction continued beyond the CAS period in 2012 as the population living below the national poverty line dropped further to 17.7 percent.

7. **Poverty reduction was supported by strong economic performance.** From 2004 to 2011, Cambodia's per capita GDP (in constant 2000 US\$) grew 54.5 percent, ranking fifteenth among 174 countries. This performance was possible due to a combination of factors, including sustained peace and the demographic dividend, free trade and open investment policies, and the subsequent macroeconomic stability—all of which were conducive to increases in tourism, construction, the garment sector, agriculture, and foreign direct investment (FDI). Though the economy slowed down in 2008 and contracted in 2009 (1.4 percent per capita constant 2000 US\$), the country recovered quickly.

8. **Achievement of development results continued after the extended CAS period ended.** From 2011, the WBG supported development results in Cambodia with analysis and advice, International Finance Corporation (IFC) financing, Bank-administered trust funds (TF), and the ongoing IDA portfolio. Civil service reform progressed with increases in civil servant compensation and the launch of the 2015-2018 Public Administration Reform. Fiscal revenue

collection increased further from 13.1 percent of GDP in 2011 to 18 percent in 2014, a law regulating public procurement was enacted in 2012, and budget expenditure efficiency was enhanced under the Public Financial Management Reform program. Also, enrolment rates for early childhood and lower secondary education continued to increase, while the Health Equity Funds now cover over 93 percent of the poor population in Cambodia.

9. **The CAS incorporated key lessons learned from the previous strategy, such as the need for direct and consistent focus on governance as a cross-cutting theme and for improved donor partnerships to ensure results.** Pillar 1 directly tackled governance constraints and key objectives in both pillars aimed at improving the country's institutional environment. The WBG helped the RGC and development partners (DP) put in place mechanisms for regular dialogue among all partners, acting as Lead Donor facilitator to the Cambodia Development Cooperation Forum (CDCF). Moreover, Joint Monitoring Indicators were adopted in a number of areas that set the benchmarks for reforms, and were monitored by cross-DP Technical Working Groups (TWG).

III. CAS DEVELOPMENT OUTCOME

Pillar 1. Removing Governance Constraints in Attaining the Cambodia MDGs.

10. **WBG support under this pillar focused on tackling the governance constraints holding back the achievement of Cambodia's MDGs.** CAS objectives aimed at enhancing the institutional and regulatory frameworks to create the necessary conditions for good governance, sustained growth and public service delivery. The four CAS objectives under this pillar were to: i) promote private sector development for poverty reduction; ii) improve natural resource management; iii) improve public financial management; and iv) support decentralization and promote citizens' partnerships for better governance.

CAS Objective One: Promote Private Sector Development for Poverty Reduction

11. **To achieve this objective, the WBG focused on providing support to address key challenges to sustained growth and competitiveness, including the high cost of Doing Business.** Notable CAS targets achieved during the extended CAS period include:

- ***Enhanced Governance for Competitiveness:*** The WBG supported reductions in the cost of Doing Business, including a near-50 percent reduction in the average time to clear exports from 4.5 days in 2003 to 2.3 days in 2010. The effectiveness and transparency of labor arbitration mechanisms improved with the establishment of an Arbitration Council, and WBG and International Labor Organization (ILO) support to the "Better Factories in Cambodia" (BFC) program helped improve labor standards in the garments sector. The target of expanding the BFC program to other sectors was not achieved during the extended CAS period.
- ***Progress towards Diversification and Integration to Global Markets:*** Three new Special Economic Zones (SEZ), a National Commercial Arbitration Center (NCAC) and the Cambodia Credit Bureau (CBC) were established with WBG support to promote increased domestic and foreign investment. In addition, IFC contributed to the development of the microfinance sector,

recognized as one of the most vibrant in the world, helped establish the first mobile phone payment operator in Cambodia, and supported the rehabilitation and expansion of the airports in Phnom Penh and Siem Reap. WBG-EU cooperation in agriculture also supported increased cashew farming productivity, enhanced capacity of cashew farmer associations and improved efficiency and quality of rice milling and operation management. Lastly, an E-commerce law was drafted and regulatory reforms deriving from the WTO accession program commenced, though they were not completed during the CAS period.

- ***Development of a Regulatory Framework for the Private Provision of Services:*** The WBG provided knowledge support to the RGC's agenda to promote the role of the private sector in expanding access to basic household services in remote areas throughout Cambodia. Key results include the establishment of legal frameworks to regulate the private provision of these services, including electricity and the roads and traffic sector, and the approval of a Concessions Law in 2007.

12. **Two of the CAS targets, facilitating trade and increasing corporate social responsibility, were partially achieved.** Specifically, work on accession to the WTO was started but was not completed, and the sustainable business model "Better Factories in Cambodia" was adopted in the garment sector, but not in other sectors. Public consultations on proposed amendments to the investment law did not take place, and actual IFC investments averaged US\$25 m per year, short of the US\$50 m per year CAS target.

13. **Progress following expiration of the CAS period continued with IFC and TF support.** The Better Factories in Cambodia program continued to make progress, where increased linkages to the private sector facilitated by the IFC have reduced reliance on donor funding. Continued focus on agribusiness and access to finance has facilitated the export of more than US\$100 million of rice products, more than half of which is high-value fragrant rice, and provided improved financing for rural and microbusinesses. The Credit Bureau of Cambodia has expanded to cover more than 4.6 million consumers' credit information, and has facilitated the provision of more than US\$2.96 billion in financing by financial institutions.

CAS Objective Two: Improve Natural Resource Management

14. **WBG interventions under this objective aimed at enhancing Natural Resource Management (NRM) for sustainable and pro-poor growth.** The Khmer Rouge policies of forced migration and nationalization of property seriously disrupted the continuity of property rights over land in Cambodia, including through the absence of public records. Thus, approximately 80 percent of the country's land was legally state-owned at the beginning of the CAS period. Before cancellation in 2009, the Land Management and Administration Project (LMAP), co-financed by Canada, Germany and Finland, supported the long-term plan to build a modern land management sector, including a land titling program. IDA support to the LMAP helped establish a modern land administration system which resulted in the registering and titling of more than 1 million parcels of land. In addition, the Land Allocation for Social and Economic Development (LASED) Project assisted the RGC in developing a community-based mechanism to implement the Social Land Concessions program. The LASED Project funded the identification

and distribution over 14,127 ha of Social Land Concessions to 4,697,000 poor and landless families. Using the processes designed under LASED, the RGC distributed in total 113,541 ha of land to 12,494 poor families.

15. **Key milestones of the original 2005-2008 CAS period were achieved, including the titling of over 1 million parcels, but progress stalled in subsequent periods as envisaged follow-on operations did not materialize.** In March-April 2009, a WBG mission concluded that since the Sras Chok adjudication areas was one where LMAP was undertaking systematic land titling, the project Resettlement Policy Framework (RPF) should apply. The RGC maintained that the LMAP RPF was not applicable and opted to address the resettlement of Boeung Kak Lake (BKL) without Bank support, requesting a cancellation of the remaining IDA commitments under LMAP in September 2009. In late 2010, an Inspection Panel (IP) Investigation Report on LMAP found that the evictions violated LMAP RPF. Shortly thereafter, Bank Management decided to pause new IDA financing commitments.

16. **The WBG-funded Biodiversity and Protected Areas Management Project enhanced the capacity of the Ministry of Environment (ME) to plan, implement and monitor an effective system of National Protected Areas (NPA).** A management plan was developed and piloted in Virachey National Park (VNP), supporting a 20 percent reduction in illegal activities in the park from 2004 to 2007. Combined with WBG analytical and technical assistance, this pilot supported the formulation of institutional models for the NPA system in Cambodia, and informed a PA Law enacted in 2008.

CAS Objective Three: Improve Service Delivery, Public Financial Management and Civil Services Performance

17. **Support to this objective was provided in close coordination with other DPs, and centered on strengthening the budget process to enhance service delivery, improving internal and external accountability, and making progress towards building a meritocratic civil service.** CAS-supported results include the implementation of improved arrangements for budget formulation and classification, bank account and transaction management, and fiscal control. Revenue collection increased substantially and resource allocation became progressively aligned with NSDP priorities. Progress towards fiscal decentralization and strengthening of procurement systems was notable, though some targets were met only after the CAS period had ended. However, the channeling of Treasury payments through the banking system (at around 75 percent) and the strengthening of the independent oversight role of the Supreme Audit Institution and the National Assembly remain work in progress.

18. **Revenue collection increased by almost 30 percent during the CAS period, with support from the Financial Management Reform Program (SWAp) and the Public Financial Management (PFM) and Accountability MDTF.** Government revenue reached 13.1 percent of GDP in 2011, from 10.3 percent in 2004. Together with the introduction of mandatory bottom-up Budget Strategic Plans in all line ministries, this contributed to increased allocations to priority sectors for the funding of key reforms, improved compensation for civil servants and enhanced public service delivery. In addition, budget entities were introduced and piloted, commune and

district funds were introduced as part of the fiscal decentralization strategy, and several functions were transferred to the sub-national administration. Additional progress following expiry of the CAS include a further increase in fiscal revenue to 18 percent of GDP by 2014, the launch of the 2015 three-year National Program for Subnational Democratic Development and the implementation of program budgets in 10 lines ministries.

19. **Further improvements in PFM include the consolidation of banking arrangements and the use of the banking system for all treasury and civil service salary payments.** By 2011, all government expenditures were internally audited, and the quality of audit processes and follow-up measures has improved. An Anti-Corruption Law was enacted, and public procurement was strengthened with the adoption of a Procurement Law and standard procedures for externally and domestically financed projects and programs. The implementation of a Financial Information Management System in the MEF supported improvements in the timeliness of payments and accuracy of financial reporting. Moreover, 100 percent of public employee salary payments are now being made through the banking system. These reforms have reduced fiduciary risks for both government and donor funds, as documented in the 2010 and draft 2015 Public Expenditure and Financial Accountability assessments.

20. **Performance-based compensation for civil servants to strengthen the Government's capacity for service delivery was introduced into the 2015-2018 Public Administration Reform program.** Resistance to the intended reform delayed progress toward the achievement of this CAS objective. However, civil servant compensation increased under the restructured pay system implemented since January 2015, as the lowest basic salary for civil servants in education and health increased to approximately US\$160 per month from US\$80 in 2013.

CAS Objective Four: Support Decentralization and Promote Citizen' Partnerships for Better Governance

21. **Under this objective, the Bank provided support to improve the policy framework for decentralization, increased predictability of local funding, increased citizen accountability and enhanced access to justice.** Knowledge and Investment Project Finance facilitated the establishment and strengthening of decentralized planning processes, including i) five-year Commune Development Plans; ii) three-year rolling Commune Investment Programs and annual commune budget for implementing investments; iii) improved intergovernmental fiscal transfers and local revenue systems at the commune level; and iv) the development and implementation of a decentralization strategy, including the establishment of related procurement, financial management and safeguards systems at the commune level. Moreover, citizen accountability at the sub-national level was strengthened, though progress was limited on the target of increasing free access to information.

22. **The Bank further supported the implementation of the Organic Law on Decentralization and De-concentration (D&D) through assistance with design and implementation of the National Program for Sub-National Democratic Development, as well as two consecutive three-year Implementation Plans.** Commune councils, the lowest-level elected administration, have been in place since 2002, providing small-scale rural infrastructure

and administrative civil services. In addition, a structure of subnational councils has been put in place, and a number of functions carried out by the central government ministries has been approved for transfer to district/municipal level, such as solid waste, sewage and education. The Rural Investment and Local Governance Project (RILGP) supported the goal of increased fiscal transfers to communes and related service delivery and infrastructure, as well as enhanced reporting and disclosure procedures by communes. The Demand for Good Governance Project (DFGGP) supported the introduction of “One Window Service” offices to facilitate administrative services, and piloted District Ombudsman offices to enhance governance at the local level.

23. **All except one of the targets in CAS Objective Three were achieved.** The roles of commune councils and other dispute resolution councils were clarified, mechanisms put in place to disseminate information on laws and policies, the media has begun taking a more active role in reporting on public policy issues, and mechanisms were put in place to report grievances related to donor-funded projects. However, limited citizens’ voice and accountability remain a source of concern. The role of the media to disseminate and discuss government programs is still limited and the Freedom of Information law is not yet approved.

Pillar 2: Supporting the strategy and investments needed to attain the Cambodian MDGs

24. **Pillar 2 of the CAS aimed at supporting the shift in leadership of the development agenda to the RGC, and providing knowledge and financial support to its implementation in order to meet the CMDG targets.** With a legacy of weak institutions, high aid-dependency and low capacity, Cambodia was in a difficult position to formulate its own development agenda. Thus, the first objective under this pillar was to facilitate the preparation of a 5 year national strategy for growth and poverty reduction, the NSDP, and the collection and analysis of data to inform it. Recognizing the capacity and financing gaps in key sectors, the second objective of this pillar was to provide resources for the implementation of this strategy.

CAS Objective Five: Support the Formulation and Implementation of a Government-led Strategy and Corresponding Investment Program for Reducing Poverty and Achieving the CMDGs

25. **The WBG provided technical assistance to support the CAS objective of designing and implementing the 2006 -2010 NSDP, which replaced the previous donor-driven agenda.** The NSDP represented significant progress in terms of government leadership in diagnosis and policy prioritization, facilitating the implementation of policies to achieve the CMDGs. Several lessons learned during NSDP implementation were proactively incorporated by updating the strategy prior to completion so as to synchronize NSDP and parliamentary periods, refine objectives and targets, provide a wider consultation process and extend its implementation period to 2013.

26. **The WBG 2006 Cambodia Poverty Assessment (CAPA) provided the foundations for reliable poverty data.** Joint WBG and RGC efforts resulted in an updated methodology to measure poverty which better reflects the current consumption patterns of the country’s poor population. However, the resolution of technical issues with RGC delayed the completion of the

poverty assessment to 2012. The target of obtaining a poverty profile by March 2010 was not achieved. The 2009 Cambodia Socio-Economic Survey was used by the Government to produce the first official poverty estimates in 2012, and by the WBG for the 2013 CAPA, using independent but agreed methodologies. The gender target was not achieved as government priority programs for promoting gender equality were not budgeted for.

27. **Cambodia improved its strategic framework for development of the agriculture sector.** In 2010, the RGC adopted the Policy on the Promotion of Paddy Production and Rice Export, which cemented the commitment to open trade, openness to foreign direct investments in rice mills, and the importance of private public partnerships in rice value chain development. The WBG and other donors supported the preparation of this Policy and its implementation. In 2015, the Ministry of Agriculture, Forestry, and Fisheries issued the Agricultural Sector Strategic Development Plan 2014-2018 emphasizing the need to maintain agricultural growth through productivity enhancements, diversification, and commercialization. The preparation of the Plan was supported by analytical work undertaken by the WBG, funded in part by Australian trust funds.

28. **The NSDP update 2009-2013, and the subsequent NSDP 2014-2018, have allowed the Government to have a consistent plan and policy guide.** The NSDP 2014-2018 builds on the previous Strategy and the 2009-2013 update, promoting continuity in the RGC's agenda. In addition, it provides a more detailed set of priorities, target indicators and actions, and introduces a monitoring and evaluation framework. However, limited technical capacity in the Government continues to pose challenges to the implementation of agreed action plans for the achievements of NSDP objectives.

29. **Progress was made towards the CAS objective of incorporating gender issues in RGC's development agenda, though further efforts are still needed in this area.** The WBG and other donors supported the design of the Cambodia Gender Assessments (CGA) to identify priorities and action plans to address gender inequality in the country. Several policy recommendations in the CGA have been operationalized, gender disparities in literacy rates and educational attainment were reduced, and the WBG incorporated gender-specific elements in its activities. However, priority programs to address gender inequality remain to be properly budgeted and implemented.

CAS Objective Six: Support with Analytical and Investment Services those Under-funded Sectors and Sub-sectors Critical to Achieving the CMDGs

30. **The WBG supported the achievement of the CMDGs with investments and knowledge services in priority sectors, such as human capital development and infrastructure.** Priority was given to those sectors which were vital in achieving the CMDGs and to well-established programs which contributed to enhanced pro-poor service delivery. Joint efforts of the RGC, WBG and DPs led to important achievements in the access to and quality of education and health services, enhanced road infrastructure, and increased access to electricity, water and sanitation.

31. **The CAS objective of improving access to education was partially achieved.** Between 2007 and 2011, the net enrolment rate for early-childhood education increased from 29 percent to 53 percent, while primary and lower secondary net enrolment rates increased by 5 percent and 4 percent, respectively. The WBG-financed Education Sector Support investment project, a JSDF-financed TF operation for mainstreaming inclusive education and analytical support to the scholarships for the poor program were instrumental in achieving this outcome. The number of formal preschool classrooms increased from 2,564 in 2007 to 3,706 in 2011, and more than 400 new lower secondary schools were built. However, implementation of the public expenditure tracking system (PETS) in the education sector was not completed. Following expiration of the CAS, net enrolment rates for early-childhood rose further by 16 percent between 2011 and 2015.

32. **Education quality has improved, yet further improvements will be important to achieve the intended outcomes.** Average academic performance in Grade 3 mathematics and language increased, respectively, from 40 percent and 37 percent in 2007 to 48 percent and 54 percent in 2009. Educational improvements grants and technical assistance supported the upgrading of education quality in 650 primary schools. Moreover, results-based planning M&E frameworks have been developed for early childhood, primary, secondary and non-formal education, which include a school self-assessment and planning tool.

33. **Considerable progress was made on key health indicators supported by the CAS.** One of the main achievements was the creation of the Health Equity Fund through the Health Sector Support Project 1 and 2, a health subsidy for the poor which covered 2.6 million people in 2011, and 93 percent of the poor population by 2014. Moreover, people with access to a basic package of health, nutrition or reproductive health services rose from 152,213 in 2007 to 1.5 million in 2014. These activities contributed to an increase in the percentage of i) fully immunized children between 12 and 23 months from 67 percent in 2005 to 74 percent in 2010; ii) births delivered in a health facility from 20 percent in 2007 to 54 percent in 2010 and 80 percent in 2014; and iii) antenatal care by trained personnel from 60 percent in 2007 to 86 percent in 2014. However, efforts to reduce malnutrition were marginally successful. Malnutrition continues to be an underlying cause of stunting, and to adversely impact productivity and health outcomes.

Box 1: Cambodia Health Sector Support Project

The Bank has been engaged in Cambodia's health sector for more than 13 years. Each of the country's strategic health plans, since the first one in 2002-2007, has been supported closely by a Bank-financed project, often co-financed with trust funds and informed by analytical work. In this time, the Bank's engagement has evolved from policy intervention pilots on contracting out service delivery (initially with NGOs) and Health Equity Funds (HEFs), to the current focus where the Government is mainstreaming HEFs as the instrument to provide financial protection, and steadily introducing contracting policies into its public health system. The Bank has also contributed to supply side readiness of the health system, investing in 434 health centers, 3 new referral hospitals, 2 regional training centers, and a central public health referral lab. With infrastructure in place, the focus has evolved to improving quality of health services delivered by these facilities.

This sustained engagement has led to various strategic, technical and operational advantages:

- Project implementation experience and evidence from analytical work carried out by the Bank has enabled identification of and increasing focus on some of the most effective and potentially transformative investments for successive operations such as HEFs and results-based financing of health facilities.
- Identification of needs such as greater institutional sustainability, backed with investments in capacity of counterpart agencies, enabled the mainstreaming of implementation arrangements. The Bank funded health operations increasingly use government systems and support the transition of key accountability functions to the respective government agencies, instead of relying on parallel implementation entities, and are creating strong national institutions to carry on highly specialized functions required in the health sector.
- The Bank has been at the forefront of alignment and harmonization efforts of development partners' support to RGC. The Bank's performance in these convening, coordination and joint implementation roles (including as the administrator of a Multi-Donor TF) has helped to secure funding from partners to pool and manage funds, and to lead knowledge work that supports further attainment of development objectives.

Operationally, this has enabled Bank support to evolve from traditional investment financing to co-financing of key Government programs in the health sector.

34. Improved road asset management and greater focus on road maintenance contributed to the CAS objective of upgrading Cambodia's road infrastructure. From 2008 to 2014, the Road Asset Management Project (RAMP) rehabilitated 476 km of roads, contributing to an increase in the proportion of the national road network in good or fair condition from 57 percent to 85 percent, and in the value of the road network from US\$800 million to US\$2.5 billion. Capacity building provided under the RAMP supported the creation of a 3-year rolling plan for road maintenance, now serving as the basis for budget allocation for road maintenance by the Ministry of Economy and Finance (MEF), which has quadrupled since 2008.

35. The GMS power trade initiative provided access to electricity to 117,900 rural families, while families in towns and rural areas benefited from improved water and sanitation services. In addition, water supply systems were provided to 11 towns, benefiting 15,000 families (approximately 75,000 people). During the post-CAS period, the Ketsana Response Project improved access to water and sanitation services in 180 villages, benefiting close to 100,000 people, and technical assistance undertaken jointly with UNICEF and WHO supported the development of the 2014-2025 National Strategic Plan for Rural Water Supply and Sanitation. WBG knowledge services also supported the piloting of a decentralized model for rural sanitation, the drafting of licensing and tariffs regulations, and the development of a monitoring system

adopted by the Ministry of Industry and Handicraft for licensed water operators. Lastly, US\$6 million in debt and equity financing was leveraged for piped water services to 325,000 people.

IV. WBG PERFORMANCE

Design of the CAS program

36. **Relevance, Alignment with CMDGs and Support to the Creation of a National Development Program.** As the RGC lacked a comprehensive development program in 2005, the CAS built on the SEDP II 2001-2005, the NPRS 2003-2005, and the RS to meet the poverty-focused CMDGs. The achievement of CMDGs was the central theme of the CAS. Pillar 1 aimed to remove governance constraints to achieving this objective, as poor governance was diagnosed as a fundamental barrier to achievement of CMDGs. Pillar 2 aimed to ease the knowledge and financing constraints to reaching CMDG targets, focusing on sectors where the WBG had a comparative advantage and the Government showed strong commitment to reform. Moreover, the CAS supported the formulation and implementation of the 2006-2010 NSDP to replace the SEDP II and NPRS, and strengthened the Government's leadership in the country's development agenda.

37. **Lessons Learned from the Previous CAS.** The CAS incorporated key lessons learned from the previous strategy, such as the need for direct and consistent focus on governance as a cross-cutting theme and for improved donor coordination and partnerships to ensure results. Pillar 1 directly tackled governance constraints to development results, and a large proportion of objectives in both pillars aimed at improving the country's institutional environment. The WBG played a key role in helping the RGC and DPs put in place mechanisms for regular dialogue among all partners, acting as Lead Donor Facilitator to the Cambodia Development Cooperation Forum. Moreover, Joint Monitoring Indicators were adopted in a number of areas that set the benchmarks for reforms, and were monitored by cross-DPs Technical Working Groups (TWG).

Implementation of the CAS program

38. **The CAS aimed to build and strengthen capacity in institutions and government systems.** The CAS covered 6 thematic areas: (i) promotion of private sector development for poverty reduction; (ii) improvement of NRM; (iii) improvement of service delivery, PFM and civil service performance; (iv) promotion of decentralization and civic engagement; (v) support the formulation of a Government-led strategy to achieve the CMDGs; and (vi) support to underfunded sectors critical to the CMDGs. IDA financing reached US\$292.3 million for 14 investment projects and 1 development policy operation; IFC investment financing totaled a cumulative commitment amount of about US\$97 million during the 2005-2011 period, focusing on financial and infrastructure sectors.

39. **The CAS emphasized partnerships around sector programs, and the Bank established multi-donor TFs in key areas.** It took on a leadership role in policy dialogue among DPs as Co-Chair of the Consultative Group and Lead Donor Facilitator for the CDCF, and leveraged US\$181 million (as of Q1 FY16) of TF from other donors. The CAS Progress report was prepared in 2008 jointly with the Asian Development Bank (ADB), the United Kingdom's Department for International Development (DFID), and the United Nations (UN), and concluded

that the CAS was still appropriate and the program was extended to FY11. Implementation performance was deemed satisfactory in most areas, but with some lagging indicators for the governance pillar, amid fiduciary issues on the management of the Bank's portfolio, which had been addressed by the introduction of Good Governance Frameworks (GGFs) in the Bank portfolio of projects and the use of an Independent Procurement Agent (IPA).

40. **During CAS implementation, the WBG focused increasingly on implementation and delivery of analytical services.** The Bank carried out 84 ASA tasks and IFC provided advisory services for about US\$23 million to both the RGC and private sector clients, covering access to finance, regulatory and legal framework, and private sector support activities (See Annex 3). WBG support included delivery of the 2009 Country Economic Memorandum, just-in-time notes on the global economic crisis, and the background paper underpinning the RGC's rice policy - which were well received by the government and had notable policy impact. Strong emphasis was put on implementation with an in-depth thematic supervision combining physical and fiduciary reviews, continued monitoring and improvements to the Good Governance Frameworks (GGFs), and the continuation of the annual portfolio reviews jointly with the RGC and the ADB. This led to a gradual increase in disbursement from a low 13 percent in FY07 to over 20 percent in FY11.

41. **The overall development impact of WBG support to Cambodia during the period after 2011, when the Bank did not make new financing commitments while the IFC continued providing financing with increased selectivity, was limited.** The Cambodian economy continued growing rapidly during 2011-2015. World Bank Group advice, technical assistance and the implementation of IFC financed, trust funded, and ongoing projects contributed to economic growth, poverty reduction and consolidation of CAS results, for example through the Poverty Assessment, Trade Development Project, Health Project, and private sector rice/agribusiness investment. However, the pause in new IDA financing commitments meant that Cambodia could not take advantage of otherwise potentially available development resources. Cambodia accessed US\$93 million of the US\$260 million available allocation under IDA15 and no IDA 16 resources.

V. ALIGNMENT AND ACHIEVEMENT OF WBG CORPORATE GOALS

42. **Cambodia's progress towards reducing poverty and promoting shared prosperity during the CAS period was impressive.** The poverty headcount ratio dropped from 50.2 percent in 2004 to 20.5 percent in 2011 and 17.7 percent in 2012, substantially exceeding the Millennium Development Goal of halving the proportion of the poor. This achievement was supported by the country's strong economic performance during that period, with a cumulative real GDP growth of 54.5 percent. The pro-poor nature of growth led to a reduction in the GINI coefficient from 0.326 in 2004 to 0.282 in 2011, despite increasing during the first years of the CAS period. Furthermore, consumption for families in the bottom 40 percent rose faster than for the rest of the population, with a cumulative growth of 50 percent, significantly above the 38 percent increase for the median and average household.

VI. LESSONS AND SUGGESTIONS FOR THE FY16–17 CEN

i) Governance in Cambodia: a cross-cutting issue

43. **Since Cambodia emerged from conflict two decades ago, governance risks, in particular land-related and fiduciary risks, have been high.** The land sector was considered one of the most challenging in the world. Massive internal displacement took place during the years of conflict while most land records including cadastral maps and title registers had been destroyed. Land grabbing emerged and resulted in numerous land disputes while there was little government capacity to manage and administer the land issues. Although a small percentage of land had been distributed by the government to families in 1988 and to returnees from refugee camps in 1991, most people occupied and used land that was State Land. Furthermore, the Country Financial Accountability Assessment (2003) and Country Procurement Assessment Review (2004) identified numerous fiduciary risks including: centralized nature of the public expenditure management system; weak financial management practices; weak control over soft expenditures; inadequacies in the public accounting system; fragmented and inadequate procurement legal framework; limited procurement oversight; capacity weakness in internal and external audits quality as well as procurement; and high turnover of trained counterpart staff resulting in the continued need for consultant support for the majority of projects.

ii) The Challenge of Addressing Fiduciary Risks

44. **At the start of the last CAS the World Bank and RGC engaged collaboratively in a broad agenda to strengthen governance.** Between July 2004 and September 2005, the Bank undertook a Fiduciary Review (FR) jointly with the RGC and with the involvement of the Bank's Department of Institutional Integrity (INT). The FR was part of the Bank's overall strategy to strengthen its implementation support and fiduciary oversight, and was a key component of the Bank's 2005-2008 CAS which included a focus on the improvement of governance. The FR was meant to be a proactive instrument to assess the effectiveness of fiduciary controls and to propose specific measures to improve them. The RGC identified four ongoing projects representative of the IDA-financed portfolio at that time for assessment in the FR. The FR confirmed that works, goods and services reviewed under the four projects had been delivered and had contributed to the achievement of the projects' development objectives; but it also highlighted several weaknesses in the approach to project design, implementation and supervision. The Bank and the RGC agreed to develop and implement measures to address the main issues identified, for broad application in the IDA-funded portfolio.

45. **Despite the early promising engagement, the identification and approach to resolving some high profile fiduciary issues subsequently strained Bank-RGC relations.** An INT investigation that followed the FR found evidence of fraud and corruption in seven Bank-financed projects (of which four were under implementation and three were already closed at the time of the investigation), and the Bank declared mis-procurement and suspended disbursements for three projects.

Box 2: Cambodia: Independent Procurement Agent

What happened?

Following an INT investigation in 2006, the Bank declared mis-procurement and suspended disbursements in three projects. In February 2007, the Bank lifted the suspensions of disbursements on the three projects after the RGC adoption of measures to improve governance in the implementation of these projects, including the use of an Independent Procurement Agent (IPA) run by two international firms. The Bank and RGC agreed to use the IPA to carry out procurement functions on all Bank-financed projects in the portfolio. The IPA carried out this function from October 2007 to November 2013, funded by an IDA grant from the Cambodia Public Financial Management and Accountability Project. It was designed as a short-term arrangement of safeguarding Bank-financed tenders upstream of the procurement process, while demonstrating collective commitment to fighting corruption during a highly sensitive period for the Bank and the RGC.

What have we learned?

The IPA was an enclave arrangement bringing external procurement expertise with minimal linkages to government systems. Its slow start-up adversely affected disbursements across the portfolio. While ring fencing fiduciary controls through the IPA helped improve compliance and fiduciary performance, it constrained dialogue on procurement reforms, and did not result in demonstrable improvements in building local procurement capacity. The rationale for phasing out the IPA in 2013 was to focus on building local institutional capacity to undertake public procurement, while assuring the required level of fiduciary compliance on Bank-financed projects.

What are the Post-IPA Arrangements?

Since the discontinuation of the IPA in 2013, extensive procurement training of local counterparts supported by the Bank has contributed to improve local procurement capacity. Almost 90 percent (in US\$ volume terms) of post-IPA procurement transactions managed by government officials in 2014 and 2015 were reviewed by the Bank, and no significant irregularities were found. Low prior review thresholds have been deliberately adopted to mitigate fiduciary risk and build procurement capacity in counterpart agencies through on the job mentoring. The RGC has taken steps to improve the enabling environment and procedures for procurement and public financial management. A Public Procurement Law was enacted in January 2012. The law includes provisions to combat fraud and corruption, complaints handling and code of ethics for Government staff.

Looking ahead, the Bank plans to continue to work with the RGC to provide technical assistance to improve the fiduciary environment and strengthen transparency and integrity in the procurement process. In addition, where feasible, independent fiduciary/technical verification will be embedded in project designs especially for dispersed projects with many implementers at subnational level, in line with the risk level.

46. **The RGC undertook actions to strengthen governance at the project and country level, many of which had been previously agreed on the basis of the FR, which led to lifting of the suspension of disbursements.** These measures included the adoption of Good Governance Frameworks (GGFs); revising and strengthening control in the Standard Operating Procedures (SOPs) for all externally financed projects; and training relevant staff in their use. Also, an Independent Procurement Agent (IPA) was put in place for most procurement under IDA-funded projects (see Box 2). Funded by IDA, the IPA was conceived as a mechanism to delegate procurement to an independent international firm and to safeguard IDA-financed tenders upstream of the procurement process, while demonstrating collective commitment to curb corruption during a highly sensitive period.

47. **The IPA helped improve compliance and fiduciary performance partly by substituting for local capacity and expertise, thereby reducing scope for the strengthening of the government's own systems.** The IPA was effectively a parallel enclave arrangement of

foreign procurement expertise with limited linkages to local systems. While the IPA helped address the procurement processing in Bank-financed projects, it bypassed implementing agencies and national systems for carrying out procurement, constrained dialogue on procurement reforms and thus, did not result in demonstrable improvements in local capacity or systems (See Annex 4).

iii) Land Issues in Cambodia and the Boeung Kak Lake (BKL)

48. **In 2001, the government and parliament passed a new Land Law which allowed people who occupied land without use of force for five years, to develop an ownership right to that land.** The law paved the way for large-scale privatization of land. It also provided for native ethnic minorities to register as legal entities and then apply for communal land titles. The Land Law provides a two-pronged definition of State Land: State Public Land which cannot be sold or subject to concessions or long-term leases, and State Private Land which can be privately or communally owned, granted in concession or leased. The specific details to implement the Land Law were contained in subsequent sub-decrees and guidelines, including a sub-decree on demarcation of State Land, a sub-decree on Social Land Concessions (distributing private State Land to poor landless families) and a sub-decree on Economic Land Concessions.

49. **In 2002, the IDA-financed Cambodia Land Management and Administration Project (LMAP) was approved, with the goal of supporting the first phase of the RGC's long-term plan to build a modern land management sector, as this was viewed as an important cornerstone of the country's development program.** The Project achieved significant development results in several areas. It helped establish a modern land administration system which resulted in the registering and titling of more than 1 million parcels of land. It also helped put in place key elements of the policy and regulatory framework. A key component of LMAP was the land titling program, which focused on systematic titling of entire so-called adjudication areas, following an agreed adjudication.

50. **In May 2006, the Sras Chok Sangkat, near the center of Phnom Penh, was declared an adjudication area under the LMAP.** The commune included the Boeung Kak Lake (BKL) and its shoreline where, according to government census data, 4,250 families were resident. However, the BKL and its shores were recorded as a single block, with the owner listed as 'unknown' and the occupation rights of the people living on the shore unacknowledged.

51. **In August 2005, nine months prior to the declaration of the adjudication area, the Government approved in principle private development of the BKL area.** The municipality of Phnom Penh signed a lease for the BKL area for 99 years in February 2007. More than a year later, in August 2008, the Government issued a Sub-Decree to convert the areas from State Public Land to State Private Land. BKL residents were told that they had to relocate and could accept one of three compensation / resettlement options offered by the private developer.

52. **In March-April 2009, a World Bank mission concluded that since the Sras Chok adjudication area was an area where LMAP was undertaking systematic land titling, the project Resettlement Policy Framework (RPF) should apply.** While the RGC maintained that the LMAP RPF was not applicable, a subsequent Inspection Panel Investigation Report on LMAP found that the evictions violated the LMAP RPF. The RGC opted to address the resettlement of

BKL families without Bank support and requested cancellation of the remaining IDA commitments under LMAP, and the Bank decided to pause new IDA financing commitments to Cambodia.

53. **The Government has proceeded on its own to address the issues identified in the Inspection Panel Report on the LMAP project.** Through the municipality of Phnom Penh, the government has engaged with BKL residents to implement a three-pronged compensation plan including (i) provision of land titles to families still residing in the BKL; (ii) provision of a flat outside of the BKL area; and (iii) cash compensation to thousands of families. Implementation of the government's compensation plan has been slower than anticipated but progress has been steady. Following completion of both cash compensation and in-kind (provision of flats) compensation outside the BKL area, land titles have been provided to several hundred eligible families who have remained in the BKL area. While some protests continue as of early 2016, there remain 41 families who have yet to receive land titles. Seven of these remaining families are still negotiating the location and size of land titles with the Municipality of Phnom Penh, while others have completed negotiations.

iv) Priority Areas for Future Engagement

54. **The following areas have been identified as priorities for future WBG-RGC partnerships.** Support to the RGC's rural development objectives is vital for poverty eradication in Cambodia, as 90 percent of the country's poor still reside in rural areas. Also, the high incidence of vulnerability highlights the importance of effective social safety nets, with reduced pocket health expenditures, and of improved education quality. Moreover, rising industrial and urbanization rates stress the need for new and improved infrastructure and related services, and there is space for the WBG to play a greater role in improving infrastructure in priority areas such as energy and transportation, including through Public and Private Partnerships (PPP). In the financial sector, an effective engagement can usefully focus further on inclusion by enabling access to a broad range of financial services in addition to credit, such as savings, payments, insurance, consumer protection and financial literacy, while continuing to support capacity building for financial regulators to promote soundness and stability across the sector. Lastly, continued support for the enhanced governance and fiduciary systems agenda, including through the planned Public Expenditure Review and Country Procurement Assessment, will be important.

55. **WBG-RGC engagement in the medium to longer term will benefit from a comprehensive review of Cambodia's key development challenges involving country-wide consultations, such as through a Systematic Country Diagnostic (SCD).** In the near term, WBG support to Cambodia will aim at consolidating results achieved during the last decade. Medium to longer term engagement will be informed by the results of an SCD to ensure the WBG's program remains aligned with Cambodia's evolving development priorities, in consultation with other stakeholders. Also, given implementation experience and discontinuation of the IPA, the Bank's engagement will benefit from a systematic review of the country's fiduciary systems to generate recommendations to strengthen both country systems and portfolio performance.

Appendix 1: Results Matrix for the Extended and Interim CAS Periods (2005-2015)

CAS Outcome	CAS Outcome Indicators and Milestones	Status as of December 31, 2011	Progress during 2012-2015	Instruments
<p>CAS OBJECTIVE 1: Promote private sector development for poverty reduction <i>Promote broad-based sustainable economic growth of 6-7% with equity with the private sector playing the leading role</i></p>				
<p>1.1 Governance-related constraints to productivity growth are substantially reduced</p> <p><i>Target:</i> Transparent, streamlined trade processes and business environment (2011)</p>	<p><u>Developing institutions to identify constraints and assess progress</u></p> <ul style="list-style-type: none"> • Investor scorecards developed in 2006. PBES covering 24 provinces (2009) • Government-Private Sector Forum established and continued <p><u>Facilitating trade</u></p> <ul style="list-style-type: none"> • Risk management offices in all key trade-institutions; ASYCUDA rolled out. • 30% reduction in time to clear exports. • Agencies with the authority and mandate to conduct routine inspections of shipments reduced from six to two • Implementation of Trade Information Gateway • Completion of major pieces of the WTO accession work program, with commercial laws and regulations publicly available <p><u>Increasing Corporate Social Responsibility</u></p> <ul style="list-style-type: none"> • Sustainable business model adopted for “Better Factories Cambodia” and extended to other sectors as appropriate • Smoother industrial relationships and well established arbitration mechanism 	<p>Achieved. ICS (2004) Provincial Business Environment Scorecard (PBES) covering 10 provinces by 2007 and 24 provinces in 2009. Well established and respected dialog at national level</p> <p>Partially Achieved. Average time to clear exports decreased by almost 49% from 4.5 days in 2003 to 2.3 days in 2010. Risk management strategy implemented (in CAMCONTROL and GDCE) and ASYCUDA program in place in 54 border checkpoints including Sihanoukville (the country’s main port) and Phnom Penh. WTO accession work program not completed</p> <p>Partially Achieved. Model for “Better Factories Cambodia” (BFC) adopted in the garment sector but not in other sectors. Recommendations implemented and enhanced sustainability by decreasing reliance on donor funding. Well established ACF Labor dispute resolution tribunal. The tribunal successfully arbitrates more than 191 cases per year.</p>	<p>PBS discontinued in 2011.</p> <p>Average time to clear exports stood at 2.4 days in 2014. Online public Trademark database launched. WTO gap assessment carried out with line ministries.</p> <p>IFC engagement with BFC has continued at a strategic level through Global Better Work partnership with ILO. Tribunal now arbitrates more than 350 cases per year.</p>	<p>FINANCING Trade Facilitation and Competitiveness Project (TFCP); Cambodia Trade MDTF; Poverty Reduction and Growth Operation</p> <p>AAA/OTHER ICA; Sources of Growth; Partnership/ facilitation role in PSD; MPDF; FIAS TA; G-PSF; IFC Advisory Services</p>
<p>1.2 Institutions that integrate new firms into international value chains established</p> <p><i>Target:</i> Higher levels of investments, including</p>	<p><u>Enabling higher levels of investment, including foreign direct investment</u></p> <ul style="list-style-type: none"> • 5 operational zones or more and SEZ regulated by law • Strategy to support resolution of disputes at local level developed and credible and 	<p>Partially Achieved. New SEZ established in Phnom Penh. SEZs are also operating in Bavet, Koh Kong, Sihanoukville. Investor aftercare program was initiated at the Cambodia Investment Board. Establishment of The Credit Bureau Cambodia (CBC).</p>	<p>The SEZ Sub-decree was adopted by the Cabinet in 2011. Credit bureau has been successfully operational with 108 members in 2012, covering 5 million consumers. NCAC established and fully functional and NCAC dispute settlement clauses have been</p>	<p>FINANCING TFCP; Cambodia Trade MDTF; PRGO; Agri-Business Access to Finance; Business</p>

CAS Outcome	CAS Outcome Indicators and Milestones	Status as of December 31, 2011	Progress during 2012-2015	Instruments
<p>foreign direct investment, to connect Cambodian firms to international markets (2011)</p>	<p>respected Commercial Arbitration Center functioning</p> <ul style="list-style-type: none"> Government-Private Sector Forum (PSF) incorporated into donor PSD dialogue Capacity of business membership organizations strengthened in policy monitoring and advocacy. Well established credit information system. Amended Law on Investment operational and implemented <p><u>Enabling development of microfinance and agro-business sector</u></p> <ul style="list-style-type: none"> Number of microfinance clients 1 million; outstanding loans: US\$200 million Size of agro-business industry - 650b riel (Value Added, constant 2000 prices) <p><u>Undertaking catalytic investment in new sectors</u></p> <ul style="list-style-type: none"> IFC investments generated in commercially feasible projects - Around US\$50 million per year (2008-2011) Local private sector livelihoods linked to international tourism value chains in Siem Reap 	<p>Establishment National Commercial Arbitration Center (NCAC) advanced. Formation and capacity building for Phnom Penh Hotel Association, Siem Reap Hotel Association, Cambodia Hotel Association, Cambodian Travel Association (CATA), Camfeba. Investor aftercare program was initiated at the Cambodia Investment Board. Consultations on proposed amendments to the law have not taken place nor has the law been implemented.</p> <p>Insufficient data. The cooperation agreements to conduct studies on possible MFI consolidation were signed with few MFIs in 2009/10. IFC TA provided to AMK. No data on number of clients as of 2011, but target was surpassed by 2015. No data on size of agro-business.</p> <p>Partially Achieved. IFC invested US\$ 96.71 during this period across three main sectors: financial market, Infrastructure (Airport & Telecom) and MAS. A value chain study was prepared and delivered to the Cambodian Tourism Association in 2007. Actual investments averaged US\$ 25 m/ year, short of the US\$50 m/ year target.</p>	<p>embedded in investor contracts. Business Associations continue to represent interests of their industries, working closely with relevant government agencies.</p> <p>At the micro finance sector level, outstanding loans totaled US\$ 2,721 million and number of depositors and borrowers were 1.35 and 1.93 million, as of third quarter of 2015.</p>	<p>Incubation TF; IFC Investments</p> <p>AAA/OTHER ICA; Sources of Growth; FIAS TA; MPDF; G-PSF; TA to microfinance institutions; IFC advisory services.</p>
<p>1.3 Increased private investment in infrastructure</p> <p><i>Target:</i> Effective and transparent system of concessions (2011)</p>	<p><u>Increasing transparency and accountability of PPI</u></p> <ul style="list-style-type: none"> Regulatory frameworks for private provision of electricity, water, telecom, transport and education issued by 2006 Concession Law submitted to National Assembly in June 2005. Sub-decree and implementing regulations adopted; main terms of contracts disclosed by website; effective process of concession allocation and management 	<p>Insufficient data. Concession Law adopted in September 2007. Road and Traffic Law adopted by National Assembly on December 20, 2006 and promulgated on February 8, 2007. No data on progress in telecom, electricity and education.</p>		<p>FINANCING TFCP; PRSO</p> <p>AAA/OTHER FIAS TA</p>

CAS Outcome	CAS Outcome Indicators and Milestones	Status as of December 31, 2011	Progress during 2012-2015	Instruments
<p>CAS OBJECTIVE 2: Improve natural resource management <i>Increase access of local communities to benefits of land and forests</i></p>				
<p>2.1 Increased transparency and participation in the management of state lands</p> <p><i>Target:</i> Information on state land holdings and uses publicly accessible and mechanisms for assigning use of state lands include participatory mechanisms working with local stakeholders (2011)</p>	<p><u>Key state land allocation processes provide for public transparency and local stakeholder participation in allocation decision process</u> State Land Management Sub-decree enacted in 2005. All state land allocation, mapping, demarcation and registration processes include a priori participation and transparency measures</p> <p><u>Public access to information on the location and use of state lands</u></p> <ul style="list-style-type: none"> Establishment of state land databases at national and provincial/municipal levels to record information on location and use of state lands including maps, coordinates, characteristics of planned land use <p><u>Improved management of economic land concessions consistent with RGC goals</u></p> <ul style="list-style-type: none"> ELCs reviewed and rationalized consistent with environmentally and socially appropriate areas including reductions in area and cancellations as well as stricter controls on respecting investment commitments and provision of benefits to local communities. New ELCs respect provisions of ELC subdecree regarding a priori state land registration and use primarily of bidding process for allocation 	<p>Insufficient data. Stated Land Management Sub-decree enacted. More transparent and participatory land allocation process developed by LASED in place and forest demarcation improved. Implementation of sub-decree delayed and state land mapping continues to be ad hoc. Bank support was cancelled before implementation could be completed. Ad hoc land mapping continues.</p> <p>Insufficient data. RGC website and social media presentations updated with all major legal and procedural documents accessible and regular updates of RGC achievements. Bank support was cancelled before implementation could be completed.</p> <p>No data.</p>	<p>Land Policies (White Paper) Issued on Aug 28, 2015 to (1) Strengthening land holding security (2) provide clear direction with transparency and equity in allocation and use the state land for private and public purpose, (3) provide the direction of natural resources and land use aim to economic development, protection and response to the effect of climate change and other disasters.</p> <p>A Decision was published to Create an Inter-Ministerial Commission to Inspect, Demarcate and Assess Economic Land Concessions dated 18 August 2014 and signed by Prime Minister.</p>	<p>FINANCING Closed: Multi-donor LMAP; PRGO;</p> <p>AAA/OTHER Natural Resources Management Framework; CDMTA;</p>
<p>2.2 Increased number of poor Cambodians able to benefit from formal mechanisms for access to and secure ownership of private lands</p> <p><i>Target:</i> Initial systematic registration and titling completed to target levels</p>	<p><u>Increased systematic land titling</u></p> <ul style="list-style-type: none"> 1.545 million plots adjudicated and 1.174 million titles distributed in 14 provinces/municipalities <p><u>Indigenous Communal Land Registration and Titling</u></p> <ul style="list-style-type: none"> Policy and legal requirements in place and 30 communities have registered as indigenous 	<p>Partially Achieved. Before cancellation of Bank support in 2009, over 1.47 million land parcels surveyed, 1.13 million titles signed and 1.07 million titles distributed to beneficiaries. Bank support cancelled</p> <p>Insufficient data: Policy on Registration and Use Rights of Indigenous Communal Land adopted. Bank support Cancelled.</p>	<p>Total number of land title distributed is more than 4 million titles (October 2015).</p> <p>There are 165 that have MRD approval, and 95 that have MOI approval. 11 indigenous communities have communal titles (2015).</p>	<p>FINANCING LMAP; LASED; Smallholder Agriculture and Social Protection Support; Land Administration Management Distribution Support</p> <p>AAA/OTHER</p>

CAS Outcome	CAS Outcome Indicators and Milestones	Status as of December 31, 2011	Progress during 2012-2015	Instruments
<p>and complemented by sporadic communal titling for indigenous communities and land distribution for the poor leading to full title (2011).</p>	<p>communities and 20 have received communal titles</p> <p><u>Distribution of state land to the poor.</u></p> <ul style="list-style-type: none"> 10,000 qualified, landless households receive at least 3 ha of productive land, settlement and production support through community-based mechanisms 	<p>Achieved. The LASED Project funded the identification and distribution of more than 14,127 ha of Social Land Concessions to 4,697 poor and landless families. Using the processes designed under LASED, the RGC distributed in total 113,541 ha of land to 12,494 poor families.</p>		<p>Agrarian Structure, Support to Agricultural Policy and Strategy, NRM Framework, Growth Study; Option for Land Administration Reform.</p>
<p>2.3 Strengthened systems for management of forests and protected areas based on working with local communities</p> <p><i>Target:</i> Increased percentage of protected areas and forest area demarcated and under management plans working with local communities (2011)</p>	<p><u>Forest demarcation</u></p> <ul style="list-style-type: none"> Technical secretariat of Forestry TWG supported to implement studies of forest management models, organizational options. Monitoring system for forests and protected areas reestablished in FY05 and maintained. <p><u>Expanded benefit sharing approaches to forestry, including community forestry</u></p> <ul style="list-style-type: none"> 200 community forestry areas covering 1,200 hectares formally recognized by Forest Administration; 50 with approved management plans <p><u>Protected areas system strengthened</u></p> <ul style="list-style-type: none"> Protected areas management plan preparation manual completed in 2005. Standard national ranger training program initiated in 2006. Protected areas law passed and subsidiary legislation in place <p><u>Expansion of community protected areas</u></p>	<p>Insufficient data on forests and protected areas. Support provided for Gap Analysis of Cambodia's PA System Study, Management Assessment of Cambodia PA System, Annual Operations Planning for PA, among others.</p> <p>Not Achieved: Four CPAs were formally established against a target of 200..</p> <p>Achieved.</p> <p>No data.</p>		<p>FINANCING</p> <p>Biodiversity and Protected Areas Management Project; Community Forestry JSDF</p> <p>AAA/OTHER</p> <p>Forest Law Enforcement Governance, Support to National Forest Plan, NRM and Forestry</p>

CAS OBJECTIVE 3: Improve service delivery, public financial management and civil service performance

Improve capabilities and strengthen institutions to reduce poverty in accordance with the NSDP (all targets expected to be achieved by FY2011 except where explicitly stated)

<p>3.1 Strengthened framework of accountability for the mobilization of resources and management of public finances sets stage for improved governance, service delivery, and reduction in corruption</p> <p><i>Targets: (2011)</i></p> <ul style="list-style-type: none"> • Comprehensive, integrated and accountable capital/recurrent budget formulated with early deployment of associated Financial Management Information System to facilitate budget execution, monitoring and financial reporting at aggregate and executing agency level (MEF, central, sub-national, and agency) • NAA/National Assembly oversight strengthened 	<p><u>Competitive pay and appropriate performance standards introduced in the MEF as measured by number of officials earning a living wage. Promulgation of new legal framework that unifies budget systems while providing for control and flexibility by 2007.</u></p> <p><u>Improving resource mobilization, allocation, and control</u></p> <ul style="list-style-type: none"> • Revenue collection increased progressively to 13.5% of GDP and outturn deviates by less than 5% of budget forecast. • Resource allocation progressively integrated and aligned with NSDP priorities • Program budgeting introduced across government by 2008 • Integrated MTEF/Budget framework implemented based on Budget Strategic Plans in 10 priority ministries • Developed and implemented fiscal decentralization strategy <p><u>Improving financial management and procurement</u></p> <ul style="list-style-type: none"> • Percentage of Treasury payments made through banking system rises to 33% by 2007 and 67% by 2008 • Procurement system restructured to establish a single monitoring office. • Procurement regulations modernized by Jan. 2006 and procurement law passed by 2007 • Financial management information system (FMIS) piloted and rolled out • NAA capacity and independence strengthened • Anti-corruption Law passed and implemented. 	<p>Achieved. Organic budget law (Financial System Law) adopted in 2008. The restructured pay system provides a higher level of and more realistic increase in basic salaries for the lowest level of civil servants.</p> <p>Achieved. Revenue collection increased from 10.3 percent of gross domestic product (GDP) in 2004 to 13.1% in 2011. Resource allocation progressively aligned with NSDP priorities. Budget entities have been introduced and piloted. Decentralized Commune/Sangkat and district funds introduced (Annual Budget Law). Mandatory bottom-up Budget Strategic Plans were introduced for all line ministries in 2007. Guideline for formulation and execution of budget entities finalized and disseminated to 10 line ministries. A number of functions carried out by central government ministries have been approved for transfers to district/municipal level. Decentralization Plan completed in 2015.</p> <p>Partially Achieved. Treasury payments through banking system achieved 75%. FMIS not yet implemented. Audit reports were submitted regularly to the National Assembly and contributed to relatively speedy adoption of the budget settlement law within 12-18 months. The NAA's audit covers government's fund, which is approximately 66% of the total government budget. Organic Anti-Corruption Law approved, adopted and under implementation</p>	<p>Adoption of a National Action Plan for Public Administration Reform (NPAR) 2015-2018. Fully operational HRMIS is currently being explored under the NPAR.</p> <p>Revenue reached 18% of GDP in 2014. Resource allocations continue to be aligned with NSDP priorities (e.g. allocations to education sector rose from 1.5 percent of GDP in 2004 to 2.17 percent of GDP in 2015). Program budget is fully implemented in 10 ministries in 2015. Ongoing implementation of the 2015 updated 3 year implementation plan (IP3) of National Program for Subnational Democratic Development.</p> <p>Percentage of Treasury payments made through banking system are almost 100 percent. Public Procurement Law adopted in 2012. FMIS currently operational to support timeliness of payments and accuracy in financial reporting. All government funds (100%) are reviewed by internal audit.</p>	<p>FINANCING PFM & Accountability Program and Multi Donor Trust Fund; PRGO (including support to sector programs); PFM Modernization TF</p> <p>AAA/OTHER Annual External Advisory Panel Reports; PETS; review/design of new civil service incentive schemes; assessment of civil service reform task environment; continued input to sector program design and management; Oil and Gas Sector Policy;</p>
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<p>3.2 Civil service management and incentives tied to performance, set basis for strengthened service delivery and reduced reliance on patron client systems</p> <p><i>Target:</i> HRM management, development and remuneration framework in place and under implementation in priority sectors (2011)</p>	<p><u>Substantive steps toward establishment of a meritocratic civil service and greater accountability to citizens</u></p> <ul style="list-style-type: none"> • Strengthened CAR HR oversight capacity FY2010); • HR Policy and implementation plan developed (FY2009); • HRMIS II fully implemented for control staff recruitment and promotion based on budget ceilings-(FY2010); (iv) MBPI extended to all Strategic Reform Programs (FY2010); • Progressive improvements over time in citizens' perceptions of priority service quality based on citizen surveys (each year) 	<p>Not Achieved. Endeavors to establish merit-based compensation met strong resistance from several line ministries, donors and the armed forces. Initiative was replaced by different scheme called Priority Operating Costs which for 2011 allows line ministries to set their respective incentive pay schemes in consultation with donors.</p>	<p>The MBPI pilot has resulted in a broader civil service reform starting 2014 supported by the increase in minimum salary of the civil servants with a new pay structure and a credible national plan, the NPAR 2015-2018. This enables improvements in public service delivery.</p>	
<p>CAS OBJECTIVE 4: Support decentralization and promote citizens' partnerships for better governance</p>				
<p>4.1 Improved policy and regulatory framework for D&D and civic engagement</p>	<p><u>Improving framework for D&D</u></p> <ul style="list-style-type: none"> • Development and implementation of strategy to increase sub-national own-source revenues • Regulatory framework (Organic Law) for D&D drafted and released for consultation by November 2007 <p>Related National Program for Sub-National Democratic Development developed and under implementation</p> <p><u>Enabling environment for civic engagement</u></p> <ul style="list-style-type: none"> • A strategy and program for constructive engagement between state and NGO sector and for building capacity of CSOs is produced and its implementation initiated • Improved capacity of civil society institutions to impact good governance in the public sector 	<p>Achieved. Organic Law approved, adopted and under implementation. National Program for Sub-National Democratic Development developed and second, 3-year implementation plan is under way. Inter-ministerial regulation is in place, districts and communes receive a portion of fees collected.</p> <p>Achieved. Nationwide Social Accountability Framework (SAF) and Implementation Plan (I-SAF) approved and underway. Civil society institutions participating actively in I-SAF. Anticorruption Law approved and in force. Freedom of Information Law has yet to proceed.</p>		<p>FINANCING Program to Enhance Capacity in Social Accountability (PECSA), RILGP; RILGP Additional Financing</p> <p>AAA/OTHER Civil Society Assessment</p>
<p>4.2 Improved mechanisms and processes for decentralization of resources and services to commune councils</p> <p><i>Target :</i> Increased reliability and predictability of funding</p>	<p><u>Improving intergovernmental fiscal transfers</u></p> <ul style="list-style-type: none"> • Regulations promulgated to facilitate collection of OSRs. • Revised sub-decree establishing C/SF allocations for 2008-10 issued by late 2007. <p><u>Improving local revenue systems</u></p>	<p>Achieved.</p> <p>Achieved.</p>		<p>FINANCING RILGP; RILGP-AF</p>

<p>from central to commune level; increased local level own resources</p>	<ul style="list-style-type: none"> • Communes receive cash transfers equal to C/SF allocations • Enhanced reporting and disclosure procedures adopted at commune level by mid-2007. • Revised gender strategy to be mainstreamed into post-Seila institutions during RILGP process during mid 2007 • Improved financial management and accounting practices adopted and consistently applied for C/SF from 2006. <p><u>Strengthening participation, transparency, accountability</u></p> <ul style="list-style-type: none"> • Annual audits by NAA of C/SF are undertaken, publicly available, and appropriate actions are taken to redress deficiencies found from 2006 onward • One window service and Ombudsman offices set up to deliver certain decentralized services under the Organic Law on D&D 	<p>Achieved.</p>		
<p>4.3 Increased protection of citizens' rights and access to justice and information</p>	<p><u>Protecting citizens' rights and improving access to justice and information</u></p> <ul style="list-style-type: none"> • Government agrees on role of commune councils and other dispute resolution councils • Increased assistance to communities to help them access formal or alternative justice or dispute resolution systems (led by UNDP). • Mechanisms in place to increase the information for dissemination of laws and policies to citizens • Increased level of awareness among citizens on use of demand side approaches to improve their access to information, service delivery and justice • Greater use of media to disseminate and discuss information on government programs 	<p>Partially Achieved. Role of commune councils agreed. Mechanisms in place to increase availability of information on laws and policies. Greater use of media to disseminate and discuss government programs. Role of the media to disseminate and discuss government programs is still very limited and the Freedom of Information law is still not approved.</p>		<p>FINANCING PECSA; Demand for Good Governance Project</p>
<p>4.4 Greater involvement of citizens and elected representatives in accountability process at national and sub-national levels</p>	<p><u>Improving involvement of citizens' inputs into public policies and development debate</u></p> <ul style="list-style-type: none"> • Scorecards piloted to measure quality of service delivery in schools. • Grievance mechanisms in place for abuses in donor funded projects. • Community monitoring tools developed and piloted with extensive civil society participation in selected communes. 	<p>Achieved. Mechanisms in place to address grievances related to donor-funded projects. Community monitoring tools developed and piloted with civil society participation. Increased donor coordination on social accountability.</p>		<p>FINANCING PECSA; Demand for Good Governance Project; Voice and Action TF; Voice, Choice and Decision. AAA/OTHER Civil Society Assessment.</p>

CAS OBJECTIVE 5: Support formulation and implementation of a government-led strategy and investment program for achieving the CMDGs

<p>5.1 Government focus on poverty reduction strengthened through a consolidated national plan with increased country ownership, implementation and monitoring capacity, and participation</p> <p><i>Target:</i> NSDP-II advances on NSDP-I in inclusive process, analytical depth, and influence on resource allocation (Government budget and ODA), while retaining government ownership; systems for implementation and monitoring are significantly strengthened (2011)</p>	<p><u>National Strategic Development Plan (NSDP) 2006-2010 produced and contributes to accelerated implementation of priority policy and institutional reforms.</u></p> <p><u>Accurate, comparable poverty estimates produced regularly and in time for use in NSDP formulation and monitoring</u></p> <ul style="list-style-type: none"> • Key pieces of AAA poverty analysis (CSES, MOPS) completed and synthesized in National Poverty Assessment 2006, which is produced in consultation with other actors, and provides broadly-shared analytical base for final draft of NSDP. • Agreement reached in advance on how CSES 2009 will collect consumption data (consensus on whether to use recall or diary modules) and how this will be analyzed to generate poverty estimates • Large-estimate CSES (2009) generates new poverty profile, trend and analysis in time for incorporation in NSDP-II <p><u>Strengthened RGC capacity for evidence-based policy-making</u></p> <ul style="list-style-type: none"> • Greater NIS ownership of socio-economic analysis and improved statistical literacy and policy formulation skills within NSDP Secretariat (reduced dependence on TA) • NSDP II prepared with increased country ownership, improved situation and performance analysis, and broader participation by government and non-government stakeholders 	<p>Achieved. The NSDP 2006-2010 was finalized in January 2006 and approved by the National Assembly in May 2006. It was updated to the NSDP 2009-2013. NSDP represented significant progress in terms of government ownership of diagnosis and policy prioritization.</p> <p>Not Achieved. Technical disagreements with government delayed the completion of poverty assessment to 2012. In 2012 the government produced official poverty estimates, so the target of obtaining a poverty profile by March 2010 was only accomplished in 2012.</p> <p>Partially achieved. The NSDP 2006-2010 provided the basis to implement evidence based policy in Cambodia. Nonetheless, ownership, knowledge and actual implementation of the NSDP varied across ministries and across units within ministries. Similarly, in some cases, the data required for the follow up was not available. The MoP and NIS acquired some ownership of the CSES data collection.</p>	<p>In 2015, the RGC launched the NSDP 2014-2018, which builds on the 2006-2010 development plan but provides a more detailed set of priorities, target indicators and action, and introduces a monitoring and evaluation framework.</p> <p>Poverty measurement methodology agreed in 2012, and data for 2013 and 2014 is readily available. Government and WB have not produced official poverty estimates using the shared methodology since 2012. This has delayed a poverty update note containing poverty estimates and profiles using the 2013 data.</p> <p>The NSDP update 2009-2013, and the subsequent NSDP 2014-2018 have allowed to government to have a consistent plan and policy guide.</p>	<p>FINANCING Enhancement of Poverty Analysis Capacity TF</p> <p>AAA/OTHER Support to production of 2007 poverty profile; Strengthening capacity for NSDP M&E Poverty Assessment 2010 (based on 2009 household survey); Support to formulation of NSDP-II (2014-2018); Poverty Analytical Capacity Building; Cambodia Poverty Assessment III; Cambodia 5-year Development Strategy; Cambodia Vision 2030.</p>
<p>5.2 Government and ODA resources combined/ aligned more effectively with national development goals</p>	<p><u>Progress (total ODA and Bank program) against Paris Declaration indicators of harmonization and alignment.</u></p>	<p>Achieved. Action Plan for Harmonization and Alignment and ODA Management Policy agreed. ODA coordinating body with senior government leadership established. Increased</p>	<p>Bottom-up strategic budget plan and top-down medium term expenditure framework (METF) are being further</p>	<p>AAA/OTHER JCPR; Technical Working Groups; Cambodia</p>

<p><i>Target:</i> Significant progress towards Cambodia Harmonization and Alignment targets</p>	<ul style="list-style-type: none"> • Action Plan for Harmonization and Alignment (2004-2008) and ODA Management Policy prepared and agreed with donors. • Single ODA coordinating body (the CDC), with senior government leadership, established and supplied by donors with information needed to provide coordination role. • Completed assessment of capacity development needs of government. • Donor capacity development practices streamlined and harmonized. • Agreement reached on principles for donor support to allowances & salary supplements. • More joint missions and joint country planning – at TWG level. 	<p>percentage of ODA reported on budget and delivered through via sector-wide approaches.</p>	<p>improved and refined so that budget and policy are linked.</p>	<p>Development Cooperation Forum</p>
<p>5.3 Gender inequality addressed in a comprehensive manner in formulation and implementation of RGC development strategy</p> <p><i>Baseline:</i> Narrow national base for high-quality, policy-focused poverty research (2005)</p> <p><i>Target:</i> Improved and broader research base for poverty research (2011)</p>	<p><u>Support TWG G Action Plan – WB supporting CGA and gender and aid effectiveness agenda.</u></p> <p><u>Priority programs for promoting gender equality identified and budgeted.</u></p> <p><u>Implementation of programs addressing gender inequality supported through donor programs and coordinated through TWG.</u></p> <p><u>Regular monitoring of progress against the indicators developed.</u></p> <p><u>Policy recommendations in the CGA 2008 operationalized, in particular through Bank projects.</u></p> <p><u>Inclusion of gender analysis and specific gender policy outlines in NSDP II (2010)</u></p>	<p>Achieved. Regular involvement in TWG G led by MOWA continued by WB – WB supported CGA 2008 preparation and publication;</p> <p>Partially Achieved. MoWA and Ministry of Economy and Finance officers trained on Gender Responsive Budgeting (GRB) aiming at integrating gender aspects in the government budget cycle and public financial management reforms. Priority programs for promoting gender equality not yet adequately budgeted for.</p> <p>Achieved.</p> <p>Not Achieved.</p>	<p>Near Rattanak IV (gender strategy) under preparation. Pool of GRB experts in MoWA and MEF established.</p> <p>MoWA developed Program Based Approach (PBA) on Gender Equality (incl. establishment of PBA Working Group) with main objective to harmonize donor support.</p> <p>Regular monitoring of progress against the gender indicators developed and carried out.</p> <p>Gender targeted activities introduced in in all new AF operations (in absence of no new projects); AAA products.</p> <p>Input note on Gender for NSDP 2014-2018</p>	<p>AAA/OTHER</p> <p>Contribution to Ministry of Women’s Affairs (MOWA); Cambodia Gender Assessment; Mainstreaming Gender Framework; Gender in Agriculture Assessment.</p>

CAS OBJECTIVE 6: Support with analytical and investment services those under-funded sectors and sub-sectors critical to achieving the CMDGs

<p>6.1 Key service delivery policy and funding gaps filled through coordinated approach based on national development plan</p> <p><i>Baseline:</i> Costs of services are high for the poor and service delivery facilities are unavailable for poor communities (2005)</p> <p><i>Target</i> Lower costs and better quality of services for the poor and expanded service delivery for poor communities (2011)</p>	<p><u>Improvements in the coverage of basic education and health services</u></p> <ul style="list-style-type: none"> • Increased targeting of education subsidies to the poor and reduced unofficial user fees; measures to mitigate private costs for disadvantaged population. • Improvements in the coverage of complete primary and lower secondary schools, disaggregated by location and commune poverty ranking. • Increased resource allocation to interventions for basic education. • Increased targeting of health subsidies to the poor (within expanded official user fees and reduced unofficial user fees). • Increased resource allocation to interventions to reduce child/maternal mortality. • Review and expansion of contracting system for health service delivery. • Improvements in the utilization of basic health services, disaggregated by location and income. <p><u>Improvements in the quality and efficiency of basic education and health service delivery</u></p> <ul style="list-style-type: none"> • Average academic performance in mathematics (40.4%) and language (37.5%) in Grade 3 • Completion and publication of PETS for education • Annual expenditure tracking M&E for education. • Number of school improvement grants awarded (400) • Completion and publication of PETS for health. • Annual expenditure tracking M&E for health. • Introduction of MBPI to MoH. • Percentage of essential drugs that experienced stock out periods (5% in 2008) <p><u>Developing infrastructure sector strategies</u></p>	<p>Achieved. Education: Notable increases in Early Childhood, primary and lower secondary education enrolment rates. Indicators on number of formal preschool classrooms, number of incomplete schools and number of lower secondary schools also improved. Scholarships provided for lower secondary school students from poor families. Absolute amount of public budget for basic education has been increased.</p> <p>Health: Increase in proportion of fully immunized children and percentage of births delivered in a health facility. Health Equity Funds (HEF) reached 2.6 million poor. Increased number of people with access to a basic package of health services.</p> <p>Partially Achieved. Education: Increased average academic performance in mathematics and language in Grade 3. 650 primary schools received school improvement grants (through ESSUAP). PETS completion and annual expenditure tracking target not achieved.</p> <p>Health: Increased coverage of antenatal care ANC2 by trained personnel. Health PETS completed as part of IFAPER. Percentage of essential drugs that experienced stock out periods had fallen to 4.7% in 2011. Annual tracking and MBPI targets not achieved.</p>	<p>Continued improvements in education coverage, in particular in Early Childhood and lower secondary education. Scope of scholarships for the poor expanded. Budgetary allocations to education has increased rapidly.</p> <p>Continued improvement in percentage of births delivered in a health facility. The percentage of the poor population covered by HEF had risen further to 93 percent.</p> <p>School report card included in monitoring system. Education PETS will be conducted in CY2016. Results Based Planning and Monitoring completely developed for early childhood, primary, secondary and non-formal education sub-sectors. Inspection system for general education schools is being piloted.</p>	<p>FINANCING</p> <p>Education Sector Support; Education Sector Support Scale Up Action Program (FTI CF); JSDF Mainstreaming Inclusive Education, HSSP 1 and 2; DFAT RETF for implementation of a cash transfer pilot on maternal and child health</p> <p>Higher Education and Skills, Second Chances for Youth; Higher Education Quality and Capacity Improvement; Health Sector Support TF; GPE Education Support TF; GMS Power Trade; Road Asset Management;</p> <p>AAA/OTHER</p> <p>Scholarships for the Poor: A Conditional Cash Transfer Impact Evaluation in Lower Secondary Schools; Teaching in Cambodia; Evaluation of Pre-school Construction and Upgrading Program; Higher Education and Labor Market Strategy; Improving Teacher Quality in Cambodia; Health Sector Note; IE of Preventing Mother to Child Transmission of HIV; WBG-DFID Health Sector Support; Power Regulation TA; Water and Sanitation Review; Expanded Water Treatment Technology;</p>
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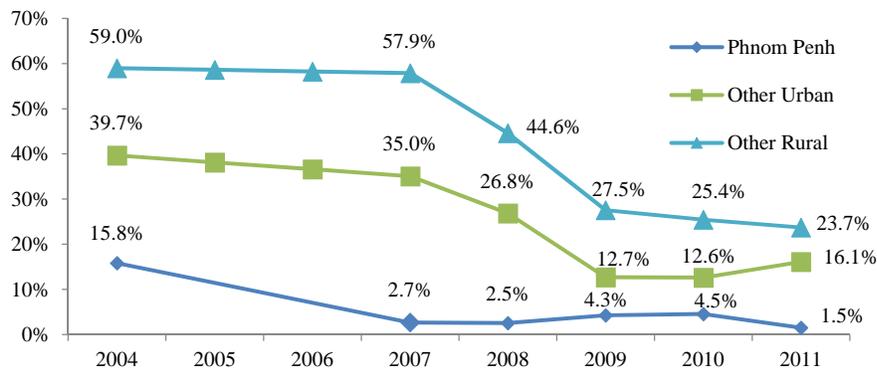
	<ul style="list-style-type: none"> • Clear government-owned strategies formulated, adopted and agreed with donors through the Infrastructure and Regional Integration Technical Working Group (IRITWG) <p><u>Improving access to infrastructure</u></p> <ul style="list-style-type: none"> • 244 km of national and provincial, and 160 km rural roads improved by the end of 2006. • Approximately 60% of the primary national network, 38% of the secondary national network, and 6.5% of the provincial roads in good condition <p><u>A sustainable road maintenance program established and functional</u></p> <p><u>Additional 135,000 rural households provided with access to electricity, of which 53,000 households by grid extension, 66,000 households by off-grid systems and 16,000 households by solar home systems by 2009.</u></p> <p><u>Approximately 86% of power demand in Kampong Cham and Stung Treng met with imported electricity from Vietnam and Lao PDR (2011)</u></p> <p><u>Water supply systems in 11 towns built and functional</u></p>	<p>Achieved. Infrastructure and Regional Integration Technical Working Group established and convenes twice a year to coordinate sector development plans and investment by relevant stakeholders.</p> <p>Achieved.</p> <p>Achieved. 3-year rolling plan for road maintenance program is prepared by MPWT. Plan serves as basis for budget allocation for road maintenance by MEF, which increased substantially from 2008 to 2015.</p> <p>Partially Achieved. 118,000 new rural household connections made (against a target of 135, 000), including 50,000 new rural connections provided by Rural Energy Enterprises, through sub-grants from REF, 12,093 Solar Home Systems installed, and 40 Electricity Enterprises supported by Rural Electrification Fund.</p> <p>Not Achieved.</p> <p>Achieved. Approximately 15,000 families (about 75,000 people) benefited from services managed through OBA. In addition to the support to the 11 towns, technical assistance under taken jointly with UNICEF and WHO has supported the government in the development of the National Strategic Plan for rural water supply and sanitation 2014-25.</p>	<p>The Ketsana Emergency Response Project, approved during extended CAS period, improved water and sanitation services to around 100,000 people in 180 villages; and 20 expansion water projects, financed by local commercial debt and equity, are serving 325,000 people.</p>	<p>Water Operators and Rural Water and Sanitation TAs</p>
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<p>6.2 Cambodia's water resource needs to be integrated into overall Mekong resource planning.</p> <p><i>Target:</i> Progress towards regional sustainable integrated water resources management (2011).</p>	<p><u>Integration of Cambodia into Mekong regional water resource plans.</u></p> <ul style="list-style-type: none"> • Basin models developed. • National assessments completed. • Sound implementation of approved water utilization rules/procedures; strengthened country sectoral capacity; progress towards sustainable poverty reduction and income generation from better water resource management (2011) 	<p>Partially Achieved. First two targets achieved only partially, while last target was not achieved. Delivery of MIWRM 3 project was postponed to FY16.</p>	<p>Enhanced transboundary water management with Laos, Vietnam and Thailand through the Mekong Integrated Water Resources Management Project. Additional support to be provided under upcoming reengagement.</p>	<p>FINANCING Regional Mekong Integrated Water Resources Management Project Component (P104806).</p>
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Appendix 2. Poverty Reduction and Shared Prosperity during the 2005-2011 CAS Period

1. **The CAS period witnessed an outstanding 60 percent drop in the poverty headcount ratio in Cambodia.** High and pro-poor growth and falling inequality led to a fall in the proportion of Cambodians living in poverty from 50.2 percent in 2004 to 20.5 percent in 2011, exceeding the Millennium Development Goal of halving the proportion of poor. However, a large majority of Cambodians who escaped poverty during this period remain in a highly vulnerable situation, as their income did not rise far above the poverty line. Poverty reduction continued in 2012 and the population living below the national poverty line dropped further to 17.7 percent.

Graph1.2 Poverty Rate by Region, Cambodia.



Source: Cambodia Poverty Assessment 2014

2. **Impressive achievements in poverty reduction were supported by significant economic growth.** From 2004 to 2011, Cambodia's per capita GDP (in constant 2000 US\$) grew by 54.5 percent, ranking fifteenth among 174 countries. This remarkable performance was possible due to a combination of factors, including sustained peace and the demographic dividend, free trade and open investment policies, and the subsequent macroeconomic stability—all of which were conducive to increases in tourism, construction, the garment sector, agriculture, and foreign direct investment (FDI). Though the economy slowed down in 2008 and contracted in 2009 (1.4 percent per capita constant 2000 US\$), the country recovered quickly.

3. **Moreover, real consumption per capital increased on average by 4.7 percent per year during the CAS period.** In other words, average consumption per capital (in constant 2009 CR) increased by a total of 37.8 percent from 2004 to 2011. This increase has been reflected in significantly higher consumption of basic housing services such as electricity (which tripled), sewerage or septic tanks (which doubled) and piped water during the dry season (which increased by 25 percent). Improved livelihoods can be illustrated by the fact that, by 2011, families in the poorest quintile were consuming almost the same of basic housing services and durable goods as families in the middle quintile in 2004.

4. **Economic growth was pro-poor and promoted shared prosperity,** which led to a reduction in the GINI coefficient from 0.326 in 2004 to 0.282 in 2011, despite increasing in the

first years of the CAS period. Consumption growth amongst the poor was more pronounced than for the better off families. The increase in consumption for families in the bottom 40 percent of the distribution surpassed 50 percent, significantly higher than the 38 percent increase in both the average and median household. The resulting increased share of total consumption by the bottom 40 percent, from 20.7 percent in 2004 to 23.1 in 2011, is clear evidence that Cambodia made progress in promoting shared prosperity during the CAS period.

5. **Poverty reduction was concentrated in rural Cambodia (where 90 percent of the poor reside)** explained by a substantial increase in rice prices, rice production, improved rural wages and improved income from non-farm self-employment in rural areas. The drop in urban poverty was driven by the 50 percent increase in salaried employment, which is often better remunerated due to higher skill requirements.

6. **Poverty is not-higher in female headed families.** Variations are small and with no discernible trend: female families show higher poverty rates in some years and lower in others. Poverty rates for non-Khmer ethnic minority families, representing 2.9 percent of the total population, were about six and half percentage points higher than Khmer-headed families from 2004 to 2009, though the differences are not statistically significant.

7. **The remaining poor were also in better condition in 2011 than at the beginning of the CAS period, including the extreme poor and in both rural and urban areas.** The Poverty Gap Index— a measure of how poor the poor actually are — also decreased significantly from 16.2 percent in 2004 to 4.2 percent in 2011. Even the Depth Index, a measure that highlights the conditions for the poorest of the poor, dropped from 6.6 percent to 1.3 percent in the same period.

8. **Despite substantial poverty reduction, vulnerability is very high.** As of 2011, the incomes of the majority of people who escaped poverty during the CAS period remained very close to the poverty line. In fact, a small shock of US\$0.30, or the cost of 2 water bottles in Cambodia, would entail doubling the poverty rate.

9. **The MDG Progress Report ranks Cambodia fifth out of 76 poor countries in terms of progress made towards achieving the MDGs.** Besides rapid poverty reduction, Cambodia achieved notable improvements in health and education indicators. As a result, the country is showing significant improvement in its UNDP Human Development indicators, above countries such as China, Lao PDR and Vietnam.

10. **Better access to medical facilities led to notable improvements in health.** The maternal mortality rate fell by 34 percent between 2005 and 2010 while the mortality rate for 1-12 and 12-60 months old children fell by 32 percent and 41 percent, respectively. A notable exception is the lack of progress in combating malnutrition. The percentage of stunted 0-5 year old children decreased marginally from 42 percent to 40 percent between 2005 and 2011 while children with wasting actually increased from 8 to 11 percent. This trend is surprising given increases in consumption, including food intake. While more work needs to be done to better understand the reasons, the solution is likely to include actions to promote better food quality and hygiene practices.

11. **Net enrollment rates in Cambodia (using the strict definition) have substantially improved for all grades.** Both net primary and gross secondary enrollment rates increased by 18 percent and literacy among 15-24 years olds increased by 11 percent while the number of adults 25 years or older with a primary education increased by 10 percent. Moreover, literacy rates increased from 64.2 percent to 70.6 percent between 2004 and 2011. Scholarships and other Government programs targeting girls substantially reduced the gender gap in literacy rates and in the level of education among young adults. However, these improvements were from a low 2004 base and education indicators in Cambodia still fall short of regional standards.

Appendix 3. World Bank Group Portfolio Summary, 2005-2015

1. **The extended CAS period (2005-2011) saw the approval of 15 IDA-funded operations for a total commitment of US\$292.3 million and more than US\$96.7 million in IFC investments.** Investment lending commitments focused on agriculture, decentralization, education, health and infrastructure, while the US\$15 million Poverty Reduction and Growth DPO supported reforms to enhance the business environment and public service delivery. An additional US\$76 million were committed for recipient executed TF-funded projects with a concentration on economic policy and education. Investments from IFC focused on financial markets and infrastructure development.

Table 1. IDA Commitments in the Extended CAS Period, 2005-2011 (US\$ million)

#	Fiscal year	Project ID	Project Name	Commitment Amount
1	2005	P089196	Trade Facilitation & Competitiveness	10.0
2	2005	P070668	Cambodia Education Sector Support	28.0
3	2006	P087945	Public Financial Management and Accountability	14.0
4	2007	P105329	GMS Power Trade Project	18.5
5	2008	P106603	Road Asset Management	30.0
6	2008	P100084	Avian Influenza Emergency Project	6.0
7	2008	P084787	Land Allocation for Social and Economic Development	11.5
8	2008	P071103	Poverty Reduction and Growth 1 (DPO)	15.0
9	2008	P102284	Second Health Sector Support Program	30.0
10	2008	P105715	Rural Investment and Local Government Additional Financing	36.3
11	2009	P101156	Demand for Good Governance	20.0
12	2010	P117203	Smallholder Agriculture and Social Protection Support Operation	5.0
13	2011	P121809	Agribusiness Access to Finance	5.0
14	2011	P106605	Higher Education Quality and Capacity Improvement Project	23.0
15	2011	P121075	Typhoon Ketsana Emergency Operation	40.0
TOTAL				292.3

Source: Business Intelligence

2. **The lending portfolio achieved substantial results in the face of fiduciary challenges.** Out of 10 projects approved during the CAS period and evaluated by the IEG, 8 received satisfactory level ratings in terms of achievement of outcomes and the quality of both overall Bank and Borrower performance. Moreover, disbursement performance was strong as evidenced by an average disbursement ratio of 18 percent in FY05-11, despite the temporary interruption of disbursements in three projects that followed INT investigations in the country. Fiduciary and other challenges led to an average of 3 problem projects in the portfolio per year during CAS implementation.

3. **Knowledge services proved critical to the achievement of the majority of CAS objectives, especially given the CAS focus on enhanced governance and regulatory frameworks.** The WBG provided a substantial amount of knowledge services with 84 Bank ASA

and IFC advisory services for US\$23 million being delivered to public and private sector stakeholders. Knowledge services covered a broad range of sectors, with a focus on public sector governance and economic policy, private sector development, social development, education, health and energy.

Table 2. Key IDA Portfolio Performance Indicators, 2005-2015 (US\$ million)

Fiscal year	CAS Period							Post-CAS Period			
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Number of Active IDA Projects	13	12	11	14	15	14	15	10	9	5	2
Net Commitments	271	256	229	333	353	329	321	190	180	115	53
Total Disbursements	95	105	82	110	156	175	145	77	102	95	46
Undisbursed Amount at Beginning of the Fiscal Year	180	184	169	170	239	201	153	141	108	41	12
Disbursement Ratio	17	17	14	17	19	19	24	22	32	61	52
Number of Problem Projects	2	3	5	1	2	4	3	0	1	0	0

Source: Business Intelligence

4. **Discontinuation of new IDA lending was followed by a rapid reduction in the lending portfolio.** IDA total commitments and the number of projects under implementation were at about US\$320 million and 15, respectively, at the end of the extended CAS period. Discontinuation of new IDA lending led to a reduction in portfolio size both by commitments and by number, as closing projects were not replaced by new commitments. The current IDA portfolio consists of 2 investment operations for a total commitment of US\$53 million in the education and health sectors, of which US\$47 million was already disbursed as of February 2016. As a consequence, IDA financing support to decentralization, water and energy ceased shortly after the CAS period, and to the transport, urban development, agriculture and public sector governance sectors within the past 2 years. IFC provided US\$196 million in new financing between 2012 and 2015 with a focus on existing clients in the financial sector, including micro-finance.

Table 3. IFC Investment and Advisory Operations Program, 2005-2015 (US\$ million)

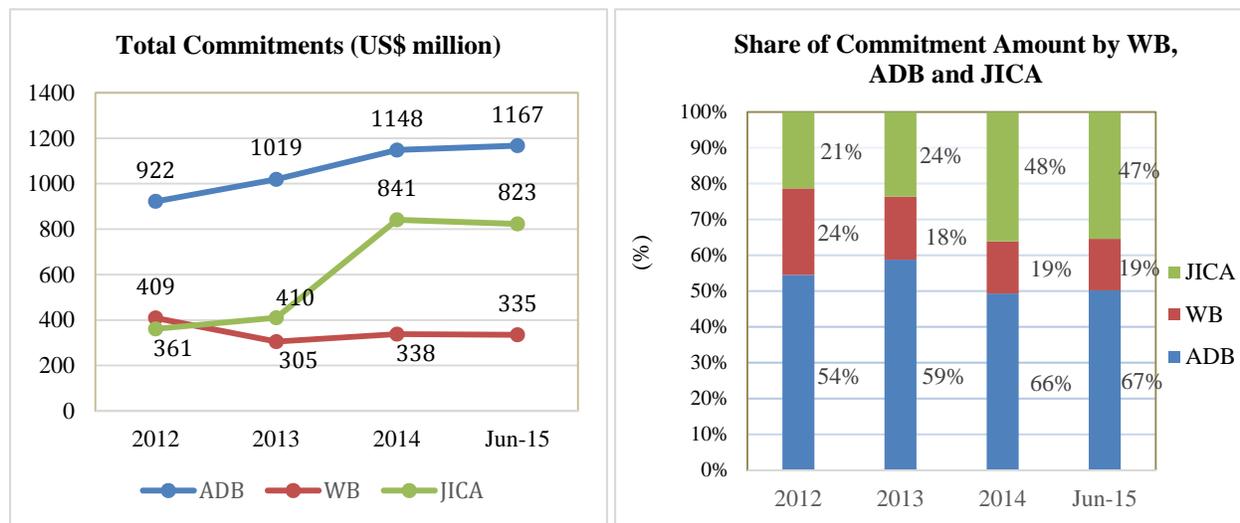
Fiscal Year	CAS Period							Post-CAS Period			
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Investment Committed*	5	5	19.6	2.6	42.3	0.52	21.8	16.3	15.5	64.4	100.3
Advisory Services Expenses	1.5	1.4	1.8	2.9	3.5	3	3.2	2	1.7	2.2	1.6

*IFC's own account only

5. **Trust funds, IFC investments and financing from other development partners have filled the gap from the decline in IDA lending.** The Bank's administration of TF has contributed to our engagement in Cambodia, enabling the Bank to maintain policy dialogue, particularly in

public financial management and trade. The share of the Bank’s overall operations financed by TF has increased from 32 percent in 2011 to 78 percent in 2015, with US\$193 million of TF leveraged from other development partners. In addition, the IFC has committed more than US\$218 million since 2011, mostly to support existing clients in the financial sector. Also, net commitments of ADB (concentrating in energy, water, education and transport) and JICA (concentrating on electric power and gas, social services, transport) have steadily increased since 2011.

Graph 1. Commitments by Select Development Partners (including TF)



Source: Joint Country Portfolio Performance Review 2014

6. **Overall portfolio performance after the CAS period has been satisfactory, with only one problem project in 2013 and none in the current portfolio.** Moreover, the disbursement ratio averaged 42 percent between 2012 and 2015, and had an annualized value of 50 percent by mid-FY16. There has been increasing focus on monitoring and evaluation in the portfolio particularly through greater rigor in the formulation of results frameworks and measurable indicators. M&E capacity building has been provided to counterpart ministries, implementing agencies and task teams, focusing on design of results frameworks and routine monitoring functions.

7. **WBG knowledge support during the post-CAS period remained substantial, with 38 ASA activities delivered by the Bank and advisory services for US\$7.5 million provided by IFC.** Bank activities focused on financial and private sector development, agriculture, economic policy and education, while IFC continued supporting the development of agribusiness, in particular the finance and high-value rice sectors.

Appendix 4: Fiduciary Summary of CAS Implementation

1. **The Country Financial Accountability Assessment (2003) and Country Procurement Assessment Review (2004) identified fiduciary risks for implementation of the CAS.** These included i) high degree of centralization of the public expenditure management system; ii) weak financial management practices; iii) weak control over soft expenditures; iv) inadequacies in the public accounting system; v) a fragmented and inadequate procurement legal framework; vi) limited procurement oversight; vii) capacity weakness in internal and external audits quality as well as procurement; and viii) high turnover of trained counterpart staff resulting in continued need for consultant support for the majority of projects.

2. **In recognition of these risks and the prevalence of governance challenges hindering the country's development, governance was made a cross-cutting theme of the CAS.** During the CAS period, the WBG and the Asian Development Bank supported RGC in developing and implementing the Standard Operating Procedures (SOPs) to harmonize procurement and financial management (FM) practices for externally-funded projects. In addition, the WBG and RGC undertook a Fiduciary Review (FR) as part of the Bank's overall strategy to strengthen implementation support and help the RGC develop an action plan to strengthen fiduciary oversight. The FR reviewed 4 projects³² and confirmed that works, goods and services reviewed had been delivered and had contributed to the achievement of the 4 projects' objectives, and highlighted weaknesses in the approach to project design, implementation and supervision. The Bank and the RGC agreed to develop and implement measures to address the main issues identified, for broad application in the IDA-funded portfolio.

3. **The RGC and the Bank have made significant efforts to address these risks at project and country levels.** In February 2007, the Bank lifted the suspensions of disbursements on the three projects after reaching agreement with the RGC on measures to improve governance in the implementation of these projects. These measures included i) adopting the anti-corruption action plans called "Good Governance Frameworks" (GGFs) in all ongoing and new projects; ii) revising and strengthening control in the Standard Operating Procedures (SOPs) for all externally financed projects; iii) training relevant staff in their use; and iv) establishing an Independent Procurement Agent (IPA). Funded by IDA grant from the Cambodia Public Financial Management and Accountability Project, the IPA was conceived in October 2007 as a mechanism to delegate procurement to an independent international firm and to safeguard IDA-funded tenders upstream of the procurement process, while demonstrating collective commitment to curb corruption during a highly sensitive period for the Bank and the RGC. The IPA was initially used for the three previously paused projects, though the RGC and the Bank later agreed to use the IPA for the procurement of contracts above a certain threshold in all Bank-financed projects in the portfolio.

4. **The IPA helped improve compliance and fiduciary performance partly by substituting for local capacity and expertise, thereby reducing scope for the strengthening Cambodia's own systems.** While the IPA, operating from October 2007 to November 2013,

³² Road Rehabilitation, Rural Investment and Local Governance, Flood Emergency and Rehabilitation, Biodiversity and Protected Areas.

helped improve compliance and fiduciary performance, it limited linkages to government procurement systems and implementation agencies, constraining opportunities for policy dialogue on procurement reforms and capacity building.

5. **The RGC has taken steps to improve the enabling environment and procedures for procurement and public financial management.** A Public Procurement Law was enacted in January 2012, including provisions to combat fraud and corruption, complaints handling and a code of ethics for Government staff. The RGC also strengthened the SOPs by expanding its scope and revising FM and Procurement Manuals to include more detailed measures addressing corruption, conflict of interests and disclosure of information. Bank reviews of implementation show that compliance on procurement, FM and disclosure elements is high.

6. **Despite the early promising engagement, the identification and approach to resolving some high profile fiduciary issues subsequently strained Bank-RGC relations.** An INT investigation that followed the FR found evidence of fraud and corruption in seven Bank-financed projects (of which four were under implementation and three were already closed at the time of the investigation), and the Bank declared mis-procurement and suspended disbursements for three projects.

7. **After discontinuation of the IPA, extensive procurement training supported by the Asian Development Bank (ADB) and the WB have contributed to improved procurement capacity.** Prior review of lower value contracts has been deliberately adopted to address risks and build capacity through on the job mentoring. The Bank conducted a review of vast majority of post-IPA procurement transactions managed by Government officials in 2014 and 2015 (90 percent by volume), and no significant irregularities were found.

8. **Internal audit functions have improved, with the establishment of Internal Audit Departments in 35 Ministries and State Owned Enterprises.** Cambodia has also improved its accounting practices, adopted IPSAS cash basis for its public accounting, improved its cash management processes, introduced treasury single accounts, developed a modern and comprehensive chart of accounts and introduced a Financial Management Information Systems (FMIS). The RGC is also implementing Stage 2 of the PFM Reform Program which provides the backbone for core functions of increased financial accountability, improved internal controls, and greater transparency across RGC.

9. **With the resumption of new IDA lending, the Bank will conduct a Country Procurement Assessment to identify procurement risks.** This assessment will help deepen Bank's understanding of the strengths, weakness and associated risks of the RGC's country procurement system, and design appropriate measures to minimize fiduciary risks during CEN implementation. The study will help define a capacity building program to be implemented as part of the CEN implementation. The Bank will also help strengthen procurement monitoring and oversight, leverage technology to improve information dissemination and enhance transparency and integrity of the procurement process and contract management.

10. **Looking ahead, the Bank will continue to support the RGC in strengthening country systems and enforcing strong internal controls for management and monitoring project**

financial operations. To address the weak controls on soft expenditures, the Bank will initiate close monitoring of the incremental operating cost (IOC), proactively scrutinize sub-standard audits and reduce the percentage of the IOC. The Bank will also support the strengthening of the National Accounting Council and the Kampuchea Institute of Certified Public Accountants and Auditors. These combined efforts will help put in place a quality assurance system for the profession in accounting Cambodia. In addition, where feasible, partnership with the National Audit Authority will be explored to help enhance oversight of the use of public funds.

Annex 4: Cambodia Map IBRD 33381



JANUARY 2016



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CAMBODIA

- CITIES AND TOWNS
- ⊙ PROVINCE CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

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