

INDEPENDENT EVALUATION GROUP

Cambodia: World Bank Country-Level Engagement on Governance and Anticorruption

IEG Working Paper 2011/6

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IEG WORKING PAPER SERIES



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1818 H St., NW
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ISBN 13: 978-1-60244-203-0
ISBN 10: 1-60244-203-7

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Abbreviations

AAA	Analytical and advisory activities
ACU	Anti-Corruption Unit
ADB	Asian Development Bank
ANSA-EAP	Affiliated Network for Social Accountability in East Asia and the Pacific
APL	Adaptable program loan
BEEPS	Business environment and enterprise performance survey
BFC	Better Factory Cambodia project
CAR	Council on Administrative Reform
CAS	Country Assistance Strategies
CASCR	CAS Completion Report
CCC	Cambodian Chamber of Commerce
CDD	Community Driven Development
CFAA	Country Financial Accountability Assessment
CGAC	Country Governance and Anticorruption
CIDA	Canadian International Development Agency
CIS	Commonwealth of Independent States
CPAR	Country Procurement Assessment Report
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
CSO	Civil society organization
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DfGG	Demand for Good Governance Project
DfID	Department for International Development (UK)
DPL	Development Policy Loan
EBRD	European Bank for Reconstruction and Development
ECE	Early Childhood Education
EITI	Extractive Industries Transparency Initiative
ELC	Economic land concessions
ESAF	Enhanced Structural Adjustment Facility
ESW	Economic and sector work
EU	European Union
FY	Fiscal year
GAC	Governance and anticorruption
GAVI	Global Alliance for Vaccines and Immunization
GDP	Gross domestic product
GEF	Global Environment Facility
GGF	Good governance framework
GPF	Governance Partnership Facility
GTZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICR	Implementation Completion and Results
ICT	Information and Communications Technology
IDA	International Development Association
IEG	Independent Evaluation Group (World Bank Group)
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
INT	Department of Institutional Integrity (World Bank)
IP3	Three-Year Implementation Plan of the National Program on Sub-national Democratic Development

IPA	Independent Procurement Agency
IPSAS	International Public Sector Accounting Standards
LASED	Land allocation for social and economic Development
LIL	Learning and Innovation Loan
LMAP	Land management and administration projects
MBPI	Merit-based pay initiative
MONASRI	Ministry for National Assembly Senate Relations and Inspections
MTEF	Medium Term Expenditure Framework
NAA	National Audit Authority
NGO	Nongovernment organization
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
PAP	Priority Action Program
PEA	Political Economy Analysis
PEFA	Public Expenditure and Financial Accountability assessment
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public financial management
PFMRP	Public Financial Management Reform Program
PIP	Public Investment Program
PIU	Project implementation unit
POC	Priority operating costs
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RNK	National Radio Kampuchea
SAF	Structural Adjustment Facility
SIDA	Swedish International Development Cooperation Agency
SLC	Social land concession
SPS	Sanitary and phytosanitary
SWaP	Sectorwide Approach (World Bank)
TDSP	Trade Development Support Program
TFCP	Trade Facilitation and Competitiveness Project
TTL	Task team leader (World Bank)
UNAIDS	United Nations Program on HIV/AIDS
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value added tax
WDR	World Development Report
WFP	World Food Program
WTO	World Trade Organization

Preface

This case study summarizes the findings of desk reviews and a country field visit carried out in December 2010 as part of the Independent Evaluation Group's (IEG's) evaluation of the 2007 Governance and Anticorruption (GAC) Strategy. The case study sought to evaluate the relevance and effectiveness of Bank support for governance and anticorruption efforts over the FY2004-10 period, to assess the contributions of 2007 GAC strategy implementation, and to identify early outcomes and lessons.

The case study was prepared by Navin Girishankar (lead), David DeGroot, Raj Desai, Susan Stout, and Clay Wescott as a background paper for IEG's GAC evaluation. The report was prepared under the overall guidance of Cheryl Gray and Ali Khadr.

The authors are grateful to officials from the Royal Government of Cambodia and the World Bank's Country Team for constructive discussions. They are also grateful for comments from the IEG's GAC Evaluation team members. Barbara Balaj provided editorial support and Aimée Niane provided administrative support.

The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors and do not represent the views of the World Bank, its Executive Directors, or the countries they represent.

Summary

Cambodia is one of the world's most open economies, sustaining high levels of growth in an environment of relatively weak governance. Emerging from a legacy of genocide and civil conflict, the country has sought to address human and social capital deficits across sectors, weaknesses in public finance, and corruption. Despite improvements in access to basic services, governance constraints persist and may threaten gains from economic integration.

Over the 2004-10 period, the Bank's engagement on Governance and Anticorruption (GAC) issues in Cambodia was not defined by a single, overarching priority or entry point (such as core public sector management, natural resource management, or service delivery). Rather, the Bank was opportunistic, opting to support the government's GAC efforts across multiple sectors and institutions. The relevance of this opportunistic approach is judged to be moderately relevant. The Bank's objectives on public financial management (PFM) were highly relevant given Cambodia's nontransparent and weak public expenditure management and limited capacity. The Bank's response to sectoral governance weaknesses such as red tape, inefficiencies, and other forms of rent-seeking in customs is rated modest given the need for the government to implement its World Trade Organization commitments. The Bank's project level engagement is rated as moderately relevant. As a basis for reinstating suspended projects, portfolio-wide measures included the use of an Independent Procurement Agency (IPA) for the International Development Association (IDA) procurements, and the implementation of Good Governance Frameworks (GGF) for all IDA projects.

Bank efforts have had only limited impact on country-level governance in Cambodia overall. Five years after its launch, the government's PFM efforts—and Bank support—have contributed to demonstrable improvements in Cambodia's public finance system (verified by the recent Public Expenditure and Financial Accountability (PEFA) assessment). Although bold and innovative in motivating staff in the Ministry of Economy and Finance, the Merit-Based Pay Initiative (MBPI) and the larger civil service reform agenda suffered a major setback in October 2009 due to political economy factors.

Regarding accountability issues, government and donor efforts to help establish the National Audit Authority (NAA) and Anti-Corruption Unit are bearing fruit. The impact of demand-side efforts on the effectiveness of civil society institutions remains to be seen. The education sector has made progress in enhancing the adequacy and transparency of sectoral budgets (as a result of PFM reforms), and in successfully piloting and scaling up efforts to channel resources to the school level. The impact of Bank efforts in the roads and land management sectors will depend on whether the most modest Road Asset Management Project and Land Allocation for Social and Economic Development (LASED) programs are able to build a rules-based approach to managing public assets. There are some indications that ring fencing fiduciary controls through the IPA – notwithstanding its design flaws – has helped build confidence and experience among bidders on World Bank projects. However, there is no evidence that the ring fencing of fiduciary controls has helped country procurement systems more broadly in part because the Bank has become an increasingly marginal player. Nor does it appear that Good Governance Frameworks (GGFs) gone beyond monitoring compliance with World Bank project management requirements.

Table S.1. Cambodia - Summary IEG Assessment

GAC Elements	IEG Ratings	
	Relevance	Effectiveness
1. GAC at Country Level	■ ■	■
2. GAC in Sector Level		
<i>Core Public Sector</i>		
Public Financial Management and Civil Service Reform	■ ■ ■ ■	■ ■ ■
Non-Executive Accountability Institutions	■ ■	■
Decentralization	■ ■	■ ■
<i>Basic Service Delivery</i>		
Roads	■ ■	*
Land Management	■ ■	*
Primary Education	■ ■ ■	■ ■
<i>Investment Climate</i>	■ ■ ■	■ ■
3. GAC at Project Level		
Independent Procurement Authority	■ ■	■ ■
Good Governance Frameworks	■	■
Use of Country Systems	■	■
4. 2007 GAC Strategy Implementation		
Staff attitudes towards GAC issues	■	■
Enhancing quality of operational response	■ ■	■

Ratings: ■ Negligible || ■ ■ Modest || ■ ■ ■ Substantial || ■ ■ ■ ■ High
 || * Inconclusive/Not applicable

Source: IEG

1. Introduction

Background: 2007 GAC Strategy and Implementation Plan

1.1 The 2007 strategy—a corporate strategy—set forth several objectives relating to the development of capable and accountable states and committed the Bank to seven principles of engagement on GAC issues (Box 1-1-1). In response to shareholder concerns about the perceived arbitrariness of senior management decisions to cut off lending to certain countries, the strategy reiterated the Bank’s use of rules-based criteria for allocating resources, as well as its aim to stay engaged even in poorly governed countries to ensure that the “poor do not pay twice.” At the same time, the strategy placed considerable emphasis—more than earlier strategies—on safeguarding Bank funds from fiduciary risks. Early on, it was acknowledged that, to achieve its “vision of success,” the strategy required a more detailed implementation plan.

Box 1-1. The Multiple Objectives and Guiding Principles of the 2007 GAC Strategy

1. The GAC strategy had several objectives:
 - “to support poverty reduction....”
 - “...[by] developing capable and accountable states[undertaking] sound policies, improving service delivery, [establishing] rules for markets, combating corruption,” and
 - “...to ensure that its funds are used for their intended purposes.”
2. In addition, the “GAC guiding principles” were as follows:
 - Focus on “[a] capable and accountable state to create opportunities for poor people, provide better services, and improve development outcomes.”
 - Country ownership and leadership are key. Country government is the principal counterpart.
 - Remaining engaged so the poor do not pay twice.
 - Consistent approach across countries, even though one size does not fit all.
 - Engage broad set of stakeholders with focus on transparency, accountability, and participation.
 - Strengthen rather than bypass country systems.
 - Harmonization (the Bank will not act in isolation).

Source: World Bank documents.

1.2 The implementation plan (IP) sought to define concrete steps for “what the World Bank itself will do to support the GAC agenda, and how it will work with governments, domestic stakeholders, and development partners to support country-level governance improvements and regional and global initiatives.” The plan’s success was to be measured by (i) a significant and growing number of countries seriously addressing key governance impediments to development effectiveness and poverty reduction; (ii) Bank-supported projects and programs increasingly addressing GAC impediments; and (iii) countries and global partners valuing and respecting the Bank’s capacity in this area (World Bank 2007a). It was envisaged that these objectives would eventually be reflected empirically in improvements in country governance performance.

1.3 To this end, the IP proposed to deliver guidance materials, tools, training, incremental resources, and strategic staffing to help deepen Bank engagement in the following areas:

- *GAC-in-Countries.* These initiatives sought to enhance Bank-country engagement on governance and anticorruption issues. Initially, country-GAC (CGAC) processes – comprising joint workshops, peer-to-peer learning events, clinics, and upstream assessment activities – were launched in 27 countries to help Bank teams systematically diagnose governance challenges and identify ways of addressing them through CAS design, sector strategies, and project preparation. The CGAC processes were intended to deepen the Bank’s understanding of what can be done to strengthen GAC in CASs and help identify governance entry points (for example, core public management and accountability institutions, private sector engagement, and demand-side capacities and frameworks). Following the CGACs, a more targeted effort involving 18 countries sought to enhance GAC responsiveness with the help of considerable support provided under the Window One facility of the Governance Partnership Facility (GPF). (World Bank 2008a).
- *GAC-in-Sectors and GAC-in-Projects.* These efforts aimed to strengthen incentive and accountability frameworks in sector dialogue and project design, as well as systematic risk assessment and management (for example, through the use of political economy analysis, actionable governance indicators, and demand-side measures). Guidance notes and toolkits were designed to advise Bank teams on how to address GAC issues in the sectors and to support cross-cutting concerns, such as social accountability (World Bank 2008b and 2009c). Also included were handbooks, tools, and training to support efforts to prevent fraud and corruption in projects.¹ A 2009 Quality Assurance Group (QAG) survey of projects approved in FY08 aimed to establish a baseline for incorporation of “generic” GAC elements in projects (World Bank 2009f).
- *Global GAC Efforts.* The Bank proposed to increase its involvement in peer learning networks and collaborative governance initiatives. These included the Extractive Industries Transparency Initiative (EITI) and global and regional legal conventions such as the Stolen Asset Recovery (StAR) Initiative,² Medicines Transparency Alliance (MeTA), and Construction Sector Transparency (CoST) Initiative. In addition, the Bank sought to harmonize GAC policies (for example, on cross-debarment) with other multilateral development banks, and to establish common response principles for high-risk countries under the auspices of Gov-Net.

1.4 *Internal Reforms.* Other important internal reforms were carried out as complements to the GAC agenda, including implementation of Volcker Panel recommendations on

¹ Recent efforts included the introduction of new procurement and financial management risk management systems (P-RAMS and PRIMA).

² Closely related were efforts to help strengthen the integrity of financial sectors in developing countries through a sound Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime. More recently, the Bank helped launch of the International Corruption Hunters’ Network to facilitate closer cooperation among enforcement agencies around the world.

strengthening the Integrity Vice Presidency,³ launch of a new WBI strategy emphasizing multi-stakeholder engagements (World Bank 2009a), update of the Bank's disclosure policy, launch of a new Operational Risk Assessment Framework (ORAF) for investment lending,⁴ the recruitment of a Chief Risk Officer, an annual integrated risk monitoring report, and other efforts to modernize investment lending (World Bank 2011a).

1.5 *Resourcing the Strategy.* Significant incremental budgetary and donor resources were deployed over the FY08–12 period to support GAC implementation. This comprised \$54 million in incremental Bank budget as well as \$61 million in donor funds allocated through the GPF. The GPF was supported by the United Kingdom, the Netherlands, and Norway.

1.6 *Change Management.* GAC implementation was viewed as a significant change management agenda. Institutional arrangements to support this Bank-wide initiative prominently featured a GAC Council, consisting of the Vice Presidents and chaired by the Managing Directors. The Council was supported by a GAC Secretariat, various other partnership secretariat units, and GAC focal points in Regional and network units. The Bank also periodically sought the advice of a Group of External Advisers, an Independent Advisory Board (that advises the President and Audit Committee on Integrity Vice Presidency performance), and an International Technical Advisory Group (that advises on the Use of Country Systems pilot).

IEG GAC Evaluation and Country Case Studies

1.7 The evaluation aims to help enhance the Bank's approach to governance and anticorruption and to improve its effectiveness in helping countries develop capable and accountable states that create opportunities for the poor. Pursuant to this objective, the evaluation assessed the relevance of the 2007 GAC strategy and implementation plan, as well as the efficiency and effectiveness of implementation efforts in making Bank engagement with countries and other development partners more responsive to GAC concerns. It also sought to identify early lessons about what works and what does not in helping to promote good governance and reduce corruption.

1.8 A key component of the evaluation involved case studies of six country programs over the FY04-10 period: these case studies assessed the quality of Bank country engagement on GAC issues, and identified what has worked and what has not in implementing GAC efforts. Case studies were selected from a quasi-random sample of twelve candidate countries, which sought to ensure representation across geographic regions and countries that received special GAC support over the FY07-10 period. Based on IEG's desk review of GAC

³ Recommendations included the establishment of an Independent Advisory Board; appointment of an external member of the Sanctions Board as the chairperson; development of a confidentiality protocol; transfer of the responsibility for staff misconduct from the Integrity Vice Presidency to Bank's office of Ethics and Business Conduct; enhancement of selected staff rights to improve fairness of internal investigations; expansion of the Preventive Services Unit; strengthening of communication between the Integrity Vice Presidency and the Regions; and refinement of Integrity Vice Presidency results metrics. See Volcker and others (2007).

⁴ Four out of 11 ORAF risks relate to GAC: country risk, sector/multi-sector institutional, implementing agency governance risks, and implementing agency fraud, and corruption risks.

responsiveness, country programs with *documentary evidence of some degree of GAC-responsiveness* over the pre- and post-GAC periods were selected for case studies. Accordingly, case studies were conducted in Azerbaijan, Bangladesh, Cambodia, Guatemala, Liberia, and Moldova. Field missions to these countries were undertaken between December 2010 and February 2011. Case studies were reviews from World Bank country teams and comments were duly incorporated.

1.9 The case studies reviewed the work by the Bank and other donors in core public sector areas and possible links with improvements in service delivery. The mission looked at the opportunities for using country systems, third-party monitoring mechanisms, enhanced donor coordination, and other processes that are part of the GAC agenda. Also examined were geographic effects and other strategic elements that might affect the willingness of the government to reform, and the leverage that the Bank and other donors might have in promoting reform. Finally, the mission assessed whether opportunistic responses to governance challenges might contribute to a future portfolio-wide approach to improving governance.

1.10 The Cambodia case is based on an extensive desk review as well as a field visit to Phnom Penh from December 4-14, 2010. It evaluates the relevance and effectiveness of Bank support for governance and anticorruption efforts since the launch of the Bank's Governance and Anticorruption (GAC) Strategy in 2007. It elaborates on a desk review of the GAC responsiveness of the Bank's Cambodia program and reviews the following GAC entry points: core public sector reform (public financial management and decentralization); the demand for governance (including social accountability issues); GAC in sectors (roads, education, land management); and the investment climate. The case study also focused on the extent to which the Bank's GAC Strategy has made a difference in staff attitudes toward addressing GAC issues in their operational work.

2. Cambodia Country Context

2.1 Cambodia is one of the world's most open economies sustaining high levels of growth in an environment of relatively poor governance. As early as the 1990s, Cambodia and its development partners had identified governance issues, including deep capacity constraints across sectors, weaknesses in the management of public finances, and widely acknowledged corruption. Emerging from the legacy of the genocidal Khmer Rouge regime and years of civil conflict, the Royal Government of Cambodia sought to rebuild its nearly decimated public institutions and service delivery.

2.2 By the mid-2000s, access to basic services such as primary education and health care improved dramatically due to significant increases in public spending. Investments in roads and other basic infrastructure also increased, along with attempts to build more rational, rules-based approaches to maintaining the roads network or allocating state lands. Attempts to build state capacity through public financial management and, to a lesser extent, through administrative reforms have contributed to incremental—albeit uneven—progress. Cambodia's civil society is relatively vocal, while still demonstrating its willingness to collaborate with the government on a range of development issues. Public satisfaction with the government remains high.⁵

2.3 The governance challenge in Cambodia continues to evolve, and it spans the public and private sectors, as well as civil society. If not successfully addressed, legacy and emerging GAC issues could jeopardize the gains made from global economic integration. For instance, despite initial gains in expanding access to social services, weaknesses in the efficiency, quality, and demand-responsiveness of public services are evident. Along with infrastructure gaps and inadequate access to land, domestic investors face growing corruption, which contributes to risk avoidance. In addition, domestic investors have perceptions of policy uncertainty and perceptions that regulations are interpreted inconsistently (Bertelsmann Stiftung 2008; USAID 2008). These governance issues, detailed below, cover core public sector management, the investment climate, and the infrastructure and social sectors.

Public Sector Governance

2.4 The quality of *public financial management* (PFM) in Cambodia rates in the same low range by Worldwide Governance Indicators and the World Bank's Country Policy and Institutional Assessment (CPIA) as most comparator countries (such as Bangladesh, Lao People's Democratic Republic, Pakistan, and Tajikistan). A recent Public Expenditure and Financial Accountability (PEFA) assessment found steady improvement since 2002, yet PFM remains a work in progress. Shortcomings remain in the following areas: (i) relatively high levels of budget variance; (ii) poor reporting of sub-national expenditures; (iii) sizeable tax arrears; (iv) weaknesses in report consolidation, payroll audits, internal audit (lack of a systems approach), and timely reconciliation and clearance of suspense accounts; (v)

⁵ A 2009 poll by the International Republican Institute shows that 77 percent of Cambodians are satisfied with the direction of their country. See IRI, "Survey of Cambodian Public Opinion," 2010.

incomplete budget settlement report submitted to the National Assembly; (vi) no national or international accounting standards in use; and (vii) a failure to publish most audit reports. Although an objective of PFM reform is to develop frameworks to track the receipt and use of resources of sector agencies, these frameworks are not currently operational. More generally, efforts to integrate performance and results measures into resource allocation methods are in their infancy. Also, according to the Ministry of Economy and Finance, internal financial controls are not sufficiently robust to allow donors to use country systems, or to roll out reforms in operating ministries. A functional review of the Ministry of Economy and Finance was reportedly delayed for three years.

2.5 The *civil service* system has yet to satisfactorily achieve some of the basic building blocks evident in most countries, such as a code of conduct, a tradition of public service, a department responsible for the civil service, competitive salaries, equipment and supplies, payroll and human resources systems, rules and conditions for entry, and performance management. The patronage system and power sharing among rival factions helps to explain the civil service size, low pay, hiring practices, and lack of other standard features, and makes them very difficult to change.

2.6 Although Cambodia's anticorruption efforts rate in the same low range as comparators, recent efforts to develop formal accountability institutions (inside and outside of the executive) suggest that a framework is emerging. Within the executive, the Ministry of National Assembly-Senate Relations and Inspections was created in 1999 to investigate allegations of corruption, followed by the establishment of an Anti-Corruption Unit in 2009. An anticorruption law was adopted by the Parliament in 2010, but it is deficient in many areas (for example, the budget for the unit comes from the Council of Ministers. There is weak protection for whistle-blowers, and a lack of public disclosure of asset declarations). It is anticipated, however, that three sub-decrees (to be issued at the end of 2010) will help ensure an annual allocation of 0.3 percent of the national budget (or \$5 million a year) and exempt it from civil service salary scales. Closely controlled by the executive, the Anti-Corruption Unit is intent on establishing itself as the government's sole "inspection" unit. However, its success depends on its ability to operate with credibility and efficiently in a charged political environment.

2.7 Another key accountability institution is the National Audit Authority (NAA), which has been responsible for external audit since 2002. A recent peer review concluded that the NAA has built some of the basic elements of a functioning supreme audit institution over a short period of time (Office of the Auditor General of New Zealand 2010). Reporting to the National Assembly and the Council of Ministers and the Prime Minister, the NAA continues to face capacity constraints and is seeking to opt out of civil service pay scales to attract skilled staff. A complement of 200 "professional" staff now undertake about 80 audits a year and have just started to publish a summary of each year's audits (although not individual audits).

2.8 The success of the external audit function depends in part on the assertiveness of the National Assembly's Committee on Economics, Finance, Banks and Audit (known as the 2nd Commission), which reviews the budget and reports to Parliament prior to adoption. It

also reviews reports from the NAA.⁶ However, the Commission—possibly due to the party affiliation of some key members—has yet to be outspoken in demanding financial accountability from the Ministry of Economy and Finance, the NAA, or from operating ministries criticized in audit reports.

2.9 Improving local governance continues to be a priority, and the government has responded with its Three-Year Implementation Plan of the National Program on Sub-national Democratic Development (IP3), which proposes to deepen decentralization and deconcentration policy. However, decentralization and deconcentration efforts are incremental and face various limitations. First, the IP3 does not transfer any centralized functions to the communes (of which there are about 1,600 in 193 districts in 20 provinces and 4 autonomous municipalities). Although it estimates total funding for decentralization at \$506 million over three years, only \$38.4 million (13 percent) will actually end up with communes for investment, or about \$24,000 per commune per year. The rest of the three-year funding plan goes to non-incremental operating costs (\$365 million, of which provincial administration is about \$75 million), technical assistance/capacity development/program management (\$69.5 million, of which \$28.8 million is for “experts/advisors”), and an as yet unidentified amount for a donor funded Sub-national Investment Facility.

Investment Climate

Table 2-1. Cambodia—Investment Climate Constraints

<i>Constraint</i>	<i>2003</i>	<i>2008</i>	<i>Change</i>
Cost of finance	39.7	19.9	-19.7
Access to finance	44.7	28.3	-16.4
Macroeconomy	18.9	8.6	-10.3
Access to land	61.0	54.0	-7.1
Skills	37.2	31.1	-6.1
Telecommunications	41.9	37.5	-4.4
Electricity	27.6	23.9	-3.7
Informality	14.1	17.3	3.2
Uncertainty	12.5	16.1	3.6
Corruption	4.7	9.8	5.1
Transport	34.0	39.6	5.6
Labor	45.9	54.2	8.3
Customs and trade	23.7	33.7	10.0
Tax rates	20.7	32.5	11.8
Tax administration	20.3	33.3	13.0
Crime	9.1	23.5	14.4
Licensing and permits	32.2	47.0	14.8
Courts	19.7	35.7	16.0

Source: World Bank Enterprise Surveys database, based on Cambodia Investment Climate Assessment (ICA) surveys in 2003 and 2008.

Notes: Unweighted averages. Figures represent percentages of firms ranking the constraint as “no obstacle” (negative change indicates deterioration in constraint).

2.10 Firm-level surveys in Cambodia show that corruption is consistently the main constraint for most firms, with over half of those surveyed, indicating corruption as “major”

⁶ The 2009 audit of the annual budget settlement report is the first one submitted.

in 2003 or “severe” or “very severe” in 2008. Perceptions of political uncertainty, crime, and the legal environment have improved, although macroeconomic uncertainty increased significantly along with financing constraints (Table 2-1). Infrastructure and access to land have worsened as constraints as well. Despite the relative improvement in perceptions of corruption (almost 10 percent of firms now consider corruption to be “no obstacle” to doing business), the percentage of sales that firms report paying as bribes increased from 5.2 percent in 2003 to 8.7 percent in 2008. Moreover, the more recent Investment Climate Assessment (ICA) notes that, in addition to bribe-taking for services, in regulatory actions, and in courts, approximately 30 percent of firms believe that policymaking is captured by individuals with personal connections to leaders in government (World Bank, 2009a; 41). These ICA findings support other assessments of the Cambodian economy showing the density of patronage networks (Bertelsmann Stiftung 2009; USAID 2008).

2.11 Although *finance* is not currently considered a major constraint to businesses due to the large presence of informal and foreign-owned firms, the lack of formal financial intermediation for businesses may limit private sector diversification into higher value-added sectors. In the most recent ICA, less than 10 percent of surveyed firms have borrowed from banks to finance investment, placing Cambodian firms well behind their counterparts in Thailand, Lao PDR, and Vietnam. Meanwhile, the financial sector continues to expand, fueled by deposits held by foreign entities and dollar-denominated liabilities, raising potential risks to banking sector fragility.

2.12 Regarding *trade*, challenges include both weak government capacity and opaque rules and fees. Legal reform has made progress in a number of areas in recent years (although the agenda agreed during the World Trade Organization accession process is unfinished), but enforcement remains very weak. Physical inspection of consignments is not systematic, and fees and informal payments remain numerous. Overlapping functions of CamControl (within the Ministry of Commerce) and the General Department of Customs and Excise (within the Ministry of Economy and Finance) further complicate trade and related regulatory matters. Informality, costs, and uncertainty remain for both importers and exporters. Meanwhile the inspections regime for sanitary and phytosanitary (SPS) measures in accordance with Cambodia’s World Trade Organization (WTO) WTO-SPS agreement remains highly fragmented, with each line ministry insisting on conducting its own inspections and operating its own laboratories, given the potential revenue streams from these inspections. Moreover, separate ministries and agencies tend to have their own “donor-patrons,” further contributing to fragmentation of the sanitary and phytosanitary regime.

Basic Service Delivery

2.13 Cambodia’s *roads sector* is comprised of nearly 11,000 kilometers of national and provincial roads overseen by the Ministry of Public Works and Transport, and 30,000 kilometers of rural roads managed by the Ministry of Rural Development. Instead of an autonomous roads agency or road fund (as in other countries), the government has set up a Road Asset Management Office within the Ministry of Public Works and Transport, and increased the budget for maintenance to more than \$30 million in 2009 from \$2-3 million in 2002. The government has also set up an inter-ministerial coordinating committee in 2006 to

coordinate between the two ministries and a regional committee to establish and enforce common standards for cross-border traffic to Thailand and Vietnam.

2.14 Cambodia's road sector faces deep and endemic capacity gaps. There are few skilled engineers in the country (a legacy of the Khmer Rouge regime), and civil service wage levels are too low to attract and retain engineers in the public sector. The small number of new graduates from tertiary institutions is more readily attracted to higher-paid private and donor sector jobs. The few technical staff that work for the government are invariably compelled to supplement their incomes through moonlighting, participation in activities that provide sitting allowances, and in some cases, corrupt practices. For instance, several senior technical staff of the Ministry of Public Works and Transport are members of a variety of donor project committees to supplement their salaries; this detracts from line functions and other core work programs.⁷ Limited technical capacity in government offices also results in significant delays in design, procurement, and implementation, as well as an overreliance on foreign consultants (for example, through tied, externally-financed projects) to design and supervise works. Other than corruption, the sector is hampered by poor resettlement practices and deep capacity constraints within the public and private sectors.

2.15 Contestations over *public land administration* in Cambodia are three-sided. The Ministry of Agriculture, Forestry, and Fisheries promotes Economic Land Concessions (ELC) for plantation agriculture, and seeks to reforest public land (reportedly, their target is 75 percent forest cover). The Ministry for Land Administration, Urban Planning, and Construction awards Social Land Concessions (SLC) as authorized by the Council for Land Policy and the Prime Minister, targeting poor landless and land-poor households. Several governance and implementation challenges were evident in these three areas. First, the ELCs face serious challenges relating to the transparency of awards, the safeguarding of non-tenured farmers on ELC land from eviction by awardees, and preventing awardees from occupying and reselling ELCs for windfall profits. Second, similar problems have been reported on community forestry projects. Third, although the Ministry for Land Administration, Urban Planning, and Construction faced procurement and safeguard challenges with its Land Management and Administration Projects (LMAPs) in urban areas, lessons learned were duly incorporated into the Land Allocation for Social and Economic Development (LASED) project in rural areas. LASED uses a thorough, rules-based process—including using community or village committees—for prequalifying beneficiaries, making awards, developing sites, and helping people get started as farmers. Also, other ministries are apparently slow to provide schools, health centers, and services to LASED communities. Very poor beneficiaries often lack the capital and capacity to establish viable farms.

2.16 Cambodia's *primary education system* was decimated by the Khmer Rouge. According to government estimates, nearly 75 percent of teachers, 96 percent of university students, and 67 percent of all primary and secondary school pupils were killed. School infrastructure was also destroyed or abandoned (Benveniste, Marshall and Araujo 2008).

⁷ Participation in project committees (for example, for support procurement processes) pays approximately \$100-250 for meeting attendance. The mission was informed that membership in five committees that meet twice a month could add up to \$2,000 to monthly wages.

Since the late 1990s, the government, its development partners, and nongovernmental organizations (NGOs) have worked vigorously and rapidly to rebuild the sector. Led by the Ministry of Education, Youth, and Sports, the government aims to provide quality basic education for all (Kingdom of Cambodia 2005a, 2005b, 2003). Accordingly, public resources devoted to education increased significantly. Budget allocations for primary education increased an average of 21 percent annually since 2005. Education accounted for about 19 percent of total current expenditures in 2009. Net primary school enrollment has increased to over 93 percent.

2.17 Despite these gains, major gaps in the efficiency and effectiveness of primary education remain. Dropout rates are particularly severe among children from households in the poorest two wealth quintiles. Public spending on primary education remains highly centralized. Although the Priority Action Program has enabled resources to reach the school level with limited leakage, significant hurdles remain in ensuring that these funds are used for their intended purposes at the local level. Direct household costs, particularly in the form of pocket money, transportation expenses, and supplementary tutoring fees, while reduced, remain substantial.

2.18 Workforce issues also constitute a major governance challenge in the sector. Pay rates for primary school teachers—approximately \$20 per month—are significantly lower than the estimated living wage of \$120 (World Health Organization 2010). Communities consistently cite low teacher salaries as the most salient school problem. Salary reform—raising the low wages for teachers and school administrators—has been a priority of various education sector strategic plans, yet progress has been slow. Because education workers account for about 60 percent of the civil service, the Ministry of Education, Youth, and Sports has hesitated to provide systematic salary supplements. Teacher quality is also low. About a quarter of primary school teachers hold an upper secondary degree, while about two-thirds hold a lower secondary school degree. Most teachers have completed pre-service training; in-service training and professional development are inadequate (Beneviste, Marshall and Araujo 2008).

2.19 Various forms of “quiet corruption” are the result of poor incentives and limited opportunities for professional advancement: appointment/transfer fees for promotion of teachers and administrators, special out-of-hours tutoring fees, examination results fees, textbook and written materials fees, high teacher absenteeism, and “ghost” schools and teachers on the payroll.

3. Relevance of World Bank Engagement on GAC Issues

3.1 The Bank's engagement on GAC issues in Cambodia dates back several years before the launch of the 2007 GAC Strategy. This case study builds on IEG's 2009 Country Assistance Evaluation, as well as on an IEG GAC desk review, which found the Cambodia country program relatively GAC-responsive along various dimensions during the 2004-10 period. Relative strengths of the program include a degree of selectivity in choosing GAC entry points, a focus on strengthening country systems, and to a lesser extent, systematic risk management. In addition, projects approved over the same period improved in their use of political economy analysis, fiduciary aspects, GAC-related results indicators, and institutional strengthening. Projects approved in recent years were less likely to use country systems.

Country-Level Relevance

3.2 Over the 2004-10 period, the Bank's engagement on GAC issues in Cambodia was not defined by a single, overarching priority or entry point (such as core public sector management, natural resource management, or service delivery). Rather, the Bank was opportunistic, opting to support the government's GAC efforts across multiple sectors and institutions, each with varying degrees of commitment and clarity. For instance, the Bank took a lead role in supporting the Ministry of Economy and Finance's platform approach to PFM and merit-based pay, as well as transparency and institutional development efforts through sector programs in health, education, and land management. Given the stop-and-go nature of political and economic governance in Cambodia, the relevance of this opportunistic approach is judged to be *modest*. Although this "venture capital" approach gained traction in some areas such as PFM and education, in others, such as roads and land management, the potential for progress was undermined by project-level fiduciary and reputational risks associated with fraud and corruption.

3.3 Following a period of intensive review of the portfolio by the Bank's Institutional Integrity department (INT) starting in 2003, the Bank hardened its stance on fiduciary risk management across all of its projects.⁸ Despite some of the strains this placed on Bank-government relations, the sharper focus on procurement risks was warranted at the time. Since then, despite the best efforts of operational staff in the field, the Bank continues to be preoccupied with reputational risks associated with fraud and corruption. It has yet to transition to a more developmental focus on using and strengthening country systems.

3.4 As a result, IDA's program has diminished and the Bank is becoming an increasingly marginal player (particularly in the infrastructure sectors). In the past three years, the Bank has gained some recognition among the public as a fighter of corruption and graft, and it has improved portfolio monitoring and supported valuable demand-side innovations. Yet, this evaluation concluded that there are limits to how far the Bank can go in making portfolio risk

⁸ INT confirmed that the simultaneous release of findings on investigations across 6 separate ministries in a single country was unprecedented. As a result, three projects were suspended, but were reinstated in 2007.

management the primary thrust of its country-level GAC strategy in higher-performing IDA countries.

Sector-Level Relevance

3.5 Public Sector Reform. Over the 2004-10 period core public sector reform—comprising PFM and *civil service reform*—served as a key GAC entry point for the Bank’s engagement in Cambodia. The Bank’s support was built on a strong analytical base as well as the government’s 2005-15 Public Financial Management Reform Program (PFMRP), developed collaboratively with the Ministry of Economy and Finance and other donors. IDA’s support for strengthening of PFM institutions consisted of the following:

- IDA’s \$14.45 million Public Financial Management and Accountability investment lending project, four prior actions in a \$15 million development policy operation (called the Poverty Reduction and Growth Operation), and a \$7 million Bank-administered multi-donor trust fund;
- An innovative component of the PFM effort, the Merit-Based Pay Initiative (MBPI), which pays staff who were designated as critical to the reforms monthly incentive payments based on individual and departmental work plans and performance objectives;
- Bank commitment to support adoption of the Extractive Industries Transparency Initiative (EITI) and development of a National Oil Fund or other mechanism to hedge against price volatility (World Bank 2009: 87)—even though the government has yet to engage, awaiting a significant flow of oil funds.

3.6 The Bank’s response to the government’s *decentralization* efforts is based on a learning-by-doing approach under the Rural Infrastructure and Local Governance project. The project reimburses the costs of commune-level investments that are acceptable to the Bank. This arm’s-length approach shields the Bank from fiduciary risks while allowing it to support local-level investments. The upcoming Local Government Development Project would also be well hedged by directing Bank funding to the recurrent budget under the IP3.

3.7 Through its analytical work on *formal accountability institutions*, the Bank raised concerns early in 2004 about the risks involved in setting up anticorruption bodies in a weak integrity environment such as Cambodia. The risks are that the unit will only selectively investigate corrupt acts based on partisan factors, and that even a sound investigation will not be supported by other parts of the system (that is, prosecution, trial, punishment). The Bank did not support the anticorruption law/unit in the 2007 Poverty Reduction and Growth Operation, although it remains a member of the donor group on anticorruption. Also, under the Governance Partnership Facility (GPF), the Bank will prepare an engagement strategy. The Bank has been providing modest support to the NAA (through the PFM Project and an Institutional Development Fund grant), although strengthened external audit is a Country Assistance Strategy (CAS) outcome under the PFM agenda.

3.8 In 2008, IDA approved an innovative \$19.28 million investment lending operation in support of the Demand for Good Governance Project. It supports six implementing agencies to strengthen partnerships with citizens and civil society and motivate the demand side. The Bank also supported some initial upstream work on an NGO law. Demand for Good Governance is an amalgam of approaches—each operating with varying degrees of success. It is worth monitoring whether the unique funding mechanism (financed by IDA and administered by the Asia Foundation), which uses civil society organizations (CSOs) is progressively institutionalized.

3.9 *Relevance.* Given Cambodia's nontransparent and weak public expenditure management and limited capacity, the Bank's objectives on PFM were highly relevant. However, the suspension of MBPI and delays in rolling out reforms to the sectors suggests that the design of these schemes could have better anticipated political economy challenges within the Cambodian bureaucracy. These will undoubtedly affect the Bank's ability to revive a substantive dialogue on civil service and performance management issues.

3.10 The PFMRP follows a mixed performance of prior efforts. Some, such as the Priority Action Programs rolled out in 2000-02, were successful in piloting a program budget structure and formula-based allocation method that successfully increased the flow of funds to schools and contributed to increases in primary school enrollment (**Error! Reference source not found.**). Others have been less successful. This evaluation identified strengths and weaknesses in the Bank's approach to PFMRP.

Box 3-1. Cambodia—Piloting PFM Linkages to Service Delivery in Social Sectors

Cambodia has adopted a piloting approach to reforms in the public sector. Historically, successful pilot reforms are rolled out more systematically across government institutions. The Priority Action Program (PAP) is an example of partnering between central and line ministries for improved PFM, supported by the Bank and other donors. It builds on the experience of the 1996 Accelerated District Development Program, introduced to speed up the flow of small disbursements to district health programs through an imprest-like system, shifting from pre-audit to post-audit of spending. The PAP, recommended by the 1999 Public Expenditure Review and launched in 2000, scaled up this effort and expanded it to education, agriculture, and rural development.

The result was better alignment of funds to policy objectives and faster disbursement in some operational units. A study of health performance in PAP versus non-PAP provinces found mixed results, while an education study found much lower repeat rates for students in PAP provinces. Cash management challenges, such as erratic and delayed disbursements, have prevented these initiatives from having a larger impact.

The education Public Expenditure Tracking Survey (PETS) does useful analysis of PAP versus conventional expenditures at PAP schools. Another feature of this study is that it builds on fieldwork carried out by researchers at a local think tank, the Cambodia Development Resource Institute, thus helping to build local capacity and gain credibility. The Public Financial Management Reform Program supported by the Bank is working to help make PAP the basis for a medium-term financial deconcentration program, building on the positive features while trying to correct the observed shortcomings (World Bank and ADB 2003:74-7, World Bank 2005a, and Wescott 2008)

Source: World Bank and Asian Development Bank (2003); World Bank (2005a).

3.11 Bank support for the PFMRP in many ways anticipated the issues that would eventually pose fiduciary and reputational risks for the Bank and the government. Bank advice on the design of the government's "platform approach" falls within the mainstream of PFM practice: it begins with the basics of budget comprehensiveness and predictability, before proceeding to value-for-money issues. However, this sequencing strategy does not immediately address frontline service delivery concerns. Rather, sectoral and delivery issues are to be addressed in outer years.

3.12 Efforts to embed the MBPI across Cambodia's own project portfolio (for example, in infrastructure and the social sectors) were a farsighted attempt to link public sector reforms to portfolio management. In retrospect, however, the MBPI suffered from design flaws. First, in the Ministry of Economy and Finance, unlike other ministries, the initiative was never linked—as originally intended—to a functional review, detailed job descriptions, selection criteria, performance appraisal criteria, and training requirements. Since none of these linkages have occurred, the scheme was never the merit-based arrangement intended. Second, the MBPI was not implemented in the context of an agreed fiscal framework, which would have enabled the government to take on a larger share of its financing. The scheme's expansion therefore constituted a fiscal risk. Third, the selection criteria for receiving pay increases required staff to be designated as working on reform programs. This compromised the principle of equity within the same grade and led to resentment within the civil service. Fourth, a lack of adequate ownership by the Council on Administrative Reform (CAR) and its Secretariat undermined its sustainability.

3.13 Beyond the MBPI, the approach to civil service reform has been hampered by some missteps by the Bank (such as the release of a report calling for downsizing and pay increases in 2003 in the midst of an election campaign), as well as an adversarial relationship with the CAR (in particular, surrounding the unsatisfactory \$5.5 million Economic Policy Support and Capacity Building Learning and Innovation Loan). (World Bank 2008a) Since then, information-sharing with CAR has improved including diagnostic studies prepared with support from the Bank (GPF funded), Germany, Denmark, Canada, and France. Among these was a Bank-funded 2010 labor market comparator study that has had the full engagement of CAR. Nevertheless, the Bank will require a more consistent and credible engagement with both the CAR and the Ministry of Economy and Finance if it is to help Cambodia make progress on civil service reform. Until such time, it is not clear whether the Bank's lead role on the technical working group of donors and the availability of resources under the GPF will produce the intended results. The suspension of the MBPI suggests that the civil service reform quandary is still unresolved.

3.14 Given the limitations of the IP3, the Bank's approach to *decentralization* constitutes an appropriate response. The Rural Infrastructure and Local Governance project and its proposed successor allow the Bank to stay engaged in the decentralization and deconcentration process if it emerges as a more viable GAC entry point. A realistic test is whether the government actually transfers responsibilities to districts or communes in one or more sectors (for instance, the transfer of responsibilities for preschools to communes based on earlier pilots). It remains unclear whether more vigorous analytical and policy support from the Bank might enable the government to give IP3 "more teeth" (as evidenced by the experience of other countries).

3.15 The Bank was also correct in not supporting the establishment of the Anti-Corruption Unit (ACU) in the 2007 Poverty Reduction and Growth Operation because of the weak record of such institutions in comparator countries. Now that the body is operational, the Bank's approach of preparing a strategy to determine its potential before engagement seems sensible. One approach that can enhance the Bank's development impact while limiting reputational risks could be to help raise awareness of anticorruption issues at the community level (for example, in the context of emerging social accountability practice in health and education).

3.16 The Bank appropriately allowed other donors, such as the Asian Development Bank (ADB) and German aid (GTZ), to take the lead in helping to strengthen *external audit*. It was not clear how Bank resources programmed for the NAA would be used, although the potential of the Auditor's Academy was identified. Staying engaged could offer incremental governance benefits over time. For instance, a role for the Bank could help to provide various links with the NAA under platforms 2, 3, and 4 of the PFM program.

3.17 Assessing the Bank's approach to *the demand side* is more difficult. The Bank deserves credit for using political economy analysis to inform the Demand for Good Governance Project. However, although the Political Economy Analysis (PEA) may have correctly captured the politics, the design itself had several weaknesses. First, the decision to rely on six implementing agencies, most with no experience in working with the Bank, such as National Radio Kampuchea (RNK) and the Ministry for National Assembly Senate Relations and Inspections (MONASRI), is questionable. Second, if the intention was to take a "venture capital" approach, it would be have been preferable to create a simple financing window that provides access to institutional support based on clear and simple eligibility criteria (rather deciding on the executing agencies or implementing agencies *a priori*). Another alternative could have been to expand the civil society component, administered by an experienced trustee, such as the Asia Foundation. This would allow for testing of pilot concepts, a scaling up of successful ones, and a closing down of others. Currently, more troubled components such as RNK and MONASRI will be difficult to continue to supervise or close down even if they do not improve. Given the Bank's inability to directly fund CSOs without a sovereign guarantee, there are limits to civil society engagement as a major GAC entry point.

3.18 **Basic Service Delivery.** In recent years, Bank support for new *roads* has been overtaken by other regional actors with more flexible fiduciary requirements. These regional funders (including the ADB, China, Japan, Korea, Thailand, and Vietnam) have aggressively expanded their support to Cambodia's infrastructure expansion. Therefore, after complaints relating to collusion on contracts under the Provincial Road Infrastructure Project, the Bank has largely withdrawn from financing new roads works and is shifting toward supporting maintenance activities through its \$30 million contribution to the government's \$56.07 million Road Asset Management Project. The project focuses on periodic maintenance of primary and secondary roads, capacity building for the Ministry of Public Works and Transport's asset management, and MBPI payments. Following the MBPI's suspensions, the last component was restructured in 2010 to support the interim Priority Operating Costs (POC) mechanism for boosting incentives.

3.19 While the LMAP faced contentious implementation issues,⁹ the \$13 million Land Allocation for Social and Economic Development project pilots the allocation of *public land* in the form of Social Land Concessions (SLCs). The LASED project selected 3,000 poor household beneficiaries through an intensive, rules-based community screening system. It does not address governance in urban, commercial agriculture, and forestry land subsectors.

3.20 The Bank supports GAC issues in *primary education* through a robust program of analytical work, as well as the \$20 million Education Sector Support Project, approved in 2005, and closing in FY11, and the \$54.7 million Education Sector Scale Up Action Program—a Fast Track Initiative project approved in 2008. The Bank’s analytical work consisted of a Public Expenditure Tracking Survey (PETS), a review of constraints to improving school quality, informal notes anticipating education sector issues in implementation of decentralization and deconcentration, and a major impact evaluation of a scholarship program. The Education Sector Support Project aims to increase access to Early Childhood Education services through construction of new classrooms, development of participatory school improvement plans, expansion of teacher training, and strengthening of teacher oversight. The Education Sector Scale Up Action Program will support School Improvement Grants¹⁰ to supplement the existing School Operational Grants, as well as the Cambodia Scholarship Program. Both projects aim to strengthen financial management consistent with the larger PFM reform.

3.21 *Relevance.* The relevance of the Bank’s engagement on GAC issues in the roads, land management, and primary education sectors is rated as modest, given its emphasis on institution building. The scope and the likely impact of Bank support on sectoral governance, however, vary by the size of the portfolio relative to other donors and the degree of harmonization.

3.22 In the *roads sector*, given the availability of alternative financing for new infrastructure, the Bank’s focus on road maintenance was pragmatic. Not only is it likely to be less attractive to external funders, but effective maintenance and rehabilitation of existing assets is a legitimate, often under-valued, GAC objective for the sector. The limitation of this approach, however, is that the Bank will have little direct impact on governance issues in the sector more broadly, or on large government contracts that carry significant fiduciary risks. It also underscores the difficulties the Bank faces in remaining competitive while managing fiduciary and reputational risks in the roads sectors (using its existing instruments).

3.23 Regarding *land administration*, by helping to develop a rules- and community-based approach to SLCs, the Bank’s response could potentially lead to a demonstration effect for public lands more generally (for example, public lands in forestry, economic concessions, and the like). However, the scale of the project, and concerns expressed by donors such as GTZ

⁹ The IEG mission was unable to review the LMAP given ongoing review of high-profile safeguards issues, which were recently reviewed by the Bank’s Inspection Panel.

¹⁰ Funds can only be spent on a restrictive menu of options, including basic teaching materials, sports, crafts or agricultural activities, small repairs, school environment upgrading and other small expenses. The operational manual sets out specific “rules of the game” for the management of School Improvement Grants including requirements for record keeping and reporting, as well as guidance community participation in oversight.

about the complexity and sustainability of the project, could limit its impact. Notwithstanding the long waiting period for issuance of titles, the project can be expected to help transfer real assets to intended beneficiaries.

3.24 The Bank's program in *primary education* is GAC-responsive and in some ways offers lessons for other sectors. First, the Bank's analytical work helped identify the cross-cutting public sector management constraints to service delivery, although it failed to propose systemic solutions. For instance, workforce issues (including teacher incentives) were identified as a key constraint, even though the Bank fell short of proposing solutions related to civil service pay. Similarly, the PETS underscored the importance of linking budget allocations and service delivery. Since then, however, progress on "institutionalizing" PETS has been slow. Second, the Bank's lending strategy is well aligned with its sectoral knowledge of GAC issues. It offered a relatively balanced response to the supply side (for instance, expanding financing of school-level plans, promoting teacher oversight, and teacher training) as well as the demand-side constraints (for instance, community participation, scholarships, and community contracting, and local-level transparency measures) to school performance. Some of these efforts, such as the School Improvement Grants, could potentially serve as an entry point to a broader governance engagement, for example, around decentralization and deconcentration by demonstrating the benefits of decentralized delivery.

3.25 **Private Sector Development.** The Bank's private sector development agenda in Cambodia is narrowly focused mainly on trade facilitation issues, and constitutes a modest share of its overall portfolio. The \$10 million Trade Facilitation and Competitiveness Project, approved in 2005, aims to remove a major source of rents by automating customs functions and by deploying a single electronic window to integrate trade facilitation agencies. Other components included: an Export Market Access Fund to finance matching grants to cover 50 percent of the cost of achieving market standards, capacity building to implement a concessions law and an amended investment law (to expand the scope for private participation in infrastructure), and support to ensure publication of relevant commercial laws. The \$12.25 million Trade Development Support Program, approved in 2008, finances a sectorwide approach that supports trade policy formulation and implementation, monitoring, and capacity building. These are intended to improve the efficiency of the trade regime, including upgrading of processes within the Ministry of Commerce. These were prefaced by two ICAs in 2003 and 2007 that provided an exhaustive review of perceptions of domestic investors. More recently, a 2009 Country Economic Memorandum addressed a range of private sector issues including in the garment, tourism, and rice sectors. It also drew on a trust-funded political economy analysis.

3.26 Working closely with the Bank team in Phnom Penh, the International Finance Corporation (IFC) has also sought to engage on governance issues in the private sector. In the garment sector, for example, the Better Factory Cambodia project—originally supported by the International Labor Organization—monitors compliance with labor standards. With IFC support, the project is now developing a strategy to expand to a fee-for-service approach to monitoring, training, and good practice sharing on work conditions (World Bank 2009b; 5-6). In addition, the IFC houses the secretariat to the Government-Private Sector Forum and operates the regional Mekong Private Sector Development Facility. Since its founding in early 2000, the Private Sector Forum was intended as a framework for ongoing, structured

dialogue between business groups and the government to resolve disputes and to shape the agenda for investment climate reform. Accordingly, the Prime Minister chairs a biannual meeting attended by private businesspeople, the donor community, and the government. Core work is undertaken during the year by public-private working groups that specialize in areas ranging from agro-processing to financial services, law, tax, governance, and tourism.

3.27 *Relevance.* Given the need for the government to implement its WTO commitments, the relevance of the Bank's response to governance weaknesses such as red tape, inefficiencies, and other forms of rent-seeking in customs is rated as modest. Although the Bank's objectives under the trade sector operations were appropriate (and an example of how to support GAC in the investment climate), they were hampered by several design issues.

3.28 The credibility of schemes that support private sector actors is constrained by a wider tendency of the government to maintain centralized control over donor-supported initiatives (Sopha Ear 2007). This appears to have been a factor in the government's initial decision, later reversed, to reject the proposal to use an independent, autonomous agency to house the single window within the Trade Facilitation and Competitiveness Project. The implementation of such schemes can also be undermined by concerns on the part of firms of corruption, patronage, and political interference. These concerns, rather than a simple lack of awareness, may have contributed to the low number of companies registered for matching grant funds from the Export Market Access Fund.

3.29 Capacity constraints as well as risks of capture by special interests can also jeopardize emerging multi-stakeholder platforms such as the Private Sector Forum. As of January 2011, the secretariat function will be transferred from the IFC to the Cambodian Chamber of Commerce. Some have expressed concerns about the lack of capacity, independence, impartiality, and transparency in the operations of the chamber. The ability of the chamber to serve as an honest broker (as the IFC did) will require that its capacity and financial constraints be addressed. Chamber of commerce management confirmed that their financing is largely skewed given that 40 (mostly large and, in some cases, politically connected) members fund the majority of its activities. Given that the transfer was planned for over a year, the Bank and IFC could have prioritized capacity building support to individual working groups in the Private Sector Forum to operate independently from the Cambodian Chamber of Commerce.

3.30 As elaborated in **Error! Reference source not found.**, the Bank's approach to analytic and advisory activities (AAA) was innovative and raised important governance issues in a transparent manner with government and other stakeholders. The use of local expertise in undertaking this kind of sensitive analysis is another strong point. However, the PEA did not lead to tangible operational solutions in all cases, for instance, coordination arrangements in the rice sector.

Box 3-2. Cambodia—Assessing the Value-Added of Political Economy Analysis of the Garment Sector

A major success story in Cambodia, despite the adverse governance environment, is the rapid, decade-long expansion of the garment sector. In 2009, the Cambodia Country Management Unit commissioned a Political-Economy Assessment (PEA) of growth as part of the CGAC process, and as an input to the Country Economic Memorandum. The PEA compared governance arrangements in the garment and rice sectors and identified entry points for reforms given ongoing World Bank-IFC operations, including trade facilitation. The PEA determined that three factors contributed to the high performance and productivity growth of the sector:

- A basic comparative advantage;
- A favorable global environment facilitated by a bilateral trade agreement with the United States and third-party monitoring by the International Labor Organization to ensure compliance with labor standards;
- A strengthened platform for collective action by sectoral actors enabling garment manufacturers to resolve coordination problems and to demand private-sector facilitation.

The PEA argued that only the first two of these factors were somewhat replicable in the rice sector. First, rising world rice prices created an imperative for rice importers to diversify sources, and the cost advantage of Cambodian rice sector niche markets (such as golden rice and organic rice) could create opportunities for rice exporters. Second, it was expected that the European Union's "everything but arms" trade preferences might give Cambodian rice exporters market opportunities, although the precise implications and duration of the quotas were unclear.

The third factor—coordination mechanisms—were not effective in the rice sector. Unlike the garments sector, in which coordination problems (both in terms of supply chains as well as advocacy) were supported through the Garment Manufacturers Association of Cambodia, the Rice Millers Association was hampered by, among other things, a lack of capacity, poor information flows within the sector, and greater fragmentation of the main players.

The PEA has been influential mainly with respect to the policy dialogue with the government. A subsequent World Bank-authored rice policy note—a contribution to the government's overall rice strategy—underscored the important role of the Rice Millers' Association for market access, protection of farmers' benefits, and improving rice processing capacity to increase value added for export. It recommended capacity-building support to rice farmers' organizations along the lines of the support provided to the Garment Manufacturers Association in the garment sector.

The difficulty for the World Bank program, however, was to locate an appropriate mechanism by which to initiate an operational program to support business associations such as the Rice Millers Association. This was only done once the Trade Development and Support Project was proposed. A subcomponent of the project includes support for "the development of strengthened institutional and human capacity" through individual (training) and capacity-building efforts, as well as salary supplements. The agencies involved in the "regulatory or administrative structure governing trade development" may sponsor associations representing segments of civil society (with accountability for results and the use of trust fund resources remaining with the government agency). Beyond this, there have been no operational programs to develop or strengthen business-government consultative mechanisms, or intra-industry coordination.

Source: World Bank (2009)

Project-Level Relevance

3.31 Since 2007, the Bank has undertaken several steps to embed generic GAC elements across its Cambodia projects. As a basis for reinstating suspended projects, portfolio-wide measures included the use of an Independent Procurement Agency (IPA) for IDA procurements, and the implementation of Good Governance Frameworks (GGF) for all IDA projects. Pre-dating and unrelated to the INT discussions in Cambodia, several Bank projects had also attempted to embed an innovative pay reform scheme—the Merit-Based Pay Initiative—in projects managed by participating ministries. This creative use of MBPI served not only as a portfolio enhancement incentive (and therefore a risk mitigation measure), but was also a practical response to an endemic problem of low wages. These three schemes are discussed below.

3.32 **Independent Procurement Agent.** Given the recurrence of complaints to INT (related to allegations of fraud and corruption), the IPA was a short-term means of safeguarding Bank-funded tenders upstream of the procurement process, while demonstrating collective commitment to “fighting corruption” during a highly sensitive period for the Bank. This evaluation concludes that the arrangement suffered from a number of flaws that have limited its development impact:

- By design, the IPA does not address contract management processes, which are also susceptible to fraud and corruption risks.
- The use of an IPA in a country with Cambodia’s level of economic performance is inconsistent with the Bank’s goals of institutional development. Most Bank and government technical staff (for example, those involved in implementing the roads and trade projects) acknowledged that the IPA dilutes incentives for institution building, particularly in a country that has made demonstrable progress on PFM reforms.
- Its most immediate benefit is shifting the burden of managing reputational risks on IDA projects away from the government (and to a third party).
- The arrangement was not set up with a clear and time-bound exit strategy. Given the government’s ambivalence (and in the case of some key Ministry of Economy and Finance officials, reticence) of moving to the use of country systems, the Bank faces a difficult challenge of transitioning back to recipient-execution of the procurement processes.

3.33 **Good Governance Frameworks.** The development of GGFs at the project level has emerged as a way for Bank teams to review, signal, and address GAC issues at the project level. In addition to the IPA requirement, each GGF is structured around eight elements: procurement, financial management, disclosure, civil society role, code of ethical conduct, sanctions, and project-specific elements. Although initially seen as yet another imposition by the Bank, the GGFs prepared by government and task teams have—to varying degrees, depending on the sector—been accepted as a way of doing business. In a few areas, such as

education, the GGF has been adopted by the government for its own purposes, starting with translation into Khmer and adapted to Cambodian administrative systems.¹¹

3.34 Like the IPA, the Bank concluded that the GGF's primary benefits are to help manage both the Bank's and the government's reputational risks (such as those that emerged following the 2006 INT reports). Beyond that, the GGF faces a number of challenges if it is to systematically deepen the Bank's engagement of GAC issues in the sectors. These are as follows:

- The GGF is in some sense a misnomer. Although several elements noted above can contribute to improved management of project fiduciary risks, the GGF principles are really good management principles. In some projects (for example, in the roads and infrastructure sectors), these principles were considered so basic that counterparts viewed the entire requirement as somewhat paternalistic.
- It does not explicitly include measures to improve the design, governance, and performance of sectoral institutions. The "fit" of generic GGF principles with the specific needs of sectors therefore remains weak. For instance, in the Trade Facilitation and Competitiveness Project, "minimizing conflicts of interest" is next to impossible given the web of relationships between business elites and government officials in all branches of government. Consequently, according to project staff, this aspect has largely been ignored.
- The social accountability elements of the GGF pose a challenge across sectors. For instance, under the Trade Facilitation and Competitiveness Project, the Ministry of Commerce faced difficulties in interpreting which civil society organizations were appropriate. Given the Cambodia's limited experience with the organized private sector (such as business associations), NGOs with no direct interest or experience in the sector were initially involved, but added little value. An alternative could have been to use existing public-private dialogue mechanisms, such as the Private Sector Forum. In the education sector, although CSO involvement is working relatively well at the national level, its application at the local level (for example, in aiding school support committees, or in advocating greater engagement of commune councils in education activities) seems less clear. The LASED project, which involves communities in allocating state land and handling complaints, may offer lessons.
- By its nature, the GGF is applied to the Bank's projects and appears to be at odds with the efforts (for instance, in health and education) to contribute—in collaboration with other donors—to sector-wide approaches that address sectoral or cross-cutting public management issues. For instance, the GGF in education is intended to align with the system as a whole (that is, the development of a financial management training program); however, the GGF is still seen as a Bank fiduciary requirement to be reviewed in the context of normal six-monthly supervision missions. Although the GGFs may be useful as tools to review and perhaps improve project-level management, they appear to be less than likely to influence large or broad-scale institutional change.

¹¹ The Bank's education team prepared a briefing note for the IEG mission describing experience to date with GGFs, which is included in its entirety in Annex 3.

- Neither the government nor the Bank has articulated an exit strategy from the GGFs. Although staff in some sectors have advocated mainstreaming the GGF into larger programs, the prospects for this seem unlikely for the reasons noted above. Given the relatively small size of its portfolio in Cambodia (compared to other donors), it would be important for the Bank to find ways of deepening its dialogue on GAC in sectors, with a renewed focus on harmonized approaches to managing fiduciary risks and developing sectoral capacity to achieve results.

4. Effectiveness of World Bank Efforts

Country-Level Effectiveness

4.1 The Bank's efforts have had only limited impact on country-level governance in Cambodia overall. This is a necessary corollary of Cambodia's challenging governance environment, as well as of the Bank's more modest "venture capital" approach to supporting GAC entry points. However, progress has been made in select reform areas and sectors, in particular PFM and primary education.

Sector-Level Effectiveness

4.2 Five years after its launch, the government's PFM efforts—with Bank support—have contributed to demonstrable improvements in Cambodia's public finance system (verified by the recent PEFA assessment). Performance improvements in the 2004-10 period indicate the value of upstream consultation (2003 IFAPER), the "platform approach" with piloting in sectors, and anticipating surprises. For instance, a positive surprise was that 90 percent of tax and expenditures would go through the banking system at this time. Notwithstanding these achievements, PFM is still a work in progress. IEG was informed by the government that PFM reforms had not progressed to a point that would warrant more extensive use of country systems by donors. Nor had PFM reforms been rolled out systematically to sectors, except for some progress in education.

4.3 Although bold and innovative in motivating staff in Ministry of Economy and Finance, the MBPI and the larger civil service reform agenda suffered a major setback when the Prime Minister suspended the scheme in October 2009. Although the precise reasons for the suspension are not clear, the IEG mission learned that fiscal pressures, exacerbated by the financial crisis, contributed to the decision, as well as resistance from the military, police, and other bodies, which were asked to reduce their MBPI schemes. Other factors reportedly included lobbying by the Ministry of Health, which feared that its own donor-managed incentive schemes would be folded into the MBPI (which paid lower rates); and fears by some senior leaders that the MBPI might limit their discretion in expanding and sustaining patronage appointments. It is important to note that the development and agreement among donors (including the Bank) of the POC scheme—a scaled-down replacement for the MBPI—is decidedly second-best. However, it underscores that pay issues for public servants will likely remain an important GAC issue in Cambodia in the years ahead.

4.4 Regarding accountability issues, government and donor efforts to help establish the NAA and Anti-Corruption Unit are bearing fruit. The impact of demand-side efforts on the effectiveness of civil society institutions remains to be seen. Raising public awareness of rights and responsibilities remains a priority if state actors are to be held accountable. Demand-side capacities of CSOs are also an issue. Progress will have to be monitored through survey-based tools and in-depth studies.

4.5 The education sector has made progress in enhancing the adequacy and transparency of sectoral budgets (as a result of PFM reforms), and in successfully piloting and scaling up efforts to channel resources to the school level. Although challenging, community-based and

participatory initiatives in the education sector could provide the basis for prototyping decentralization and deconcentration in a key sector.

4.6 The impact of Bank efforts in the roads and land management sectors will depend on whether the modest Road Asset Management Project and LASED programs are able to build a rules-based approach to managing public assets. Similarly, the private sector development portfolio will need to mature in order to determine whether a forward-leaning approach to GAC issues in the trade sector will do much to address private sector concerns raised in the previous two ICAs.

Box 4-1. Cambodia—Lessons in Navigating Bureaucratic Politics: A Post-Mortem of Bank Support for MBPI

The experience of the MBPI offers important lessons for the Bank in navigating bureaucratic politics. Given earlier missteps (such as the publication of a report recommending downsizing in the early 2000s and tense relations with the Council on Administrative Reform in the mid- to late-2000s), it would have been all the more important for the Bank to be seen as an honest broker on civil service reform.

Aside from design flaws mentioned earlier, the Bank's approach to the MBPI clearly signaled that it was siding with the Ministry of Economy and Finance, and not the CAR or the Council of Ministers, which were already rolling out a more modest pay incentive scheme linked mainly to donor-funded reform projects. As with other difficult engagements on civil service reform in other countries, the Bank inevitably found itself caught in turf battles between Cambodia's finance and public service agencies—an unenviable position that has real consequences for future dialogue.

Following the suspension of the MBPI, the CAR has reasserted itself through the launch of the POC scheme, which has been developed by the government and donors (including the Bank). The POC scheme is a step backward: it is project-based, is not explicitly merit-based, and has a two-year limit (to allow time to roll out broader civil service reforms). Yet, because of the issues over the MBPI, the Bank is more constrained in helping to revive a constructive dialogue that integrates both the Ministry of Economy and Finance and CAR perspectives.

A fiscal space study supported by the Bank shows that Cambodia has room for improving civil service pay (for example, comparator Ghana spends four times more as a share of GDP on pay than Cambodia and scores much higher on government effectiveness). In order to be able to make this case in a neo-patrimonial setting, however, the Bank will have to: (i) work to build the trust of the CAR Secretariat, the agency responsible for payroll, and; (ii) develop technically sound alternatives that also are fitted to the bureaucratic politics.

One alternative entry point for the Bank to support the public sector reform at this stage in Cambodia is to build up more effective human resources planning and administration *at the sector level*. The sector is the place where it may be possible to unite the three reform threads—the National Program for Administrative Reform, PFM, and decentralization and deconcentration—into a more coherent whole. This evaluation concluded that there may be potential for this type of engagement in the education sector.

Source: Authors

Project-Level Effectiveness

4.7 There is some indication that the IPA has helped build confidence and experience among bidders on World Bank projects, and raise expectations that government tenders can be won without corruption. However, the PEFA provided no evidence of a positive impact on country procurement systems generally. The main progress on procurement, Sub-Decree 105, was enacted with Bank support in 2006, before the IPA. It provides for a complaints mechanism. It also strengthens the climate for competitive bidding, but evidence is that most large contracts are still awarded using less-competitive practices.

4.8 It is too early to tell whether the GGFs are having any impact beyond monitoring compliance with World Bank project management requirements. The experience in the education sector suggests that, in some cases, the government might begin to take ownership of the tool for its own internal management purposes. However, the distance between project-level GGF monitoring and sectoral institutional reform is long and not well mapped. One possibility is that the ADB's efforts to develop a similar GGF instrument may offer some opportunities for improving the "fit" to sector-specific requirements.

5. Impact of the 2007 GAC Strategy Implementation

5.1 This review sought to evaluate the impact of the 2007 GAC Strategy implementation efforts on the country program. In particular, Bank staff were interviewed about their attitudes toward and awareness of GAC issues. It also sought to determine whether support provided under the GAC Strategy has made a difference in the Bank's responsiveness to GAC issues. As noted earlier, the Bank's dialogue on governance issues in Cambodia dates back several years. In fact, in its desk review of the country program and projects, this evaluation found the Bank's portfolio in Cambodia to be relatively GAC-responsive over the entire 2004-10 period. The fallout from INT reviews was associated with heightened scrutiny from Bank senior management (during the Wolfowitz presidency), in particular to project fiduciary issues.

5.2 Since then, GAC strategy implementation efforts are as follows: (i) continued Bank senior management involvement in monitoring corruption issues in Cambodia; (ii) integration of GAC issues in portfolio monitoring processes; (iii) awareness-raising efforts (including reliance on the Bangkok hub); and (iv) a substantial incremental resource under Window 1 of the GPF. Window 1 resources support internal awareness-raising within the country team, political economy analyses, reviews of the demand for good governance, dialogue on civil service reform, as well as technical assistance to the newly established Anti-Corruption Unit.

5.3 Based on fieldwork and extensive consultations in headquarters and the Phnom Penh Country Office, this evaluation found that Bank staff were generally committed to addressing governance concerns. Many of them are actively supporting efforts (such as implementation of the GGF and involvement in various risk reviews) in earnest, and engaging the government on highly sensitive issues. However, these implementation efforts have not resulted in a "step function" change in the Bank's approach to governance issues. Some have argued that it is too early to judge these initiatives. However, this evaluation identified at least three reasons for the muted impact of GAC strategy implementation activities to date.

5.4 First, GAC awareness-raising activities take a considerable amount of the country team's time. These activities have contributed to more discussion about GAC risks in meetings as well as more references to GAC risks in Bank documents. However, they are based on what appears to be a flawed assumption that lack of awareness by Bank staff is the binding constraint on achieving GAC outcomes. To the contrary, most sector staff were already supporting governance and capacity building. Rather, many staff reported that lack of government commitment or difficult technical issues were the primary reasons for lack of progress on GAC. More technical support on operational design and shared analytical work on the bureaucratic politics of sector reforms would add more value.

5.5 Second, the fallout from INT involvement in the mid-2000s and the Bank's predominant GAC-in-projects orientation since 2007 have both contributed to a preoccupation with reputational risks. GAC implementation efforts have yet to successfully shift the focus back to addressing development effectiveness. If this persists, the Bank is apt to miss opportunities to support higher risk/higher reward development programs (for example, a more proactive stance on decentralized service delivery).

5.6 Third, virtually all of the Country Office staff interviewed felt that the most immediate value-added factor of GAC Strategy Implementation in Cambodia was access to incremental GPF resources. In various instances, staff claimed that these incremental resources helped them undertake AAA or conduct internal reviews that otherwise could not have been funded. Certain GPF outputs (for instance, sector governance assessments and a review of private contractors) could help develop more concrete, operational solutions to GAC in sectors. However, the value of using GPF resources to “stay engaged” on civil service reform may need to be re-visited. Overall, the GPF resources are heavily devoted to Bank traditional reviews and AAA and not sufficiently oriented toward: (i) prototyping or piloting operational innovations (for instance, in decentralization and deconcentration or the investment climate); or (ii) benchmarking public, private, and civil society institutional performance.

6. Lessons Learned

6.1 The review of the Cambodia program points to the following lessons:

- ❖ **Support for PFM can be one of the most effective and durable areas of Bank-country dialogue over the medium term.** Given its potential for positive externalities across sectors, early results on PFM allow the Bank to sustain a robust governance dialogue and weather the storm if and when project-level fiduciary risks appear. There are, however, many ways to engage and broaden the PFM dialogue (for instance, through its links to priority sectors, such as education or to decentralization efforts). As such, the sequencing of planning, budgeting, accounting, and auditing reforms, however, cannot always follow a formula (such as “do the basics” first). Sequencing strategies should be based on an assessment of the binding constraints to service delivery or other development objectives.
- ❖ **Poor civil service wages are an enduring challenge that undermines governance capacity. Innovative approaches to rolling out civil service reforms sector-by-sector show promise, but can be stalled without strong cabinet-level oversight.** The longstanding problem of poorly paid, low-skilled, over-staffed government agencies often reflects deep-rooted patronage problems. Given the political economy challenges in implementing across-the-board pay and employment reforms, the Bank has developed an asymmetric approach (reflected in the MBPI) that provides an incentive for sector ministries and agencies to adopt reforms once they demonstrate readiness. Although attractive for individual sectors, this approach requires close collaboration between control agencies (that is, finance and personnel ministries), strong strategic management capacity, and harmonization of donor efforts.
- ❖ **Deep capacity deficits themselves undermine governance. In post-conflict settings such as Cambodia, investment in human capital is part of any viable GAC strategy.** In addition to investments in secondary, vocational, and tertiary education, the Bank should help develop technical training institutes, local think tanks, and related knowledge sector institutions that can rebuild capacity. Even in countries where the Bank is increasingly a marginal donor overall (such as in Cambodia), it can still add value in the social sectors (through its focus on education and health systems), and in decentralized delivery (through its long experience in designing intergovernmental systems).
- ❖ **In neo-patrimonial settings, Bank efforts to directly promote the entry of private sector firms or civil society organizations should be calibrated to the risk of capture (for example, through influence peddling).** Efforts to promote CSOs through direct support should build on the lessons from matching grant schemes in the Bank’s private sector development portfolio. Where the demand side provides a viable entry point, the Bank could provide focused public sector management support to specific agencies that either facilitate easier market entry (for example, through trade support and facilitation) or that are responsible for disseminating government laws, regulations, and policies (for example, MONASRI in Cambodia).

- ❖ **Management of Bank and the government’s reputational risks (through generic GAC-in-projects measures such as GGFs or anticorruption plans) is not always compatible with addressing developmental risks in priority sectors.** Some initiatives (such as the GGFs) are overly concerned about procedural compliance with project fiduciary controls. To be owned by the government, they will need to be further fashioned to the needs of sectoral reform and harmonized with other donor efforts.
- ❖ **In managing reputational risks of fraud and corruption, the Bank should ensure that it explicitly and consistently sets risk tolerance and risk mitigation measures across countries** (for example, through lending scenarios with GAC-related benchmarks, triggers for using development policy loans, or project-level milestones and dated covenants). These will enable the Bank to manage the reputational risk that “it is soft on corrupt governments” while signaling to borrowers that it will systematically and consistently to governance downturns.

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Appendix A. Persons Interviewed

Name	Title/Organization
GOVERNMENT OFFICIALS	
Sareth Boramy	Director, LASEDP, Ministry of Lands
H.E. Nath Bunroeun	Secretary of State, Ministry of Education, Youth, and Sport; ESSSUAP Director
H.E. Ngy Chanphal	Secretary of State, Ministry of Interior, and DFGG Project Coordinator
	Commune Council, Chhouk Ksach Commune, Kampong Cham
H.E. Uth Chhorn	Auditor General, National Audit Authority (NAA)
H.E. Ou Eng	Deputy Director General, Ministry of Education, Youth, and Sport
H.E. Ngo Hongly	Secretary General, Council for Administrative Reform
H.E. Keo Kong	Project Director, MONASRI
H.E. Dr. Hang Chuon Naron	Secretary of State, Ministry of Economy and Finance
H.E. Dr. Aun Porn Moniroth	Head of PFMRP, Ministry of Economy and Finance
H.E. Cham Prasidh	Senior Minister and Minister of Commerce
Tuaon Sarath	[RNK Office
H.E. Sak Setha	Head of National Council for Decentralization and Deconcentration (NCDD)
	Secretariat
H.E. Lim Sidenine	Secretary of State
H.E. Pheng Socheano	PRIP Director, Ministry of Public Works and Transport
H.E. Kem Sithan	Secretary of State, Ministry of Commerce
H.E. Nguon Meng Tech	Director General of Cambodian Chamber of Commerce (CCC)
H.E. Tram Iv Tek	Minister of Public Works and Transport
HE. Vongsey Vissoth	Secretary General, Ministry of Economy and Finance
H.E. Tan Yan	Radio National Kampuchea, Project Director
H.E. Cheam Yeap	Chairman of Public Account Committee, Parliament
H.E. Om Yenttieng	President of Anti Corruption Unit, National Anti Corruption Council
DONOR OFFICIALS	
Richard Erlebach	Head, UK Development for International Development
Ingjerd Haugen	Adviser, Bank Section, Norwegian Agency for Development Cooperation
Benedict Latto	Governance Adviser & Deputy Team Leader, UK Development for International Development
Jennifer Lean	First Secretary, AusAID
Giske Lillhehammer	Senior Advisor, Aid Strategy and Development Economics Department, Norwegian Agency for Development Cooperation
Per Oyvind	Director, Aid Strategy and Development Economics Department, Norwegian Agency for Development Cooperation
André Westerink	Deputy Head, Good Governance Division, Netherlands Ministry of Foreign Affairs
Representatives from ADB, USAID, EWMI, SIDA, GTZ	
CIVIL SOCIETY REPRESENTATIVES	
Vinay Bhargava	Partnership for Transparency
Robert Boddy	Independent Procurement Agent
Francesco De Simone	Senior Policy Advisor, Transparency International USA
Lynn Dudley	Chief Technical Advisor, CESSP and FTI
Jonathan Gant	Policy Advisor, Global Witness
Corinna Gilfillan	Head of US Office, Global Witness
Gerald Hyman	Senior adviser and president of the Hills Program on Governance, Center for Strategic & International Studies

APPENDIX A

Van Sou Ieng	President of GMAC and Cambodian Federation of Employers
Vijay Kumar	Independent Procurement Agent
Okhna Kith Meng	President of Cambodian Chamber of Commerce
Okhna Mong Reththy	President, Mong Rethy Group
Daniel Ritchie	Consultant, Partnership for Transparency
Ok Serei Sopheak	Consultant
Gopa Thampi	Coordinator, ANSA- South Asia
Regina Williams	Finance and Fiduciary Expert, Norfolk State University

Representatives from PACT-
Cambodia, CCC, SILAKA, The
Asia Foundation, NGO Forum,
MEDICAM, CBNRM-LI, CCSP,
EIC, Star Kampuchea, and DPA

INTERNATIONAL ORGANIZATIONS

Isabelle Austin	Deputy Director, UNICEF
Francisco Dall'Anese Ruiz	Commissioner, Comision Internacional Contra la Impunidad en Guatemala

Representatives of the EC, UNDP,
UNIDO

FORMER AND CURRENT WORLD BANK STAFF

James Adams	Regional Vice President, EAPVP
Ahsan Ali	Senior Procurement Specialist, EAPPR
Deborah Bateman	Country Program Coordinator, EACSQ
Simeth Beng	Senior Operations Officer, EASHE
Sue Berryman	Consultant, EASHD
Saroeun Bou,	Communications Officer, EACSF
Veasna Bun	Senior Infrastructure Specialist, EASTS
Steven Burgess	Senior Operations Officer, EAPCO
Suriani Burhan	Consultant, EACIF
Mudita Chamroeun,	Sr. Rural Development Specialist, EASTS
Nazmul Chaudhury	Country Sector Coordinator, EASHD
Huot Chea	Economist, EASPR
Julian Clarke	Trade Specialist, EASPR
Annette Dixon	Country Director, EACTF
Qimiao Fan	Country Manager, EACSF
Tsuyoshi Fukao	Education Specialist, EASHE
Stephane Guimbert	Senior Economist, EASPR
Seida Heng	Financial Management Specialist, CEUCA
Soneath Hor	Acting Resident Representative, IFC
Timothy Johnston	Senior Health Specialist, EASHH
Merly Khouw	Senior Investigator, INTOP
Munichan Kung	Rural Development Officer, EASTS
Luc Lecuit	Senior Operations Officer, EACTF
Pema Lhazom	Senior Operations Officer, EASHH
Latharo Lor	Procurement Specialist, EAPPR
Nareth Ly	Operations Officer, EASHH
Sodeth Ly	Public Sector Specialist, EASPR
Yasuhiko Matsuda	Senior Public Sector Specialist, EASPR
Helga Muller	Chief Administrative Officer, ECACA
Vanna Nil	Social Development Specialist, EASTS

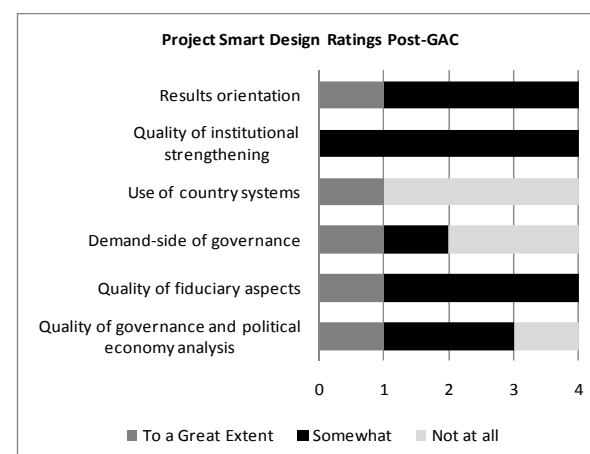
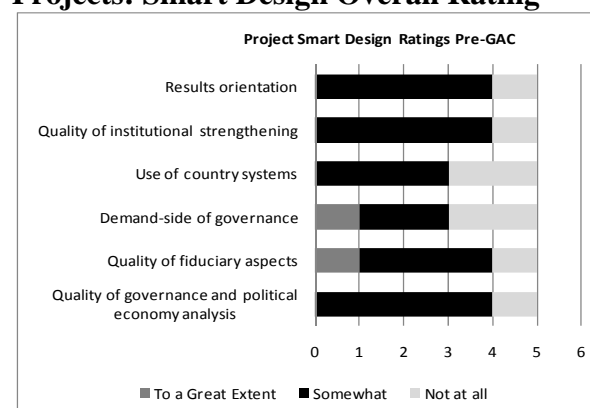
Janelle Plummer	Senior Governance Specialist, EASTS
John Richardson	Consultant, EACTF
Dena Ringold	Senior Economist, HDNCE
Ratha Sann	Infrastructure Operations Specialist, EASTS
Vannara Sok	Operations Officer, EASPR
Robert Taliencio	Lead Economist, EASPR

Appendix B. Cambodia—Country Data Sheet, IEG Ratings of GAC Responsiveness, 2004-2010

CAS Desk Review Results

Selectivity	Pre-GAC (04-07)	Post-GAC (08-10)
Explicit assessments of GPE constraints	Highly incorporates	Highly incorporates
Explicit choice of GAC entry points	Highly incorporates	Highly incorporates
Mix of financial and knowledge instruments	Somewhat incorporates	Somewhat incorporates
Results measures	Somewhat incorporates	Somewhat incorporates
Overall rating of country strengthening	Pre-GAC (04-07)	Post-GAC (08-10)
Core public sector institutions	To a great extent	To a great extent
Sectoral state institutions	To a great extent	To a great extent
Domestic accty	To a great extent	To a great extent
Civil society	To a great extent	To a great extent
Investment climate	Somewhat	Somewhat
Overall rating of signaling of GAC concerns and risks through Bank portfolio processes	Pre-GAC (04-07)	Post-GAC (08-10)
Portfolio risks regularly monitored by the Bank	Somewhat	To a great extent
Portfolio processes track the progress of governance reforms at sector and project levels	To a great extent	To a great extent
Portfolio reviews and results monitoring are regularly disclosed	To a great extent	To a great extent
Overall rating on results	Pre-GAC (04-07)	Post-GAC (08-10)
Quality of indicators	Satisfactory	Satisfactory
Collection of data	Satisfactory	Moderate
Disclosure of data collected	Satisfactory	Satisfactory
Overall Rating of GAC Responsiveness in the CAS	Pre-GAC (04-07)	Post-GAC (08-10)
Minimized fiduciary risk	Somewhat	Somewhat
Selectivity of Bank country strategies and programs	Somewhat	To a great extent
Signaling of GAC concerns and risks	To a great extent	To a great extent
Smart design of programs and projects by countries	Not at all	Not at all
System strengthening	To a great extent	To a great extent

Projects: Smart Design Overall Rating



2009 Country Policy and Institutional Assessment Ratings for Cambodia and Comparative

Country	CAMBODIA	LAO	THAILAND	VIETNAM	BANGLADESH
Property Rights & Rule-based Govt	2.5	3	3.5	3.5	3
Quality of Budget. & Fin Mgmt	3.5	3.5	4.5	4	3
Eff. of Revenue Mobilization	3	3	4	4	3
Quality of Public Admin	2.5	3	4	3.5	3
Trans., Accountability & Corruption in Public Sector	2	2	3.5	3	3
Cluster Average	2.7	2.9	3.9	3.6	3
Overall Rating	3.3	3.2	4.4	3.8	3.5

Appendix C. Statistical Tables

ICR and IEG Project Ratings for Cambodia FY2004-10

Country	CAE Period of evaluation	Date of review (FY)	CAE Rating
Cambodia	(1999-2006)	2008	Moderately Satisfactory

Country	CAS Period	CASCR Review Period	IEG CASCR-R Rating
Cambodia	(FY00-03)	(FY00-05)	Unsatisfactory

EXIT FY	Proj ID	Proj Name	Total Evaluated (\$M)	Lending Instrument	ICR Outcome Rating
FY04	P045629	KH-Urban Water Supply	30.102995	SIL	HS
FY04	P058544	KH—Cambodia SAC	30.363888	SAL	S
FY04	P058841	KH-Northeast Village	4.679382	LIL	S
FY04	P059971	KH-Education Quality Improvement	4.873411	LIL	S
FY05	P050601	KH-Social Fund II	33.832849	SIL	S
FY05	P071445	KH—Demobilization and Reintegration	0.6756682	SIL	U
FY05	P073394	KH-Flood Emergency Rehabilitation Project	36.411012	ERL	S
FY06	P004033	KH-Agricultural Productivity Improvement	19.509557	SIL	U
FY06	P060003	KH-Forest Concession Management and Control Pilot	4.6802722	LIL	U
FY07	P004030	KH-Road Rehab	44.469136	SIL	MS
FY07	P065798	KH-Biodiversity and Protected Areas Management	1.995563	LIL	MS
FY08	P071247	KH—Economic and Public Sector Capacity Building Project	1.6568507	TAL	U

Source: World Bank data as of 11.23.10

Note: ERL= Emergency Recovery Loan; LIL=Leaning and Innovation Loan; SAL=Structural Adjustment Loan; SIL=Specific Investment Loan; TAL= Technical Assistance Loan

ICR Ratings: HS=Highly Satisfactory; MS=Moderately Satisfactory; S= Satisfactory; U=Unsatisfactory.

IEG Project Ratings for Cambodia and Comparators, FY2004-10

Region	Total Evaluated (US\$M)	Total Evaluated (No)	Outcome % Satisfactory (US\$)	Outcome % Satisfactory (No)	RDO % Moderate or Lower (US\$) *	RDO % Moderate or Lower (No) *
Cambodia	213.3	12.00	86.6	58.33	36.23	28.57
Bangladesh	2,512.9	28.00	67.7	67.86	63.84	63.64
Lao PDR	191.2	11.00	89.9	90.91	56.99	66.67
Vietnam	1,679.7	24.00	100.0	100.00	85.82	73.68
Region	20,017.1	228.00	93.0	84.58	88.32	73.39
World Bank	96,831.8	1,507.00	85.2	77.79	73.66	63.72

Source: IEG.

Appendix B

Portfolio Status for Cambodia and Comparators, FY2004-10

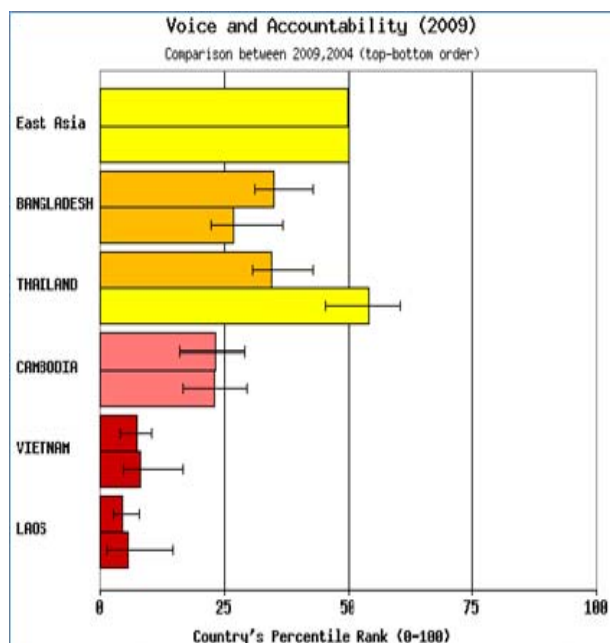
Fiscal year	2004	2005	2006	2007	2008	2009	2010
Cambodia							
# Proj	14	13	12	11	14	15	14
Net Comm Amt	314.7	270.5	256.2	229.1	333.0	353.0	329.0
# Prob Proj	3	2	3	5	1	2	4
# Proj At Risk	3	2	3	5	3	4	8
% At Risk	21.4	15.4	25.0	45.5	21.4	26.7	57.1
Comm At Risk	22.4	26.6	62.6	79.7	86.4	121.9	151.3
% Commit at Risk	7.1	9.8	24.4	34.8	25.9	34.5	46.0
Bangladesh							
# Proj	28	26	24	24	21	26	27
Net Comm Amt	2,530.5	2,318.1	2,043.6	1,966.3	1,997.2	2,766.7	3,561.7
# Prob Proj	5	3	4	6	2	1	4
# Proj At Risk	5	3	7	6	3	1	5
% At Risk	17.9	11.5	29.2	25.0	14.3	3.8	18.5
Comm At Risk	597.7	325.3	782.5	463.8	338.6	16.0	741.3
% Commit at Risk	23.6	14.0	38.3	23.6	17.0	0.6	20.8
Lao PDR							
# Proj	12	11	13	13	15	12	16
Net Comm Amt	232.3	167.4	173.7	165.9	184.2	164.4	246.0
# Prob Proj	0	2	1	1	0	0	1
# Proj At Risk	0	2	1	1	0	0	1
% At Risk	-	18.2	7.7	7.7	-	-	6.3
Comm At Risk	-	18.4	16.7	4.0	-	-	9.0
% Commit at Risk	-	11.0	9.6	2.4	-	-	3.7
Vietnam							
# Proj	27	34	37	36	39	43	46
Net Comm Amt	2,983.2	3,514.7	3,949.5	3,931.0	4,582.0	5,428.0	6,308.2
# Prob Proj	2	0	3	4	4	5	3
# Proj At Risk	2	0	3	4	4	5	4
% At Risk	7.4	-	8.1	11.1	10.3	11.6	8.7
Comm At Risk	220.0	-	285.0	662.0	388.2	601.0	421.5
% Commit at Risk	7.4	-	7.2	16.8	8.5	11.1	6.7
East Asia & Pacific Region							
# Proj	214	209	204	196	207	222	230
Net Comm Amt	20,349.1	19,169.7	18,390.7	17,837.3	18,670.6	23,882.7	26,741.2
# Prob Proj	20	12	13	20	20	26	27
# Proj At Risk	20	14	14	23	26	36	38
% At Risk	9.3	6.7	6.9	11.7	12.6	16.2	16.5
Comm At Risk	1,448.9	842.2	803.8	1,607.9	1,707.5	2,122.0	2,406.9
% Commit at Risk	7.1	4.4	4.4	9.0	9.1	8.9	9.0

Source: World Bank data as of 11/24/2010.

IBRD/IDA Net Disbursements and Charges Summary Report for Cambodia (in US\$ Mil)

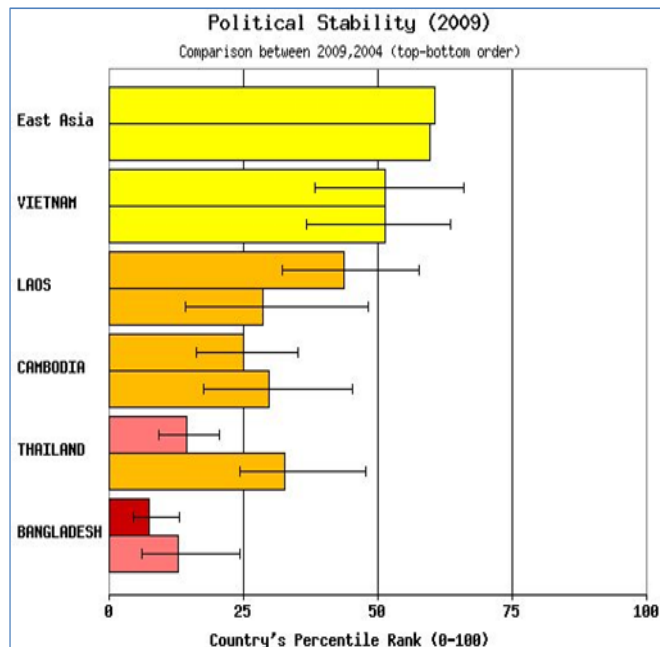
FY	Disb. Amt.	Repay Amt.	Net Amt.	Charges	Fees	Net Transfer
2004	69.40	0.66	68.74	2.77	0.36	65.60
2005	34.39	1.52	32.87	3.31	0.72	28.83
2006	34.92	3.14	31.78	3.40	0.44	27.95
2007	23.30	4.17	19.13	3.72	0.29	15.12
2008	42.80	5.32	37.48	1.93	2.20	33.35
2009	46.67	5.43	41.24	0.00	4.03	37.21
2010	44.23	7.65	36.59	0.00	4.21	32.37
Total (2004-10)	295.7	27.9	267.8	15.1	12.3	240.4

Source: World Bank internal database.



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.



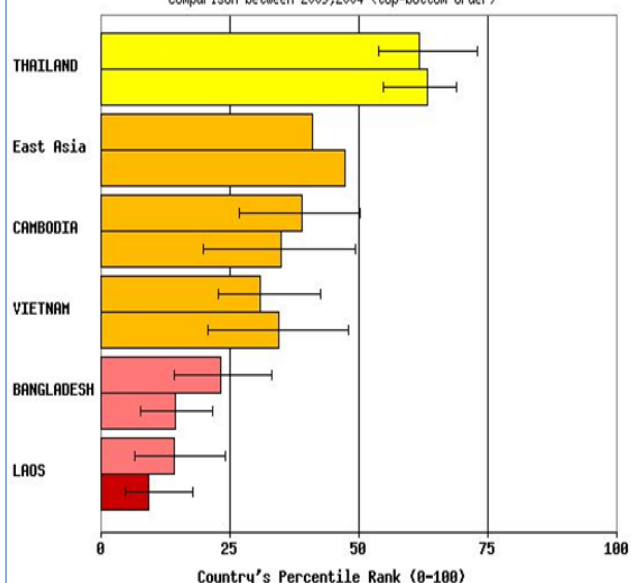
Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

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Appendix B

Regulatory Quality (2009)

Comparison between 2009,2004 (top-bottom order)

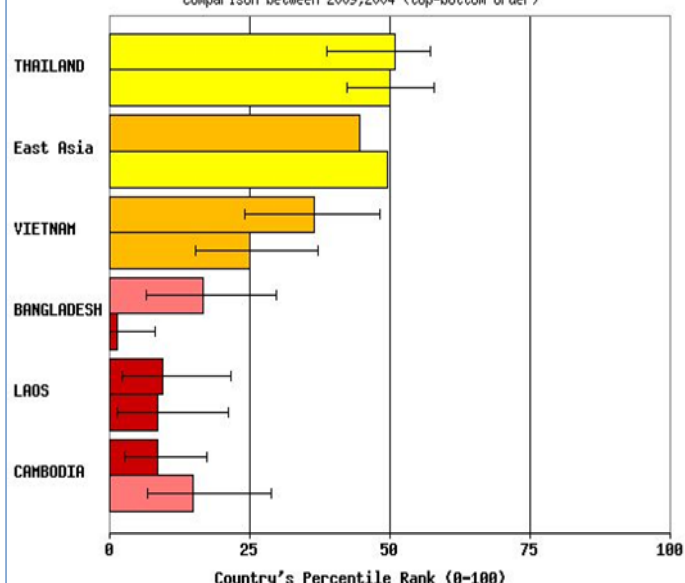


Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

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Control of Corruption (2009)

Comparison between 2009,2004 (top-bottom order)

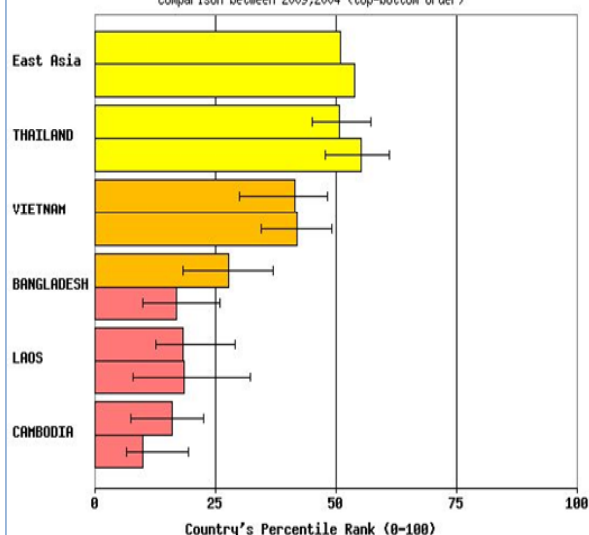


Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

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Rule of Law (2009)

Comparison between 2009,2004 (top-bottom order)

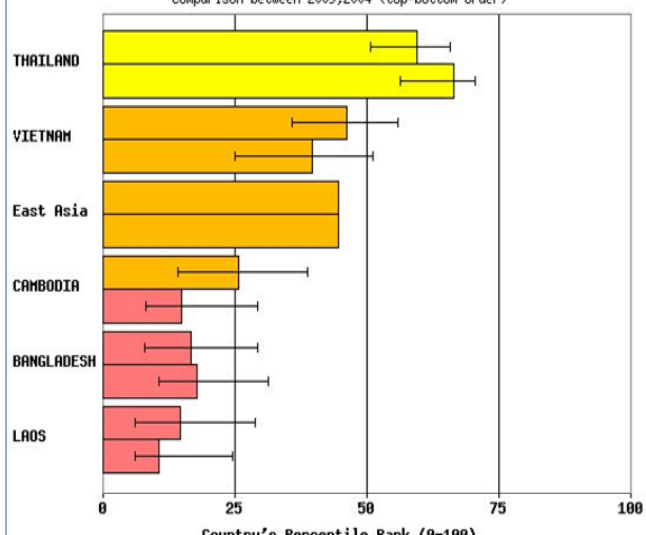


Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

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Government Effectiveness (2009)

Comparison between 2009,2004 (top-bottom order)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

APPENDIX B

ODA Disbursements by Donor in Current Prices (USD millions) from 2003-09

Donor Year	2003	2004	2005	2006	2007	2008	2009
All Donors, Total	518.3	485.34	535.58	529.34	674.52	742.81	192.52
DAC Countries, Total	329.96	321.29	364.25	361.34	452.53	459.72	85.63
Multilateral Agencies, Total	188.32	163.49	171.24	150.43	199.6	279.68	106.89
Non -DAC Countries, Total	0.02	0.56	0.09	17.57	22.39	3.41	..
G7, Total	248.89	209.4	256.97	252.06	317.23	297.59	37.9
DAC EU Members, Total	105.33	119.57	127.52	132.81	159.2	171.29	64.79
Australia	19.88	25.01	28.39	33.1	27.68	39.03	..
Austria	0.01	0.01	0.04	0.02	..	0.2	0.01
Belgium	5.33	5.7	11.81	11.96	10.37	16.4	9.24
Canada	8.97	8.48	8.48	8.1	15.33	11.53	..
Denmark	6.33	10.4 6	9.22	11.43	12.94	13.64	16.45
Finland	3.88	4.2	4.27	4.03	4.64	5.33	..
France	25.76	25.64	29.31	29.77	35	35.16	..
Germany	21.98	22.5	24.81	27.64	37.62	33.8	37.9
Greece	..	..	..	..	0.01	0.03	..
Ireland	0.69	1.22	1.07	4.21	3.43	4.05	..
Italy	0.07	0.66	1.92	0.13	3.94	2.16	..
Japan	125.88	86.37	100.62	106.25	113.56	114.77	..
Korea	10.76	23.88	17.77	13.83	35.28	34.66	17.05
Luxembourg	0.14	0.17	0.13	0.2	0.12	0.34	1.11
Netherlands	7.2	8.7	8.04	2.02	0.17	1.87	0.08
New Zealand	2.23	2.99	3.83	3.34	6.42	4.12	3.79
Norway	2.5	3.31	3.65	3.14	3.81	10.59	..
Portugal	0.1	..	..	0.02	..	..	..
Spain	0.12	0.06	0.65	1.97	8.52	11.81	..
Sweden	18.71	22.64	14.78	17.11	17.88	16.11	..
Switzerland	3.19	3.54	3.63	2.9	4.03	3.95	..
United Kingdom	15.01	17.61	21.47	22.3	24.56	30.39	..
United States	51.22	48.14	70.36	57.87	87.22	69.78	..
EU Institutions	15.38	11.79	20.25	28.77	44.84	37.46	..
Czech Republic	0.02	0.17	0.03	0.31	0.1	0.18	..
Hungary	..	0.15	0.06	..	0.1	0.09	..
Pol and	0	..	..	0.05	0.03	..	..
Slovak Republic	..	0.2	..	0.45	0.07	..	..
Turkey	..	0.03	..	..	..	..	..
Other Donor Countries, Total	0	0.01	..	16.76	22.09	3.14	..
AfDF (African Dev. Fund)	..	..	..	..	..	..	..
Arab Agencies	2.61	4.87	2.54	0.86	-0.68	4.88	..
AsDF (Asian Dev. Fund)	74.13	78.75	85.67	55.05	55.23	131.67	..
GEF	4.31	2.51	..	0.64	..	..	..
GAVI	..	..	..	..	3.12	1	4.79
Global Fund	6.49	5.51	18.85	22.17	21.07	37.87	46.41
IBRD	..	..	..	..	..	..	..
IDA	63.78	47.39	32.23	20.66	37.13	33.31	39.66
IDB Spec. Fund	..	..	..	..	..	..	..
IFAD	4.29	4.8	4.45	4.24	13.74	2.61	2.36
IMF (SAF, ESAF, PRGF)	-0.06	-10.37	-8.67	0	..	..	..
Nordic Dev. Fund	..	..	..	..	0.6	4.81	2.4
UNAIDS	..	..	0.55	0.51	1.07	0.59	..
UNDP	4.18	6.26	4.52	5.71	7.38	7.6	..
UNFPA	3.79	2.72	1.93	2.58	2.95	4.43	4.01
UNHCR	0.45	..	0.3	0.01	0.58	0.65	..
UNICEF	3.34	4.07	4.84	5.01	6.7	6.36	7.26
UNTA	2.56	2.07	2.55	1.53	1.82	0.82	..
WFP	3.07	3.12	1.23	2.69	4.05	5.62	..
IDA as a share of ODA	12%	10%	6%	4%	6%	4%	..

Data extracted on 24 Nov 2010 20:36 UTC (GMT) from OECD.Stat

Note: DAC= Development Assistance Committee; ESAF= Enhanced Structural Adjustment Facility; EU= European Union; GAVI=Global Alliance for Vaccines and Immunization; GEF= Global Environmental Fund; IBRD= International Bank for Reconstruction and Development; IDA= International Development Association; IFAD= International Fund for Agricultural Development; IMF= International Monetary Fund; ODA= official development assistance; PRGF= Poverty Reduction and Growth Facility; SAF= Structural Adjustment Facility; UNAIDS=United Nations Program on HIV/AIDS; UNDP= United Nations Development Programme; UNFPA= United Nations Population Fund; UNHCR= United Nations High Commissioner for Refugees; UNICEF= United Nations Children's Fund; UNTA=United Nations Program for Technical Assistance; WFP= World Food Programme.