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**INTERNATIONAL FINANCE CORPORATION**

**MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**COUNTRY PARTNERSHIP FRAMEWORK**

**FOR**

**KINGDOM OF CAMBODIA**

**FOR THE PERIOD FY2019-FY2023**

**May 1, 2019**

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

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

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective as of May 1, 2019)

Currency Unit = Cambodian Riel (KHR)

KHR 4061 = US\$1

## GOVERNMENT FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	ISAF	Implementation of the Social Accountability Framework
AF	Additional Financing	IPF	Investment Project Financing
ASA	Advisory Services and Analytics	IMF	International Monetary Fund
CEN	Country Engagement Note	JICA	Japan International Cooperation Agency
CNRP	Cambodia National Rescue Party	LASED	Land Allocation for Social and Economic Development Project
CPF	Country Partnership Framework	LGBTQI	Lesbian, Gay, Bisexual, Transgender, Queer or Questioning, and Intersex
CPIA	Country Policy and Institutional Assessment	MEF	Ministry of Economy and Finance
CPP	Cambodian People's Party	MFD	Maximize Finance for Development
CMAW	Creating Markets Advisory Services Window	MIC	Middle Income Country
CSES	Cambodia Socio-Economic Survey	MIGA	Multilateral Investment Guarantee Agency
DB	Doing Business	MSME	Micro Small & Medium Enterprise
EBA	Everything-but-Arms	NDC	Nationally Determined Contribution
ECCD	Early Childhood Care and Development		
ESF	Environmental Social Framework	PFM	Public Financial Management
FA	Focus Area	PIM	Public Investment Management
FDI	Foreign Direct Investment	PLR	Performance and Learning Review
FM	Financial Management	PPP	Public-Private Partnership
FMIS	Financial Management Information System	PSW	Private Sector Window
GDP	Gross Domestic Product	RAMP	Road Asset Management Project
GNI	Gross National Income	RGC	Royal Government of Cambodia
GVC	Global Value Chain	RS4	Rectangular Strategy Phase V
HEF	Health Equity Fund	SCD	Systematic Country Diagnosis
H-EQIP	Health Equity and Quality Improvement Project	SME	Small Medium Enterprise
ICT	Information and communications technology	SNA	Sub-National Administration
IDA	International Development Association	SNDD	Subnational Democratic Development
IDP	Industrial Development Policy	STEM	Science, Technology, Engineering and Mathematics
IFC	International Finance Corporation	TVET	Technical and Vocational Education and Training
IFR	Interim Financial Report	WBG	World Bank Group
INDC	Intended Nationally Determined Contribution		

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**FY19-FY23 COUNTRY PARTNERSHIP FRAMEWORK FOR  
THE KINGDOM OF CAMBODIA**

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## I. INTRODUCTION

**1. Cambodia has undergone a significant economic transition, reaching lower middle-income country status in 2015, and now is poised to enter a new stage of development.** Cambodia has enjoyed rapid and sustained growth over the last two decades, averaging 7.9 percent over the period 1997-2017. It is a leader in poverty reduction and shared prosperity, with poverty incidence dropping from 48% to less than 14% (2007-2014) and substantial improvements in human development indicators. Cambodia is now a lower middle-income country (LMIC) and aspires to attain upper middle-income country status by 2030. The Royal Government of Cambodia (RGC) has developed and implemented a series of national development strategies and is currently implementing its overarching “Rectangular Strategy” Phase IV (RS4), which reflects the medium-term development priorities of Cambodia.

**2. The World Bank Group’s relationship with Cambodia has matured significantly since the implementation of the FY16-17 Country Engagement Note.** In 2015, the World Bank Group (WBG) began a dialogue toward renewed engagement following a five-year pause in new IDA lending. This dialogue drew on extensive consultations, which resulted in a Country Engagement Note (CEN) covering the period FY16-17. During the CEN period, the WBG and RGC began to rebuild their relationship and trust, and the CEN was viewed at the time as a bridge to deeper engagement and a subsequent medium-term engagement framework. The WB designed and began implementation of seven new projects and the IFC made nine investments (see Annex 5 and 6). Equally important, both institutions invested in significant analytical and advisory services, including a Systematic Country Diagnostic (SCD),<sup>1</sup> which was the subject of wide consultations across the country and fully endorsed by the RGC as a basis for a future program. Momentum is now growing for the WBG to provide a larger, more integrated program to support Cambodia’s continued transition.

**3. The WBG Country Partnership Framework for FY19-23 supports Cambodia’s progression to the next stage of its development and reflects the evolution of the WBG’s engagement in the country.** Cambodia’s strategic goal is to maintain its strong growth record, increase the quality of employment, improve access and quality of public services, reduce poverty to below 10% and continue to strengthen public institutions.<sup>2</sup> In anticipation of a general election held in July 2018, the RGC prepared the fourth phase of its Rectangular Strategy, consulting with development partners, including the WBG. The proposed WBG Country Partnership Framework (CPF) is well-timed to support implementation of the Government’s new development program. The CPF reflects RGC priorities and will address the country’s challenges of limited economic diversification, rapidly increasing urbanization, human capital deficiencies, and infrastructure gaps. It will be a joint program across the WBG, encompassing the financing envelopes of IDA18 and IDA19 as well as IFC’s and MIGA’s engagement, and based on consultations with Government, civil society and development partners.

**4. The CPF will comprise three Focus Areas and one Cross-Cutting theme.** First, the CPF will promote state efficiency and boost private sector development. This will cover a broad set of challenges related to supporting Cambodia’s financial and business sectors, as well as improving the efficiency and effectiveness of the public sector. Second, the CPF will support the development of human capital. This will address challenges related to education/skills development, early childhood development, and delivery of quality health and nutrition services and outcomes. Third, the CPF will improve agricultural

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<sup>1</sup> Cambodia: Systematic Country Diagnostic-Sustaining Strong Growth for the Benefit of All, WBG, 2017  
<https://www.worldbank.org/en/country/cambodia/publication/Cambodia-Systematic-Country-Diagnostics>

<sup>2</sup> Rectangular Strategy Phase IV, RGC, September 2018

productivity and strengthen the sustainable use of natural resources. This will cover challenges related to natural wealth management as well as resilience to climate change. *Finally*, a critical cross-cutting theme, which underpins reforms in all three focus areas, is that of governance, institutions and citizen engagement. Interventions to strengthen governance and institutions will be embedded in all WBG activities.

**5. *The Country Partnership Framework for FY19-23 will strengthen empowerment of citizens in the design and implementation of the WBG program.*** The Royal Government of Cambodia RS4 aims to accelerate governance reform and, specifically, encourage people's participation in the process of development as well as the formulation and implementation of various policies. The CPF program will align its activities with this aim to ensure that citizen engagement and good governance cuts across all WBG program interventions to enhance transparency and accountability of government, improve public service delivery and provide a supportive business climate.

## **II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA**

### **A. Sociopolitical and Institutional Context**

**6. *Cambodia has transformed itself from a war-torn country to a peaceful one.*** In the early 1990s, Cambodia's state capacity was typical of other post-conflict countries following decades of war and instability, including the oppressive Khmer Rouge regime (1975-1979). The devastating civil conflict in Cambodia left deep divides, continued insecurity, a fragile social, human, and institutional base, and decimated physical capital. Since 1993, Cambodia has focused on maintaining peace and stability, rebuilding infrastructure and institutions, fostering economic growth, and improving living standard of the population.

**7. *Cambodia's system of government was characterized by a leading political party with intermittent opposition up until the recent elections.*** Notwithstanding the dominance of the main party, a more diverse set of political actors emerged in Cambodia over the last six years. In the 2013 national elections, the Cambodian People's Party (CPP) retained a majority (68 out of 123 seats), while the main opposition Cambodia National Rescue Party (CNRP) made sizeable inroads (55 seats up from 29 seats during the previous legislative period). In the 2017 commune elections, more than 85 percent of the population turned out to vote, with the CPP capturing 71 percent of council seats (1,163 seats) despite gains made by the CNRP, which won 29 percent (482 seats, up from 40 seats in 2012). However, in late 2017, the Supreme Court dissolved CNRP, 118 senior CNRP politicians were banned from any political activities for five years, and 55 parliamentary seats were allocated to other political parties that participated in the 2013 national election. Cambodia held national elections in July 2018 and, with several small parties running but in the absence of the CNRP, the elections were largely uncontested. The CPP won all seats in the National Assembly. Following elections, a legal amendment to the Law on Political Parties enabled those banned CNRP members to request a lifting of the ban and reinstatement of their political rights.

**8. *Ongoing public sector reforms are yielding results, but public institutions remain weak, private institutions are still emerging, and levels of contestation are low.*** The Government has launched an effort to implement three large, cross-cutting public sector reforms related to public financial management, public administration and decentralization and deconcentration, and a number of notable reform achievements have occurred (see Box 1). Nevertheless, a number of challenges remain. While civil society organizations are prevalent, they have little influence on government policy and only a narrow space for meaningful dialogue. While Country Policy and Institutional Assessment (CPIA) scores remain encouraging in three of four clusters (Economic Management, Structural Policies, Policies for Social Inclusion and Equity), they are considerably weaker in areas related to Public Sector Management and Institutions.<sup>3</sup> Capacity is limited and uneven across ministries and agencies, particularly at local levels, and roles and responsibilities between central and local levels are unclear, with considerable lack of coordination among different ministries and agencies. Progress in transferring central government functions to subnational levels has been slow, with some responsibilities shifting, but with little change in the way of financing to accompany these responsibilities. Significant judicial reforms and adoption of laws and regulations over the past fifteen years have broadened the role of the courts and increased their use. Yet access to the judicial system is not equal for all, and continued lack of judicial independence is evident. This hampers the effort to establish a consistent and operative rule of law, contributes to persistent levels of corruption and creates social tension.

**Box 1: Progress and Remaining Challenges in Public Sector Reform**

**Public Financial Management.** Progress has been made in reforming public financial management systems including the initial roll out of the Financial Management Information System (FMIS) and effective tax administration reforms. Budget implementation has improved with fewer disruptions from cash shortages, reasonably tight alignment between budget and spending, and improved budget analysis built on the Medium Term Fiscal Framework. The initial stages of program budgeting have been rolled out. However, several challenges remain, including increasing consistency across ministries, improving financial management capacity of decentralized budget holders, and improving the quality of financial data to implement budgeting informed by performance.

**Public Administration Reform.** Recent reforms have led to improved wages, reduced leakages, strengthened payment systems, and the removal of ghost workers. Minimum salaries and pensions have been significantly increased, salary scales were rationalized to improve efficiency and civil servant career movement, and civil servants are now paid monthly through the banking system. Continued work is needed to improve performance management systems, as well as to bolster the capacity of agencies and institutions to effectively formulate and deliver results and outputs required under program-based budgets.

**Decentralization and Deconcentration Reform.** This reform has led to some improvement in public service delivery and citizen engagement at the grassroots level, while progress at the national level remains limited. Modest increase in funds spent by subnational administrations, and some line ministry functions have been transferred from central to district levels, albeit without required financing to effectively execute those functions.

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<sup>3</sup> The criteria noted as particularly weak include: Quality of the legal and judicial system; Core administration ensuring quality in policy implementation and regulation management; Core administrative coordination of public sector human resource management; Accountability of the executive; Access of civil society to information on public affairs; State capture by narrow vested interests; and Integrity in the management of public resources.



**9. Demand-driven governance at local levels is improving slowly.** While reforms to strengthen subnational government and provide adequate financing have been limited, improvements in social accountability have been made, stemming from a 2013 Social Accountability Framework, and the Implementation Plan for the Social Accountability Framework (see Box 2).

**Box 2: Emerging Social Accountability in Cambodia**

The Implementation of the Social Accountability Framework (ISAF) is a unique and groundbreaking program in the Cambodian context. It has become a significant part of the ten-year Subnational Democratic Development (SNDD) Strategy, which is the Government's decentralization program. As a joint Government-Civil Society program, the ISAF aims to empower citizens, strengthen partnerships between sub-national administrations (SNAs) and citizens, and promote enhanced accountability of SNAs to improve local service delivery.

Phase I (2014-2018) involved designing, testing and refining ISAF's four operational components: (1) access to information and open budgets, (2) citizen monitoring, (3) capacity building and, (4) program management, learning and monitoring. Partnerships between supply-side (state) and demand-side (civil society) actors were established, and ISAF activities were successfully rolled out to more than half of the communes within 75 percent of the provinces across the country. Community scorecards (based on performance assessments by citizens/service users and self-assessments by service providers) were successfully implemented in 786 communes, with the active involvement of more than 270,000 citizens. During Phase I, ISAF focussed exclusively on rural primary schools, health centers and commune administrations with service providers and users reporting enhanced mutual understanding and improved communication as a result of the citizen monitoring process.

ISAF Phase II (2019 – 2023) aims to consolidate the gains of Phase I, apply lessons learned to refine and build on current ISAF tools and methodologies, achieve full national coverage of communes, establish sustainable support networks for active citizenship, integrate social accountability practices into existing government systems, and include additional public services such as district administration, water and sanitation services and natural resource management.

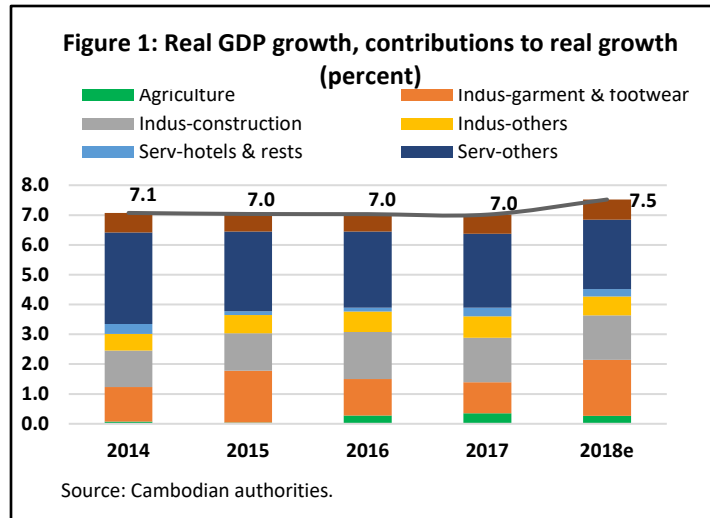
**10. Cambodia is facing critical choices, which will set the stage for its future.** International concerns over shrinking democratic space and mixed progress on governance reforms could affect Cambodia's development path going forward. Despite a strong track record of growth and poverty reduction to date, as Cambodia moves toward more sophisticated and diverse sources of growth, governance challenges will more visibly affect competitiveness, the quality of public service delivery, human capital accumulation, and the population's access to assets and opportunities. Deepening governance reforms will be critical to address rising expectations from better educated, more well-off citizens and to meet the RCG's aspiration for Cambodia to become an upper middle-income country.

**B. Recent Economic Developments and Outlook**

**11. Over the past two decades, economic growth in Cambodia has been impressive and remained robust.** The economy experienced an annual average growth rate of 7.9 percent over 1997-2017, ranking among the top seven fastest growing economies in the world. Growth was largely driven by exports of goods and services, which grew 14.6 percent a year over the same period. As a result, Cambodia's per capita Gross National Income (GNI) increased almost fourfold, from \$320 in 1997 to US\$1230 in 2017.

**12. Growth remained strong in 2018, achieving a four year high of 7.5 percent.**

Garment and footwear exports (see Figure 1), which account for more than two-thirds of total merchandise exports, grew by 17.6 percent (year-on-year) in 2018, up from 8.3 percent in 2017. Upbeat market confidence has been met by robust domestic demand and a surge in imports, while inflation remains mild. The current account deficit has widened to an estimated 10.4 percent of the Gross Domestic Product (GDP) (see Table 1) but remains fully financed by foreign direct investment.



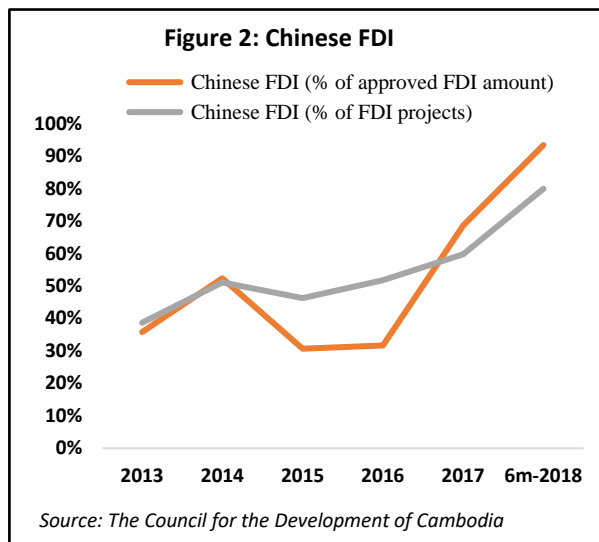
**Table 1: Cambodia Key Macroeconomic Indicators**

% of GDP (unless otherwise indicated)	2015	2016	2017	2018e	2019f	2020f
<b>Output and Economic Growth</b>						
Real GDP (% change, yoy)	7.0	7.0	7.0	7.5	7.0	6.9
Domestic demand (% change, yoy)	8.3	9.9	8.5	10.1	9.8	8.9
<b>Money and Prices</b>						
Inflation, consumer prices (annual %, period average)	1.7	3.5	3.1	3.2	3.3	3.0
M2 (monetary mass)	66.6	70.9	79.4	88.8	96.0	103.2
Domestic Credit to the Private Sector	62.7	69.5	74.5	82.8	91.1	100.2
<b>Fiscal</b>						
Revenue	19.5	20.7	21.5	21.7	20.5	20.8
Expenditure	21.4	22.1	23.1	25.1	24.3	24.0
Overall Fiscal Balance	-1.9	-1.4	-1.6	-3.4	-3.8	-3.2
Primary Fiscal Balance	-1.6	-1.0	-1.2	-3.0	-3.3	-2.7
General Government Debt	31.2	29.1	30.3	30.6	30.0	30.1
<b>External Accounts</b>						
Exports of goods and services growth (annual %)	7.5	9.0	9.4	13.5	13.3	13.0
Imports of goods and services growth (annual %)	7.6	8.9	7.8	13.3	10.4	10.3
Merchandise exports	45.4	45.5	45.2	46.8	46.8	47.5
Merchandise imports	57.3	56.9	55.6	57.6	56.6	56.6
Services, net	7.5	7.0	7.0	7.4	8.1	9.0
Current account balance	-11.0	-10.2	-9.7	-10.5	-9.4	-9.0
Foreign direct investment, net inflows	9.1	10.8	10.8	13.4	10.4	9.3
Memo: Nominal GDP (current US\$ millions)	18241	20019	22110	23720	26749	29619

Sources: Cambodian authorities, IMF and World Bank staff estimates and projections.

Note: e = estimates; f = forecast.

**13. Foreign Direct Investment inflows into Cambodia continue to be strong, but sourcing is highly concentrated.** Cambodia's open borders to international trade and investment have helped attract significant amounts of foreign direct investment (FDI). FDI flows have averaged about ten percent of GDP during the past ten years, and the 2017 World Development Indicators suggest that Cambodia is among the twenty countries receiving the largest new inflows of FDI as a percent of income. FDI to Cambodia comes almost exclusively from Asia, and increasingly primarily from China. Chinese FDI provided US\$ 1.4 billion of approved foreign investment in fixed assets in 2017 and expanded further in the first half of 2018, amounting to US\$2.2 billion or about 93 percent of the total amount (see Figure 2). The sector composition of FDI is changing rapidly, shifting from the tradeable sectors such as agriculture and manufacturing to tourism, construction and real estate. In 2017, the combined tourism, construction and real estate sectors captured 61 percent of total approved FDI, increasing to three quarters of the total FDI inflows in the first half of 2018. These shifts from tradeable to non-tradeable sectors suggest an erosion of Cambodia's external competitiveness.



**14. Credit and deposit growth continue to be strong, with the economy highly dollarized.** Concerned by booming credit growth, the National Bank of Cambodia has been using macroprudential measures such as increasing reserve requirements, minimum capital requirements, and liquidity coverage ratios to mitigate potential macro-financial risks. Authorities also introduced an interest rate cap in April 2017 for microfinance institutions. Improved confidence in the banking system has resulted in rising foreign currency deposits, which grew at 26.5 percent year-on-year in 2018, up from 23.6 percent in 2017. Following a temporary slowdown in credit, lending to construction and real estate is robust, as appetite to invest in the sector continues to be strong. Bank credit to the private sector once again edged up, growing at 24.2 percent year-on-year in 2018, compared to 19.6 percent in 2017. Cambodia remains a highly dollarized economy,<sup>4</sup> and has sizeable gross foreign reserves by international standards: US\$ 10.1 billion or about 6 months of prospective imports coverage as of end 2018.

**15. A rapidly rising public payroll has exerted some pressure on the fiscal position, although good revenue performance continues, and debt levels remain stable.** In 2018, the rising wage bill together with an initial boost in domestically financed capital spending resulted in a widening of the deficit. The overall fiscal deficit (including grants) is estimated to have reached 3.4 percent of GDP in 2018, compared to 1.6 percent in 2017. Wage pressures have been partly offset by strong tax collection, which increased from 12 percent of GDP in 2013 to an estimate of 17 percent in 2018 due to tax administration reforms (see Box 3). In addition, since 2015 the RGC has been rolling out program budgeting, as well as implementing the recommendations of the Cambodia Public Expenditure Review to improve the

<sup>4</sup> Dollarization in Cambodia is the direct legacy of the destruction of economic and financial institutions after the 1970s, economic mismanagement in the 1980s, and the large inflows of US dollars that occurred during the United Nations Transitional Authority in Cambodia (UNTAC) period in the early 1990s. Cambodia's dollarization has been driven by aid inflows, private transfers and tourism, with the share of foreign currencies in broad money around 80 percent and the share of U.S. dollar deposits to total deposits above 90 percent.

allocational efficiency of public funding. According to the 2018 World Bank/International Monetary Fund Debt Sustainability Analysis, Cambodia's debt distress level remains low, given the concessional profile of the debt.

**Box 3: Cambodia's Revenue Mobilization Performance**

**Through a series of tax administration reforms, Cambodia significantly boosted its revenue collection in recent years.** Since 2008, the General Department of Customs and Excises has successfully rolled out the Automated System for Custom Data (ASYCUDA) as well as enhanced anti-smuggling measures. More recently, in the context of the Revenue Mobilization Strategy for 2014-18, the General Department of Taxation abolished the simplified and estimated tax regimes and included all small, medium, and large enterprises under a self-assessed regime. It has also improved its capacity in tax auditing and taxpayer services, leading to better compliance. Due to the improvements in tax administration and a broadening of the tax base, Cambodia's tax revenue collection has increased from 12 percent of GDP in 2013 to an estimated 17 percent in 2018, already above the average for LMICs.

**Cambodian authorities are preparing a new Revenue Mobilization Strategy (RMS) for 2019-2023.** Against the backdrop of a changing economic structure and rising wages, the modernization of the customs and inland revenue administrations is envisaged. In addition, for the first time in many years, a tax policy reform is being considered. This could include adjustments to the existing value added and payroll taxes, as well as changes to the corporate income tax and existing investment incentives in the context of a revision of the Investment Law that the WB has been supporting. Further efforts are also planned in terms of information sharing and voluntary compliance.

**16. *Going forward, growth is expected to remain robust, while challenges are emerging.*** In the short to medium-term, risks have intensified due to uncertainty over preferential access to the EU market under the Everything But Arms (EBA) agreement<sup>5</sup> as well as a potential slowdown in the Chinese economy, which could have significant impact on Cambodia given its heavy reliance on China for FDI and tourism receipts. In addition, the surge in capital flows and credit financing construction and real estate, along with a developing supervisory regime, increases risks associated with financial sector exposure to the construction boom. While Cambodia has so far enjoyed macroeconomic stability under dollarization, a sudden stop in foreign currency deposits could shake the foundations of growth in both the real and financial sectors. Rising public sector wages could also threaten the sustainability of public finances if not accompanied by implementation of the new Revenue Mobilization Strategy and additional efforts to increase the efficiency of public spending. In the longer term, emerging challenges include the erosion of external competitiveness in the context of rapidly rising wages and the loss of preferential access to key markets, while persistent gaps in human and physical capital constrain Cambodia's ability to shift towards more diversified and higher value-adding economic activities.

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<sup>5</sup> On February 11, 2019 the European Commission launched a procedure to temporarily withdraw tariff preferences granted under the Everything But Arms (EBA) arrangement over concerns related to serious human and labor rights violations.

### C. Poverty and Shared Prosperity

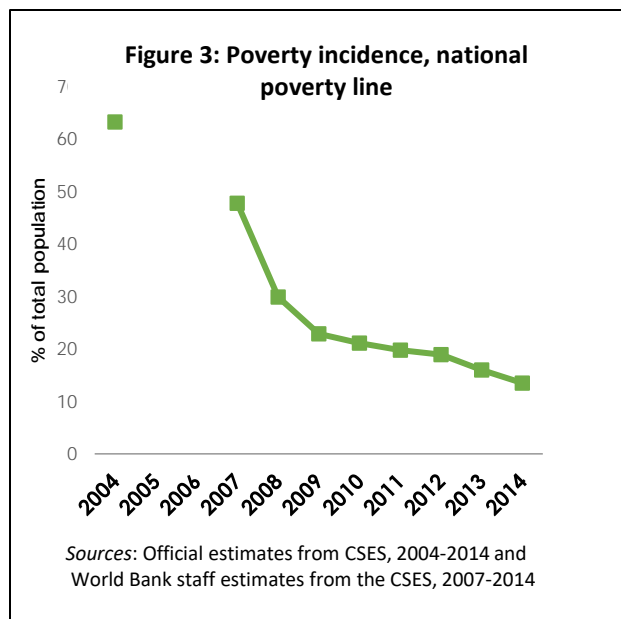
**17. Continuous high growth has led to dramatically reduced monetary poverty.** As a result of Cambodia's sustained high growth, GNI per capita more than quadrupled from USD 250 in 1995 to USD 1,230 in 2017. Official estimates show that the percentage of Cambodians living under the national poverty line fell from 47.8 percent in 2007 to 13.5 percent in 2014 (see Figure 3). Poverty estimates for 2015 – 2017 are currently under review by the Government<sup>6</sup>, but preliminary indications are that poverty continued to decline.

**18. Poverty reduction has been accompanied by improved human development and significant increases in living standards.**

Cambodia has experienced one of the fastest improvements in human development indicators in the region: life expectancy increased from 58 years (2000) to 69 (2017); under five mortality rate decreased from 107 per 1000 live births (2000) to 29 (2017); primary

school completion rate increased from 51 percent in 2000 to 90 percent in 2017; and child stunting declined from 59 percent (1996) to 32 percent (2014). Indicators of living standards such as asset ownership and housing amenities have also improved. Between 2007 and 2017, ownership of cell phones increased by 65 percentage points, motorcycles by 42 percentage points, and access to electricity by 55 percentage points.

**19. The poorest segments of the population experienced the largest declines in poverty, significantly reducing inequality.** Growth has been particularly favorable to the poor and near-poor since 2007. Cambodia's rapid growth stems from agricultural expansion and a windfall from higher agricultural commodity prices, increases in manufacturing exports drawing on low-skilled labor, and an expanding service industry. Programs such as the Government's Social Land Concession Program continues to contribute to reducing rural poverty and enhancing equitable growth through land distribution to the landless and land-poor households. Cambodia's growth has also been accompanied by significant employment creation, especially for youth and women in labor-intensive activities, as part of the expansion of activities across agriculture, manufacturing and services. These new jobs have been filled largely by unskilled labor, serving to provide a more substantial and stable income for the bottom segments of the population. This in turn has led to significant increases in consumption, including by those previously surviving on subsistence incomes. Consumption per capita for the bottom 40 percent grew at an annual average rate of 7.8 percent, compared to growth in mean consumption for the top 60 percent of 4.7 percent.<sup>7</sup> This pattern of growth led to declining inequality. The Gini coefficient fell from



<sup>6</sup> The joint review of poverty estimates between 2009 and 2017 shows a robust trend in poverty reduction. The World Bank is collaborating with the National Working Group of Poverty Measurement led by Ministry of Planning and the National Institute of Statistics to review and update the poverty estimation methodology. The identified gaps in consumption measurement have been incorporated in the CSES 2019 to improve poverty measurement going forward.

<sup>7</sup> Growth in consumption per capita for the bottom 40 percent was especially rapid in 2007-09 with the commodity price boom, at more than 19 percent per year on average—much higher than the 11 percent annual growth for the top 60 percent.

41 in 2007 to 27 in 2013. An increase to 29.5 in 2014 may be a sign of reversal that, if sustained, would need to be combatted with pro-poor policies going forward. Nevertheless, with sustained progress over many years, Cambodia has become more equitable than other countries in the region.

**20. *Despite these gains, vulnerability remains high and social protection is limited.*** Most households that escaped poverty did so by only a small margin, leaving them highly vulnerable to falling back into poverty and preventing more sustained social mobility. Small income shocks, reducing consumption, could have a significant impact on poverty.<sup>8</sup> This underscores the fragility of progress made in fighting poverty, and the limited social protection system to help households manage shocks. The 2018 World Risk Index ranks Cambodia as the 12<sup>th</sup> most disaster-prone country in its index of 172 countries.<sup>9</sup> Frequent disasters are a major source of catastrophic spending, pushing non-poor households into poverty and making it more challenging for poor households to eventually escape poverty. For instance, based on a 2013 post-flood needs assessment, average monthly incomes of those affected dropped more than 25 percent, enough to push many into poverty.<sup>10</sup> Likewise, 3.1 percent of the population had to incur debt to pay for health expenditures, and Cambodia's social assistance expenditures are low.

**21. *Some gender gaps remain, and some population groups experience social exclusion and discrimination, posing a challenge to achieving shared prosperity.*** Overall, women in Cambodia have fared well on gender indicators such as labor force participation and health and education. However, maternal mortality remains particularly high among those with low education. Gender gaps in earnings and job quality have closed in female dominated manufacturing sectors but persist in male dominated sectors such as construction sector, which has a 29 percent earnings gap. Analysis also shows that female-headed households are more likely to rely on remittances, less likely to save, and are more vulnerable to economic shocks. In addition, other groups such as the disabled and LGBTQI people continue to experience stigmatization and discrimination in their workplaces, communities and schools, and indigenous communities tend to have more limited access to public services such as health care and education due to their remote locations.

#### **D. Key Development Challenges**

**22. *Key reforms are needed for Cambodia to sustain pro-poor growth, attract private investment, and continue its transition.*** The SCD identified three pathways to sustainably achieve the twin goals of poverty reduction and shared prosperity:

- a. *Increasing economic competitiveness and diversification to sustain strong growth and create jobs.* Priorities included boosting public and private investment in infrastructure and machinery acquisition while developing capital markets; reducing costs of firm establishment and operation; strengthening regulation and supervision of the financial sector while building financial inclusion; and public administration and public financial management (PFM) reforms for improved service delivery.
- b. *Building human assets to facilitate economic mobility and shared prosperity.* Priorities included endowing people with skills by boosting attainment and learning outcomes of secondary and higher education; investing in the early years through improved nutrition and pre-primary

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<sup>8</sup> In 2014, it was estimated that a negative small shock of US\$ 0.5 per day would cause the national poverty rate to increase to 40 percent, or approximately six million people.

<sup>9</sup> World Risk Report 2018, Institute for International Law of Peace and Armed Conflict, 2018. 8

<sup>10</sup> Post-Flood Early Recovery Needs Assessment Report, RGC, 2014a.

education; and protecting households from shocks such as from health expenditures and disasters.

- c. *Ensuring a sustainable growth pattern by investing in natural capital, climate resilience and urban development.* Priorities included maintaining and developing natural capital, while strengthening climate resilience; fostering agricultural modernization; and promoting competitive, sustainable and inclusive cities through integrated urban planning.

These pathways were complemented by cross-cutting public administration and public finance reforms to strengthen the capacity of the public sector.

**23. *The drivers of Cambodia's economic progress to date will not be sufficient going forward and Cambodia's future prosperity will depend on diversifying its economy and rising higher on global value chains.*** Previous decades of economic growth were driven by labor-intensive, low-skilled agriculture and manufacturing for exports. A rapid increase in incomes of farmers and agriculture laborers was in the past due to high agricultural prices, but agricultural commodity prices are not expected to return to levels that prevailed in earlier years. Small farms and firms are overly reliant on rice production and will need to diversify to increase competitiveness. Other constraints to private sector agriculture include: regulatory burdens on farm input sectors (such as seed and fertilizer), inefficient logistics infrastructure, and limited knowledge and access to modern equipment and technology. In addition, prospects for non-agriculture employment are hampered by Cambodia's high concentration in the garment sector where its comparative advantage of low-wage assembly is waning as real wages increase and productivity remains stagnant. Recently, garment and footwear exports comprised 70-80 percent of total exports of goods in Cambodia. More than 90 percent of the firms in the garment industry are foreign owned, and the share of imported inputs for the production of foreign-owned manufacturing firms is at 95 percent, which creates few linkages with the domestic economy.

**24. *Strengthening Small and Medium Enterprises and their linkages to FDI, encouraging entrepreneurship, and preparing for the digital age will be key to reorienting Cambodia's economy.*** While Cambodia has been successful in attracting foreign investment in labor-intense activities, few foreign owned companies have invested in capital, international certification or foreign licensed technologies. This has not leveraged FDI to the extent needed to generate linkages between exporting firms and domestic input-supplying firms resulting in limited diffusion of modern technology as well as other spillover effects to domestic economy. While Cambodia's population has eagerly adopted mobile technology, the country lags most ASEAN economies when it comes to digital adoption at the firm level, especially among domestic Small and Medium Enterprises (SMEs).<sup>11</sup> This relates to low fixed broadband penetration and the lack of legal foundations for the digital economy (E-commerce, cybersecurity, and data and consumer protection laws). In addition, Cambodia currently has only a nascent structure to support entrepreneurship, with high risk aversion among entrepreneurs and insufficient business services for startups. Cambodia also needs to attract a new wave of FDI focusing on higher value-added processes to support the emergence of high potential, growth-oriented startup firms, and to assist existing enterprises to grow, innovate, improve productivity and take advantage of global value chains. Support to household enterprises, which comprise nearly one in five jobs, could also be provided to improve access to information technology to tap into broader markets as well as improve business practices.

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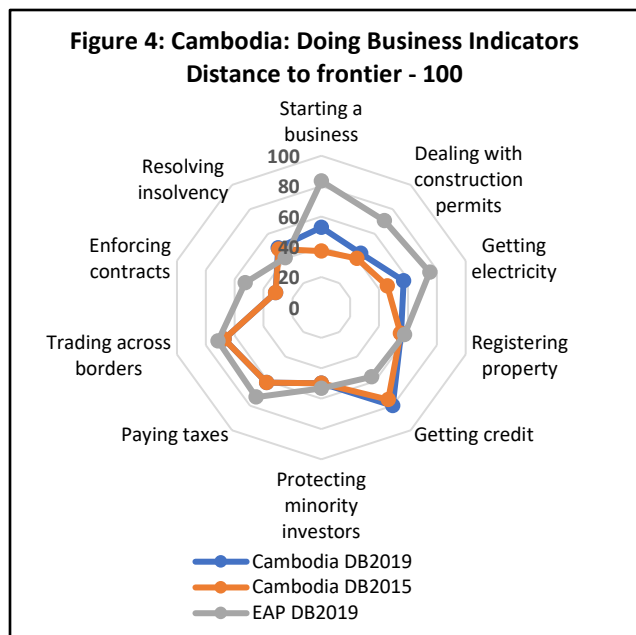
<sup>11</sup> Benefiting from the Digital Economy: Cambodia Policy Note. WBG, 2018

**25. Increasing Cambodia's competitiveness will also require improvements to the business environment.** The most recent Doing Business Report<sup>12</sup> suggests that Cambodia remains in the bottom

third on an overall global index and ranks 138 out of 190 countries (see Figure 4). While improvements have been made in some areas, notably access to energy, credit and trading across borders, Cambodia's performance has remained stagnant in other critical areas such as starting businesses, permitting, and contract enforcement. Other surveys suggest that a *missing middle*<sup>13</sup> exists in the Cambodian firm landscape, as seen by the relatively small share of SMEs compared to successful middle- and high-income economies.

Many micro enterprises remain informal alongside a strong presence of large exporting enterprises. A significant gender dimension also exists in Cambodia's SME sector, with the majority of SMEs being female owned (nearly 10,000 firms). While the Government has recently undertaken some measures to improve the

business environment, such as to improve trade facilitation, provide exemptions for newly registered SMEs, and create an SME Bank and Entrepreneurship Fund, bold efforts will be need going forward to build on these recent efforts.



**26. Financial infrastructure needs to be modernized to improve access to credit, and financial sector resilience needs further strengthening.** Cambodia has made significant strides in facilitating access to credit to a large portion to the population, thanks to a burgeoning microfinance sector. However, only 22 percent of Cambodians hold an account at a financial institution, and firms face significant constraints in terms of access to finance. SMEs still report difficulties in obtaining loans from financial institutions; about half of the 1.2 million of SMEs - which accounted for 99.8 percent of all enterprises in Cambodia in 2014—are either un- or under-served.<sup>14</sup> While capital adequacy of financial institutions in Cambodia has increased following a series of macroprudential measures introduced by the National Bank of Cambodia, a large need still exists for long-term capital to support the growth of private sector. To enable financial institutions to raise long-term capital, existing regulations on capital adequacy, including rules on reimbursement of supplementary (Tier 2) capital, need to be enhanced. Issuance of sovereign bonds could support economic growth, reduce exchange rate risks, and help establish a sovereign yield curve and benchmark corporate bond issuances. Developing a local bond market would help mobilize savings and improve access to local currency funding, especially for borrowers in rural areas. Macro-financial resilience in the economy must be ensured to mitigate risks stemming from fast credit growth, which would involve introducing Risk-Based Supervision in the financial sector, enhancing data quality and oversight, supporting crisis preparedness, and establishing a financial safety net. Compliance with the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) initiatives such as the

<sup>12</sup> Doing Business, WBG, 2019.

<sup>13</sup> According to the Economic Census of Cambodia 2011, microenterprises (employing between 1-20 staff) account for around 97 percent of firms, while large enterprises (employing over 100 staff) represent less than 1 percent of businesses.

<sup>14</sup> IFC MSME Finance Gap, IFC, November 2017



Financial Action Task Force's will be important to enhance Cambodia's financial stability and credibility. In addition, continued efforts to increase financial literacy, such as the financial literacy campaign recently launched by the National Bank of Cambodia, will help mitigate credit misuse and over-indebtedness of the households.

**27. *Cambodia continues to have a serious infrastructure gap, as well as needs for greater connectivity and digital upgrading.*** Cambodia ranks well below neighboring countries such as Thailand and Vietnam on the Global Competitiveness Index's infrastructure measure. Water, sanitation, roads and solid waste management are among the most critical services in need of improvement. Lack of access to year-round all-weather roads impacts food value-chains and access to health, education and other public services, a problem exacerbated by frequent flooding. By 2030, Cambodia's firms are projected to move 4.1 times more goods through country's highways, ports, airports and warehouses<sup>15</sup>, but Cambodia's transportation network has not kept pace with rapid economic growth and high logistics costs decrease firms' ability to join regional and global value chains. Energy access (especially rural), quality, and pricing, are also constraints to both firms and households and will require continued investment. Only 21 percent of the population has access to piped water and less than 50 percent have access to improved sanitation at home. Insufficient water and sanitation services impact health and nutrition outcomes, and solid waste and waste water management is becoming an increasing problem, especially in cities that attract tourists. Infrastructure needs are critical in rural areas but increasing urbanization has exacerbated the uneven access to critical services within and around urban areas, with data suggesting 95 percent use of waste collection services in some areas, and as low as 15 percent in others. Given Cambodia's vulnerability to disasters, incorporating resiliency into future infrastructure investments will be critical, as will improving drainage in both rural and urban areas. Cambodia needs to enhance its domestic, regional, and global connectivity through infrastructure and logistics investments; it also needs to build the foundations for digital economy development to improve the competitiveness of the private sector as well as improve public sector service delivery.

**28. *Many services in rural areas are insufficient, yet at the same time urbanization creates additional challenges.*** While many social and infrastructure services in rural areas are lagging and represent a priority for equitable growth, acceleration of growth in urban and peri-urban areas also highlights the need for improved services, especially infrastructure services, to ensure livable and sustainable cities. A substantial growth in the number of vehicles and limited capacity of the road network has contributed to congestions in many Cambodian cities. The increased demand for water has also stressed existing systems and upgrading drainage and flood protection is particularly important in cities which are highly vulnerable to flooding. Solid waste management is severely underdeveloped, and an estimated 42 percent of the urban population has no coverage, which creates significant consequences for health, environment and economic growth.<sup>16</sup> Urbanization can bring many opportunities for Cambodia, with cities being engines of growth, job creation, and innovations. But cities require services. And planning for urban growth has been insufficient, with resulting risks of sprawl and congestion, vulnerability to flooding, pollution, littering and poor service delivery, all of which will hamper longer term growth.

**29. *Labor skills continue to be a major constraint to Cambodia's economic prospects, and attention to gender issues will be key.*** As Cambodia attempts to move to higher-value added activities and new

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<sup>15</sup> Investing in Logistics for Sustainable Economic Growth, WBG, October 2018

<sup>16</sup> Cambodia: Achieving the Potential of Urbanization, WBG, 2018

technologies that require more complex skills, it will need a better trained workforce. Eighteen percent of Cambodian firms suggest that an inadequately educated workforce is a major constraint, compared to 8 percent in Vietnam and 2 percent in Thailand.<sup>17</sup> Employment is shifting to more analytical and technical activities and the fastest growing jobs require skills such as digital literacy and other technical skills which are commonly acquired in technical and vocational education and training programs. The current labor force has an average of 6.3 years of education and nearly 14 percent of the population in age group 15-64 year has “none or only some education”. Less than four percent have completed college and less than one percent have technical and vocational school qualifications. Employers are demanding more highly skilled workers, and nearly one in five of Cambodia’s employers, particularly SMEs, are dissatisfied with the skills offered by the labor force. Few opportunities exist for workers to upgrade skills, either through an adult re-training system or employer-driven skills development. Technical and vocational education and training (TVET) enrollment as a percentage of secondary enrollment is just 2.3 percent, and only large-scale firms provide appropriate training. Cambodia’s economy is also very gendered, providing different opportunities and barriers to women and men. Women are more likely to be employed as wage workers in garments, and trade and tourism sectors, and less likely to be employed in all other sectors, including the public sector. A significant gender wage gap also exists due to women’s lower education levels, household factors closely tied to gender roles, industry of employment, and occupation. To allow women more flexibility to participate in the labor force, policies and programs are needed to facilitate women’s secondary and post-secondary education, particularly in the Science, Technology, Engineering and Mathematics (STEM) field, support maternity leave, breastfeeding in the workplace and affordable child care.

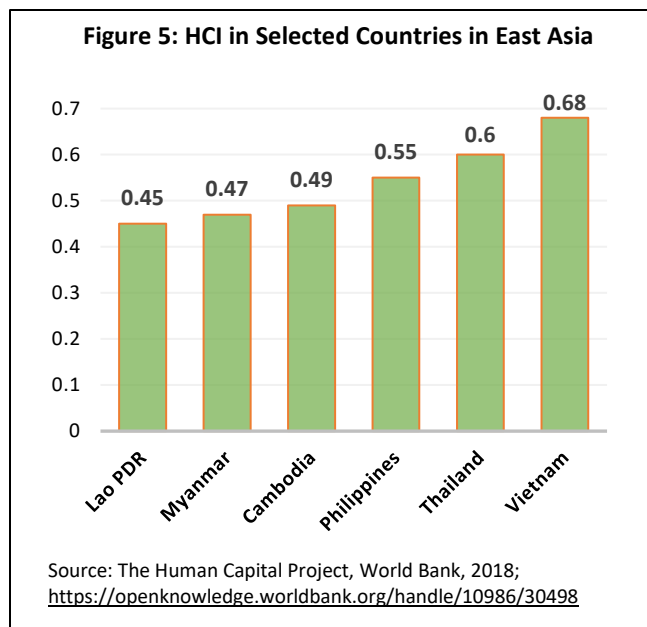
**30. Building human capital and improving the current health and education systems will be increasingly important to prepare for tomorrow’s more sophisticated economy.** Lagging progress on human capital outcomes—knowledge, skills, and health--poses a challenge to sustaining future growth and maintaining regional competitiveness. The 2017 Human Capital Index (HCI) suggests that a child born in Cambodia today will be only half as productive when grown as she /he could be if she/he enjoyed high-quality education, good health and a well-nourished childhood (see Table 2).

Table 2: Cambodia Benchmarking: 2017 HCI					
Indicator	Cambodia Male + Female	Low Middle Income Male+ Female	Lower Middle Income Male + Female	Upper Middle Income Male + Female	High Income Male + Female
<b>HCI Component 1: Survival</b> Probability of Survival to Age 5	0.971	0.929	0.961	0.983	0.995
<b>HCI Component 2: School</b> Expected Years of School Harmonized Test Scores	9.5 452	7.8 363	10.4 391	11.7 428	13.3 506
<b>HCI Component 3: Health</b> Survival Rate from Age 15-60 Fraction of Children Under 5 Not Stunted	0.833 0.676	0.745 0.658	0.807 0.730	0.863 0.869	0.923 0.935
<b>Human Capital Index (HCI)</b>	0.49	0.38	0.48	0.58	0.74

<sup>17</sup> Cambodia: Systematic Country Diagnostic, WBG, 2017

<https://www.worldbank.org/en/country/cambodia/publication/Cambodia-Systematic-Country-Diagnostics>

Human capital limitations begin early in life, and the consequences of early life deprivation such as undernutrition are lifelong and far-reaching. Cambodia is on par with other LMICs, however, it lags behind its Asian neighbors on its HCI score (see Figure 5). Although malnutrition prevalence has declined, stunting, child wasting, and maternal undernutrition remain persistent problems, particularly among the poor. Stunting still afflicts about 1 in 3 children under age five, rated “high” according to World Health Organization public health thresholds. Child wasting, at 9.6 percent, is also considered “high”, particularly given low levels of absolute poverty and food insecurity. Maternal undernutrition is common (14 percent of women age 15-49 are underweight) and nearly half of women of reproductive age suffer from anemia, both of which contribute to the burden of children born with low birth weight, stunting and maternal and neonatal mortality. Despite significant improvements, Cambodia still has one of the highest maternal mortality rates in the region (161 per 100,000 live births in 2015). Improvements in health and nutrition services and agriculture extension services are needed to improve diet and feeding practices.



**31. Beyond health and nutrition, early childhood education is still low and access to water and sanitation remains an issue.** Only 43.1 percent of three-to-five-year-olds were enrolled in early childhood education during the 2016-17 academic year. Access to primary education, however, is significantly better, with a net enrollment rate of 93 percent and completion of 79 percent (2017-2018). However, the quality is inadequate, as demonstrated by poor learning outcomes. According to the 2018 International Student Assessment for Development, PISA-D, Cambodia has a high proportion of students who performed below the baseline in all the three domains—92 percent in reading, 90 percent in mathematics and 95 percent in science. Access to secondary school remains a challenge; in 2017-2018 gross enrollment for lower secondary was only 56.8 percent and drop-out rates were still high at 15.4 percent. Access to improved water and sanitation facilities (at 79 and 45 percent of total population, respectively) remains significantly below the average for LMICs (90 and 52 percent, respectively), which also contributes to poor health outcomes. These indicators are less favorable in the rural areas where access to many services such as water, sanitation, roads, and health centers are significantly more constrained.

**32. Protecting households from shocks will be increasingly important.** With little ability to absorb shocks related to health expenditures, natural disasters or other emergencies, those without a social safety net will fall behind. Social protection systems are only incipient, with Cambodia spending less than 0.1 percent of GDP on social assistance compared with a world average of 1.6 percent.<sup>18</sup> Interventions to mitigate shocks and build resilience can help to shield household income and prevent households from falling into poverty. These measures can have a significant impact on economic growth

<sup>18</sup> ASPIRE database. Accessible at [datatopics.worldbank.org/aspire/](http://datatopics.worldbank.org/aspire/).

and shared prosperity in the long run and could include expanding the existing Health Equity Funds (HEFs)<sup>19</sup> to increase coverage of vulnerable groups and reduce their out-of-pocket health expenditures, refining targeting mechanisms to identify the poor, introducing conditional cash transfers and consolidating current pension systems.

**33. *Environmental and natural resource stewardship will also be important for future growth.***

Cambodia's economy relies on its rich and diverse natural capital. Cropland and forest resources account for about 40 percent of Cambodia's wealth. About thirty percent of the population is engaged in inland fisheries, and freshwater fish and aquatic animals contribute more than two thirds of total protein intake for the population, forming the basis for food security and nutrition. Climate change--coupled with natural resource degradation, deficient natural resource management, and unplanned urbanization--could have a significant negative impact on growth. Natural disasters have already caused deterioration of livelihoods and destruction of infrastructure in Cambodia, and infrastructure and planning capacity are inadequate to respond to the hydro variability in the country. Cambodia faces the challenges of too much or too little water, with dried up rivers and streams in the northwest and flooding especially in the areas within the Tonle Sap basin. In the future, climate change will heighten the vulnerability to natural disasters and extreme weather events: initial Government estimates suggest that the damage to Cambodia from climate change will reduce growth by 3.5% of GDP by the time temperatures increase by 2 degrees Celsius.<sup>20</sup> This could happen by about 2050, if emissions are not reduced. Cambodia's natural capital is also being degraded rapidly by unsustainable economic activities, with significant declines in forest cover (21 percent decline between 2006 and 2014), and losses of some 45 percent of the country's original, natural wetland area. These losses have wide-ranging impacts, including on the productivity of the agricultural and fisheries sectors, hydropower generation, and tourism assets. Cambodia has made important commitments in its Nationally Determined Contributions (NDC), including a reduction of greenhouse gas (GHG) emissions by 27 percent and increased forest cover to 60 percent by 2030. Such efforts will be critical going forward.

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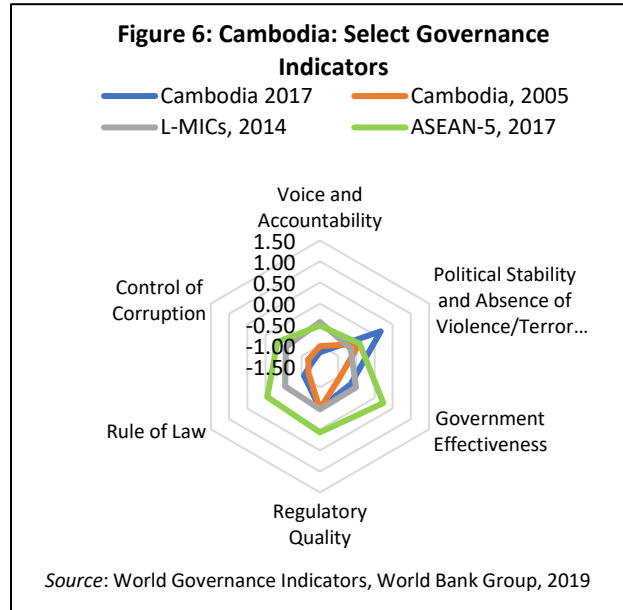
<sup>19</sup> Cambodia's Health Equity Fund system is a government-owned, nationwide health financing mechanism providing free health insurance to about 3 million poor people in Cambodia.

<sup>20</sup> Climate Change Financing Framework. RGC, 2015a. “.

**34. Enhancing public sector capabilities to deliver public services effectively and accountably will be critical to meeting the evolving needs of citizens and the private sector.**

Governance remains an issue in Cambodia, which scores considerably lower than other ASEAN countries according to the World Governance Indicators (see Figure 6). In some areas, such as control of corruption and voice and accountability, little to no progress was made between 2005 and 2014. While some progress has been made, bribery incidence (affecting 63 percent of reporting firms in 2016<sup>21</sup>) remains by far the highest among peer countries suggesting that governance issues have a negative impact on both public sector services as well as the growing private sector. The capacity of public institutions continues to

be weak impacting the key regulatory functions, civil service and the efficiency of public resource management. Drawing on existing reform efforts, focus will need to be placed on enhancing public financial management processes and advancing civil service reform. In addition, nascent decentralization reforms will require concerted measures to better equip sub-national administration with the capacity and resources to deliver quality local services. To complement strengthening the capacity of individual government agencies, a critical need remains to improve coordination across agencies as well as across different levels of government. In addition, efforts to reinforce accountability at the level of service provision will need to continue. Promoting two-way interaction between beneficiaries and government, especially by using mobile technology, can enhance citizen engagement and improve service delivery.



### III. WORLD BANK GROUP PARTNERSHIP STRATEGY

#### A. Government Program and Medium-term Strategy

**35. Cambodia has designed and implemented national development strategies over several decades, and the most recent strategy is well-aligned with the main priorities of the SCD.** The RGC's Rectangular Strategy for Growth, Employment, Equity and Efficiency (RS) is a dynamic document that lays out the political commitment to the socioeconomic development process for five-year periods. The recently finalized Phase IV of the RS (2019-2023) outlines a broad development agenda based on four "strategic rectangles": (i) human resource development, (ii) economic diversification, (iii) enhancing private sector and employment, and (iv) and sustainable and inclusive development. The National Strategic Development Plan (NSDP) for the same period will serve as a roadmap for the implementation of the Rectangular Strategy, so that the programs and projects of all ministries, agencies and sub-national authorities are aligned in support of its implementation. The Government's RS4 confirms the analysis and main priorities identified in the Systematic Country Diagnostic. The SCD was discussed extensively

<sup>21</sup> Cambodia: Systematic Country Diagnostic-Sustaining Strong Growth for the Benefit of All, WBG, 2017  
<https://www.worldbank.org/en/country/cambodia/publication/Cambodia-Systematic-Country-Diagnostics>

with the Government and development partners and helped shape the priorities of RS4. The CPF is underpinned by the SCD.

**36. *The RGC has begun to focus on increasing economic diversification, strengthening competitiveness and promoting productivity.*** The RGC developed an Industrial Development Policy (IDP) (2015-25), which aims to increase the industrial sector's share of GDP share to 30 percent by 2025, up from 24 percent in 2013, through support for four pillars: (i) attracting FDI to boost industrial development, (ii) modernizing and formally registering SMEs, and linking them to foreign enterprises, (iii) improving the regulatory framework to enhance competitiveness, and (iv) creating supporting policies on human resource development, together with infrastructure and service improvements. Economic diversification is expected to occur in the manufacturing and agro-industrial sectors, along with SMEs, especially those that use technology and innovation. Overall, the IDP envisions a structural transformation for the country that will contribute to economic development and employment creation, for growth that is both sustainable and inclusive.

## **B. Proposed World Bank Group Partnership Framework**

**37. *The WBG program under the FY16-17 CEN period laid the foundation for an expanded and longer-term CPF program going forward.*** In 2016, the WB reengaged with Cambodia in a program covered by the CEN. During the CEN implementation period, the WBG and RCG have together focused on building a stable relationship and trust, especially through high-quality analytic and advisory services (ASA). The WBG CEN program has been cautious and directed at responding to specific requests by Government. IDA operations focused on health and education, transport and agriculture/livelihood support. The IFC focused on improving Cambodia's investment climate and enhancing value chains in the agriculture sector (especially rice), expanding access to finance, and developing the financial sector. In contrast to the financial engagement, WBG support through ASA (which was sustained throughout the pause in lending) has been deeper and more complex, providing in-depth analysis, policy advice, technical assistance and capacity building on a range of critical development areas. These include comprehensive assessments (such as the Cambodia Economic Update, Public Expenditure Reviews, Investment Climate Assessment, and Public Sector Reform Assessment) as well as more targeted work in areas including digital development, entrepreneurship, nutrition, logistics, urbanization, financial sector, environment, gender and water supply and sanitation. Trust fund support has also been mobilized to align development partners in support of key development areas and to bolster capacity building. IFC's interventions expanded during the CEN period, from a program previously based on advisory services to one of increasing investment services. Activities included those in the financial sector with both increased scale and support of more complex efforts (such as capital markets) and increased upstream and business development efforts in the real sector (in advance of financing). IFC has also commenced more complex upstream advisory efforts to build markets, engaging the Government and stakeholders to expand the use of Public Private Partnerships (PPPs), improve the investment climate, enhance agricultural value chains, expand access to finance, and improve corporate governance. Notable results have been achieved with WBG support during the CEN period including strengthening financial sector and public financial management; improving basic education and health services; commercializing the rice sector and enhancing trade logistics and connectivity (see Box 4). WBG project support, policy advice and analytical/advisory work during the past several years of engagement

have been critical to maintain dialogue and country relations, support reform efforts and build the foundations for a robust medium-term partnership program.

**Box 4: Results of the CEN Program**

***PFM and Public Accountability systems strengthened***

- Modern and functioning FMIS at MEF and all provincial treasuries
- Time spent to locate financial data and report reduced from two days to less than 30 minutes
- 67% of rural districts are implementing social accountability activities at primary schools, health centers and communes

***Scholarships, community preschools, and reading assessments***

- Government ownership of scholarship program (poor students, grades 4-12)
- 500 community preschools established and functional
- Mainstreaming of the early grade reading assessment (EGRA)

***Health services access and affordability improved***

- Health facilities nationwide receive health equity fund and service delivery grant payments on time
- An average of 3 days for Health Equity Fund payments following claims
- Transition of third-party verification functions to an independent government Payment Certification Agency

***Rice Sector Commercialization***

- Milled rice exports have increased from 40,000 metric tons in 2010 to 635,000 metric tons in 2017
- Cambodia now exports rice to 66 countries

***Trade Logistics and Connectivity***

- Customs processes have been automated and steps associated with export shipments reduced
- Cambodia's ranking in Logistics Performance has moved up from 129th in 2010 to 73rd in 2016.
- Cambodia Logistics Master Plan prepared
- Road Asset Management System established and Performance Based Contracting for road maintenance piloted and scaled-up by the road agencies

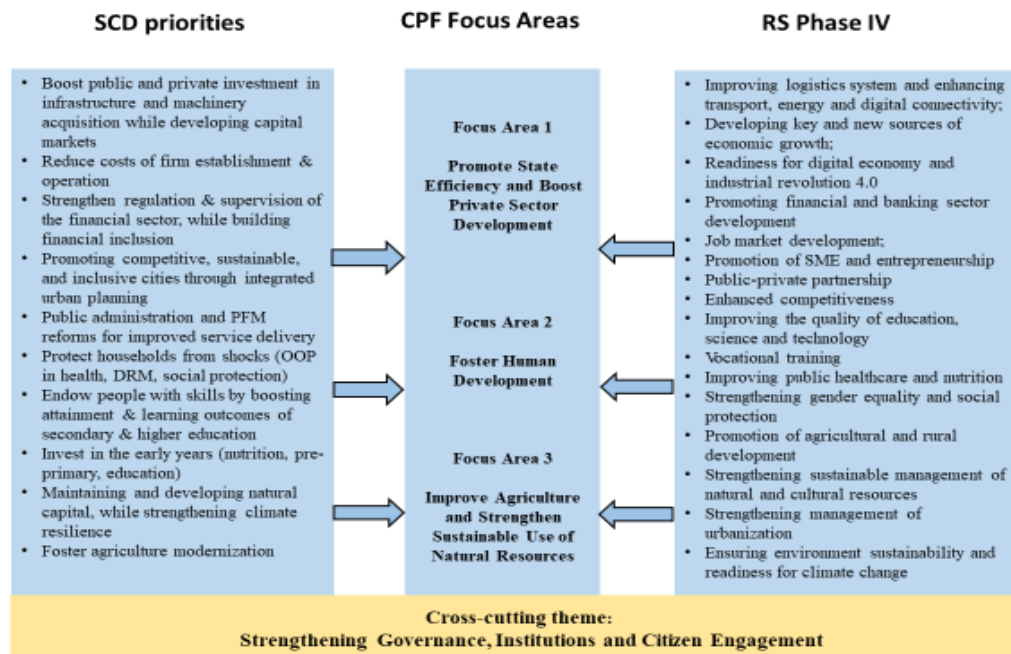
**38. *Experience during the CEN period points to the critical role of institutions, capacity building and field presence.*** WBG support during the CEN period provided lessons for support going forward. Lessons from the CEN period highlights the need to: support capacity building for Government-owned implementation; integrate community participation and behavioral change into project design; ensure that design is sufficiently simple with a limited number of implementing agencies; and improve readiness for implementation by undertaking advance procurement, identifying early environmental and social safeguard issues and using performance-based contracts. The CEN also pointed to the critical need for institutional building, with “significant and sustained support for long-term institutional development and capacity building in areas where reform minded champions are willing to engage and for building demand for governance reforms.”<sup>22</sup> With strong cooperation across the WBG, the institution has learned to leverage the complementarities within the WBG and with other development partners, leverage IFC's collaboration beyond traditional partners, and identify appropriate sequencing for WBG ASA and projects. Finally, strong staff presence in the Phnom Penh office has been instrumental in facilitating an effective and sustained focus on policy dialogue, portfolio implementation and quick adjustments to changed circumstances on the ground. The CEN was de facto extended through FY18 to accommodate slower project execution and uncertainties around the general elections.

**39. *A number of factors drive selectivity in defining the WBG engagement priorities for the CPF period.*** The first requirement for the CPF is alignment with: (i) RGC development priorities indicating

<sup>22</sup> Cambodia: Country Engagement Note FY2016-2017, WBG, 2016

strong Government demand and (ii) SCD pathways and priorities (see Figure 7). Selectivity filters also include WBG ability to deliver results--which reflects both the support of country champions and a good track record of WBG engagement. Priorities and programs of other development partners and Government demand for other donor support, as confirmed by stakeholder consultations, are also key factors.

**Figure 7: Alignment of Government Development Priorities, the SCD and the CPF**



**40. The Focus Areas for the FY19-23 CPF are well aligned with Government priorities articulated in RS4 and the Industrial Development Policy, as well as the priorities identified in the SCD.** The CPF reflects a renewed medium-term partnership between Cambodia and the WBG. It will significantly expand the current support program, drawing heavily on analytic work done in recent years. Based on the country's development priorities and the diagnostics in the SCD, the WBG will reflect these priorities under three Focus Areas and one Cross-Cutting theme. **First**, the CPF will promote state efficiency and boost private sector development. This will cover a set of challenges in supporting Cambodia's financial and business sectors, as well as improving the efficiency and effectiveness of the public sector. This is well-aligned with Government priorities to enhance infrastructure, develop new sources of jobs and growth, increase competitiveness and strengthen the financial sector, SMEs and entrepreneurship. **Second**, the CPF will support the development of human capital. This will cover challenges of education/skills development, early childhood development, and health and nutrition services. This reflects the Government priorities of improving education and building skills, healthcare services and strengthening gender equality and social protection. **Third**, the CPF will improve agricultural productivity and strengthen the sustainable use of natural resources. This will cover challenges in natural wealth management as well as resilience to climate change. This is well-aligned with Government priorities of agriculture and rural development, natural resource management, urbanization and environmental management and climate readiness. **Finally**, a critical cross-cutting theme, which underpins reforms in all three focus areas, is that of governance, institutions and citizen engagement. Strengthened these three areas will enhance transparency and accountability of government and



improve public service delivery and access across all sectors, while providing a supportive business climate. While key Government priorities are covered by the CPF, some areas are not in the program, as requested by the Government. However, the program will remain flexible to accommodate changes and mid-course corrections during the CPF period.

**41. *The CPF program builds upon the ongoing portfolio, emphasizing areas with strong relationships, champions and good WBG performance.*** The program will build on key reforms, investments and institutional strengthening undertaken during the CEN period, and will ramp up IDA financing to fill investment gaps and maintain reform momentum in areas where the WBG has experience and a comparative advantage. For instance, the Health Equity and Quality Improvement Project (H-EQIP) administers a pooled donor fund for the health sector over a 15- year period and has created a strong ownership of innovative financing mechanisms such as Health Equity Funds which underpin more sustainable health care management and improves financial access to healthcare for the poorest households. In addition, a program of analytical studies such as impact evaluation of performance-based financing for public health facilities and analysis of gender impacts of the Health Equity Fund contributes to further improvements of the health service delivery. The two-year ASA on urbanization led to a proposed investment project in secondary towns for FY20, and analysis and dialogue in the water sector resulted in a FY19 investment project for water supply and sanitation, focusing on improving access and strengthening governance and institutions in the sector. The Education Sector PER led to an increased budget allocation for school-based management, and the Secondary Education Improvement project helps to implement this in secondary schools. The Higher Education Improvement project was championed by counterparts to continue the reform process, and it builds on the WB's solid reputation and engagement in the education sector. During the CEN period, the IFC maintained a strong presence through investments in the banking, SME and microfinance sectors, which are foundational for potential future support. This includes an innovative project tapping IDA's Private Sector Window to support the first local currency bond issuance by a leading microfinance institution to provide funding to rural Micro, Small and Medium Enterprises (MSMEs) and small-scale borrowers who face foreign exchange risks. IFC has also provided considerable advisory services to build capacity in areas such as agriculture and finance (see Annex 6).

**42. *The WBG program complements the work of other development partners, leverages their support and continues strong collaboration and coordination across the key actors.*** Cambodia continues to benefit from significant official development assistance (see Annex 2). Priorities for WBG support include areas which require technical expertise not found in other organizations, such as governance and public sector management, where the WB will lead and leverage grant financing from other development partners. The WBG will also focus on other areas, such as health and education, working in tandem with development partners who contribute both finance and expertise. The WBG program focuses on areas where the Government has requested our support and will avoid duplication by limiting engagement in areas such as energy, irrigation, ports and airports, TVET and primary education, where other development partners and financiers are taking the lead.

**43. *The CPF design benefitted from the 2018 Cambodia Country Opinion Survey and a comprehensive consultation process from stakeholders across Cambodia.*** The recent Cambodia Country Opinion Survey demonstrates that overall perceptions of the WBG are positive and the WBG is viewed as a reliable, respectful and collaborative long-term development partner. Stakeholders pointed to financial resources and policy advice as the WBG's greatest value to Cambodia and noted the institution's comparative advantage in leading donor work to support areas related to governance such as public financial management and the capacity of state institutions. The survey finds that stakeholders

consider education, skills, governance, jobs and agriculture to be the top development priorities for WBG support. The CPF also benefitted from consultations with the central and subnational Government officials, private sector, development partners, and civil society organizations. Extensive public engagement with hundreds of stakeholders was undertaken through face-to-face meetings and an online survey. The focus areas proposed for WBG support were endorsed as reflecting many of the remaining development challenges. Key themes raised by stakeholders included building human capital, including social protection, improved public sector management and service delivery, digital economy, agriculture and sustainable development, and strengthening the private sector. The knowledge services provided by the WBG were widely recognized.

**44. *The proposed CPF is also closely aligned with the WBG’s core institutional areas of focus.*** The five IDA themes feature prominently in the proposed program:

- ***Jobs and economic transformation.*** Several of the objectives in the CPF—including fostering private enterprise, aligning education with labor demands, and improving agriculture-- aim to create more and better job opportunities in Cambodia as well as creating a better educated population and better equipped labor force. Ongoing and planned ASA also supports significant analytic work in areas related to economic diversification, jobs diagnostics and women employment with a view to supporting Cambodia as it moves to an economy built on greater integration and higher skilled and more productive jobs.
- ***Gender.*** The WBG program will embed gender dimensions where extra efforts are needed, based on the findings of the Ministry of Women’s Affairs Country Gender Assessment and the Cambodia Country Gender Action Plan (CGAP) (Annex 3). It will identify and address gender gaps where feasible, particularly in the areas of health and education. For example, low levels of female enrollment in STEM programs will be partly addressed through scholarships and the provision of new dormitory space. The WB support for the upcoming next phase of the national gender equality strategy (Neary Rattanak V) is expected to alleviate the low levels of women in leadership positions across the government, especially at subnational levels. In addition, the program includes specific areas of support targeted to women, such as providing day care for garment factory workers to facilitate female labor participation, training opportunities targeted to women, and land ownership for women.
- ***Climate change.*** Climate change mitigation and adaptation is integrated into several parts of the program, supporting RGC’s efforts in both areas. The Sustainable Landscape and Ecotourism project will reduce emissions by reducing forest degradation by increasing the effectiveness of Protected Area management. At the same time, maintaining forest areas in the Cardamom Mountains will be key to preserve one of Cambodia’s critical watersheds reducing the impacts of droughts and floods. Analytical work will also help quantify the value of those ecosystems to the overall economy, e.g. Resilience of the Mekong Delta and Ecosystem valuation work in the Cardamom Mountains. The Mekong Integrated Water Resources Management Project and the Agriculture Sector Diversification Project will also support adaptation and mitigation. Both will contribute to the mitigation of impacts from extreme weather events, higher temperatures and longer drought periods and at the same time reduce emissions by introducing better watershed management practices and by diversifying agricultural products, reducing methane emissions from rice. Rural roads also will reflect climate change adaptation by making roads more resilient to floods and support for infrastructure development will highlight climate resiliency, as will strengthening public sector capacity in areas such as planning for disaster management financing, coastal zone protection and urban planning.
- ***Governance.*** The critical cross-cutting issue of governance and institutions underpins the entire CPF program with aspects of improving the effectiveness of government and the delivery of public

services in all focus areas and many of the CPF objectives. Strengthening institutions and building capacity will continue to be an integral part of all IDA projects.

- **Stability and security.** The CPF seeks to support Cambodia in maintaining stability, as well as enhancing citizen engagement and social accountability.

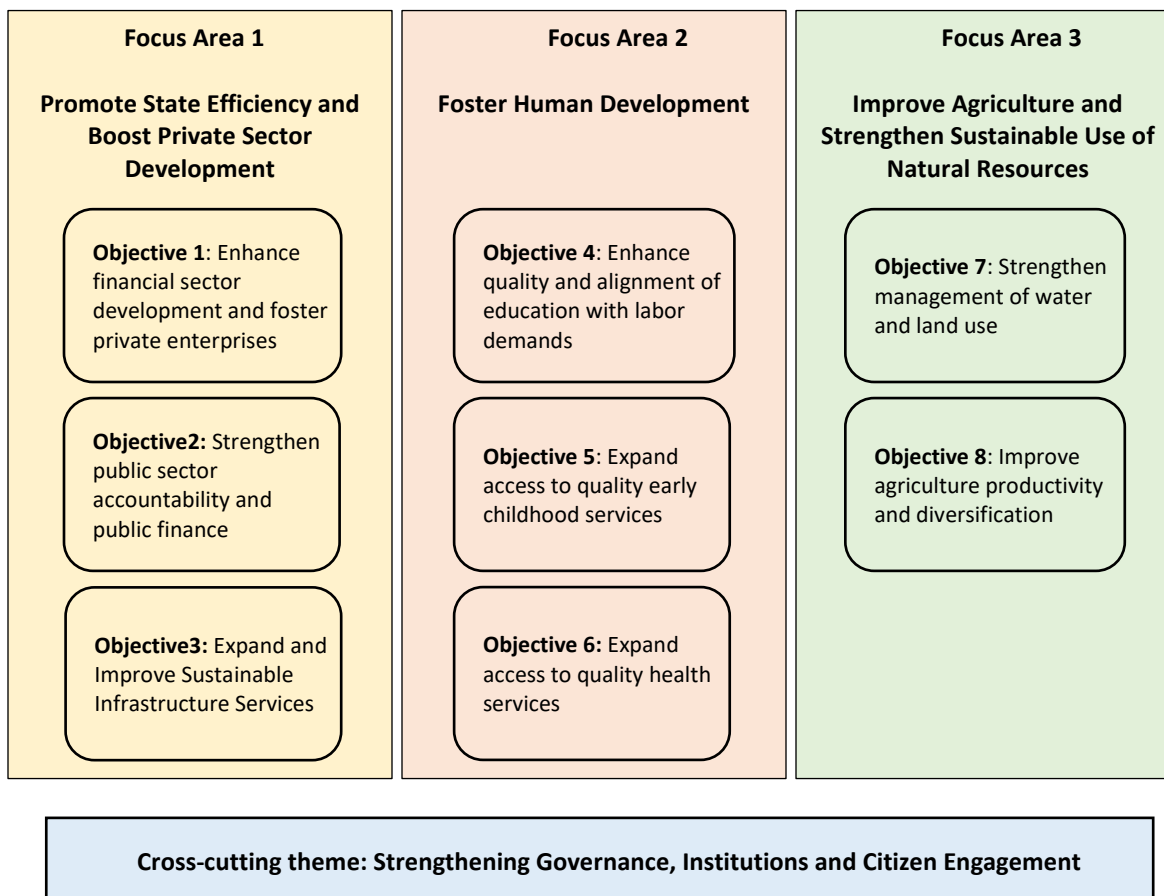
**45. WBG support across multiple sectors is also intended to enhance Cambodia's Human Capital Index.** The CPF reinforces the foundations of human capital across its focus areas. It will continue to expand access to services and the quality of early childhood development through nutrition and health services; foster collaboration and convergence across strategies and programs in multiple sectors (such as nutrition, water and sanitation and agriculture) to address stunting; strengthen skills for a more diversified and technology/knowledge-based economy; and strengthen public financial management systems to improve delivery of social services.

**46. Programming in the CPF covers only the initial years, with flexibility to adjust in the outer years.** With the WBG scaling up after a period of more limited engagement, the Government is cautious in defining borrowing needs in advance. Thus, the CPF identifies the initial two years of proposed support corresponding to the IDA18 cycle, as well as a few areas of lending support for the IDA 19, allowing for modification at the mid-term. The program will focus on investment lending through Investment Project Financing (IPFs) and will continue significant Advisory Services and Analytics (ASA) to support the Government in charting reform measures and set the stage for future WBG support. This leaves flexibility to adjust the program and instruments as Government priorities shift and expand in those areas where traction is greatest, where Government demand is demonstrated, and where development partners recognize the complementarity of WBG support.

### C. Focus Areas, Objectives and Planned Engagement

**47. The CPF Focus Areas (FA) and Cross-cutting Theme are underpinned by specific objectives.** The **first FA**--promoting state efficiency and boosting private sector development--will include three objectives: (i) enhancing financial sector development and fostering private enterprises; (ii) strengthening public sector accountability and public finance; and (iii) expanding and improving sustainable infrastructure services. The **second FA**--fostering human development--will also include three objectives: (i) enhancing quality and alignment of education with labor demands; (ii) expanding access to quality early childhood services; and (iii) expanding access to quality health services. The **third FA**--improving agriculture and strengthening the sustainable use of natural resources--will include two objectives: (i) strengthening management of water and land use; and (ii) improving agricultural productivity and diversification. The critical cross-cutting theme which underpins reforms in all three focus areas--strengthening governance, institutions and citizen engagement--will support activities under each of the eight objectives. Interventions to strengthen governance, institutions and citizen engagement will serve to enhance transparency and accountability of government, improve public service delivery and access across multiple sectors, and provide a supportive business climate. As activities are developed, a concerted effort will be made to strengthen governance, institutions and citizen engagement across multiple sectors and in all WBG interventions, including mainstreaming ICT solutions in our work (see Figure 8).

Figure 8: Cambodia's CPF: Focus Areas and Objectives



48. *The WB, IFC and MIGA have worked closely together in Cambodia and will continue to deploy the principles of Maximizing Finance for Development to leverage increased private sector participation.* Opportunities are increasing for investment and delivery solutions along the public-private spectrum, and the WBG collaboration built to date will continue to serve diverse clients during the CPF period. The institutional focus on maximizing finance for development has influenced the way in which the CPF program has been designed, with key consideration to appropriate sequencing and coordination across the WBG in key areas such as financial inclusion and deepening capital markets, agriculture, and potentially infrastructure through increased leveraging of PPPs in logistics and tourism (see Box 5).

#### **Box 5: Maximizing Finance for Development in Cambodia**

The coordinated WB, IFC and MIGA approach to maximize finance for development (MFD) leverages all sources of expertise, partnership, and finance. The MFD effort builds on past WBG support to help identify an appropriate mix of public and private financing and solutions.

**PPPs:** Building on its early experience to enable the operations and expansion of the Phnom Penh and Siem Reap international airports, IFC is currently—together with the World Bank—seeking to re-engage on PPPs to help address the financial gap in logistics infrastructure. The establishment of the PPP Unit within the Ministry of Economy and Finance, and the creation of the interagency committee for processing PPPs is a major step as is the identification of potential pilot transactions in key sectors including transportation and tourism. With Cambodia eligible for the IDA18 Private Sector Window (PSW), IFC is leveraging the Creating Markets Advisory Services Window (CMAW) to support the Government in tendering for a PPP to develop a logistics hub associated with the Port of Sihanoukville which will help improve Cambodia's competitiveness through improved logistics infrastructure.

**Capital Markets and Access to Finance.** The World Bank (in coordination with the IMF) has been engaging with the Ministry of Economy and Finance to establish a framework for the development of a domestic government debt market. This paved the way for IFC, by leveraging the IDA PSW, to help opening domestic capital markets and local currency financing for the private sector. In 2018, utilizing the IDA PSW Local Currency Facility, IFC enabled microfinance institution Hattha Kaksekar Limited (HKL) to issue a local currency bond of USD \$30 million equivalent - the first ever bond issued and listed on Cambodia's Securities Exchange - to offer more affordable local currency lending products to rural borrowers, especially women. HKL expects to provide approximately 14,000 additional loans in local currency. This WBG approach has opened a domestic debt market and helped set a benchmark for future local currency bond issuances.

**49. *The arms of the WBG are working closely together in the agriculture and financial sectors and will seek to identify opportunities in the infrastructure sectors.*** The IFC and WB have worked in tandem to provide comprehensive assessments of constraints to business development as well as to identify policy and institutional solutions. IFC advisory services have been a continual presence in the Cambodian SME sector. The WB has focused on strengthening public institutions to address constraints for private sector development, building capacity for service delivery and regulatory functions to pave the way for increased private activity, while also focusing on human development to help prepare Cambodia's workforce for the demands of a more diverse economy. To support greater diversification and competitiveness in the agriculture sector, the WB is supporting the development of an overall agriculture sector strategy and program of support, complemented by IFC efforts to support industry-specific interventions including: expanding cassava exports; continued improvements to rice sector competitiveness and food safety standards to link small farms with agribusiness. To help expand financial inclusion, IFC focused on continued support and strengthening of MSME financial institutions, commercial banks and credit bureaus. These efforts are being complemented by WB technical assistance to overall financial sector policies, including work on payment systems. In support of infrastructure, the WB is taking the lead on an urbanization study and supporting urban infrastructure improvements, as well as providing ongoing support for logistics master plan, financing small town water and sanitation and all weather resilient rural roads. IFC will build on its early experience with airport investments and the use of PPPs to help identify commercially viable infrastructure investments key areas including, inter alia, early efforts in transportation, logistics and tourism. MIGA is actively engaged in business development activities in Cambodia, especially in the infrastructure sector, including by collaborating closely with the IFC and the World Bank through the MFD approach. MIGA will continue to work to

support foreign investments in Cambodia through its political risk insurance instrument and use of the IDA18 IFC-MIGA Private Sector Window.

***Focus Area I: Promote State Efficiency and Boost Private Sector Development***

*This focus area will enhance the financial sector and foster enterprise development, including by increasing financial sector resilience and inclusion, reducing impediments to business, and fostering entrepreneurship. It will also support improved public sector accountability and public finance, and finance investments to close infrastructure gaps and better prepare Cambodia's urban areas for continued growth.*

***Objective One: Enhance financial sector development and foster private enterprises***

*WBG support will focus on developing financial infrastructure, increasing access to credit, and developing targeted industries such as agribusiness and tourism.*

**50. *Cambodia's financial and business sectors are still emerging and removing constraints will be critical to further development.*** Continued development of Cambodia's financial sector and capital markets is needed to deepen financial markets, and to support the development of a more robust private sector. Access to finance remains one of the obstacles to business development, competitiveness, diversification, and job creation. While the share of households borrowing from formal sources of credit quadrupled between 2004-16, finance remains a critical constraint to growing MSME business and to developing value-chains to boost domestic sales as well as exports. Furthering financial inclusion and broadening the economic participation of MSMEs, especially those in rural areas, is critical to enhance asset accumulation particularly for Cambodia's poorer population segments. Economic diversification is also critically needed. Only a small share of domestic firms produces Cambodia's exports. The country will need to diversify its manufacturing sector beyond garments, attract higher quality FDI and link to domestic firms, exploit new markets, and support the development of domestic enterprises that have the capability to grow into medium- and large-sized enterprises and compete in regional and global markets.

**51. *The WBG has provided significant support to the development of the financial and business sectors.*** Extensive support has been provided through analytic work, technical assistance and direct investment in the financial sector, including the provision of microfinance and the development of financial infrastructure (such as support for the collateral registry system) to create more mature financial markets. As an example, IFC is supporting the establishment of a private credit bureau, which has facilitated an estimated \$3.8 billion in financing since its launch in March 2012. IFC has also made significant investments in several financial institutions. WB and IFC have worked in tandem to support SME and overall private sector development. In particular, the WB has supported key trade facilitation reforms such as the adoption of the internationally-recognized ASYCUDA customs system and the preparation of a blueprint towards a National Single Window at the border (currently being implemented by the Government). Ongoing and recently completed WB analytical work, including the Cambodia Investment Climate Assessment and Doing Business Reform, Policy Notes on the Digital Economy and Entrepreneurship, and a Jobs Diagnostics, have focused on identifying priority areas to improve the business environment.

**52. *Coordinated WBG support will help deepen capital markets and strengthen financial sector resilience.*** Support will be provided to the financial sector to develop corporate and government debt

markets to help leverage domestic savings and provide new sources of finance for public and private entities. To enable financial institutions to raise sufficient long-term capital, existing regulations on capital adequacy (particularly tier 2 capital) will need to be enhanced. Assistance will also focus on developing financial infrastructure (such as payment systems, money market/foreign exchange markets), and providing SME finance (including green financing and credit targeted at women). IFC Advisory will support efforts to promote insolvency and debt resolution reform, and the promotion of a secured transactions and collateral registry. In parallel, IFC will support financial institutions with potential long-term financing and through risk sharing facilities to increase lending to underserved MSMEs and women MSMEs as well as financial institutions that help develop financing solutions that leverage the supply chain, enhance digital finance services, promote green finance, and promote affordable housing for semi-urban and rural clients.

**53. *The WBG will promote economic diversification and foster entrepreneurship and preparedness for the digital economy.*** Building on extensive analytic work, the WBG will continue its advocacy and advisory work to improve the investment climate and create jobs, with a focus on developing export markets. IDA investment financing will provide support for private business development in sectors with growth potential, such as agribusiness and tourism. In addition, the CPF program will include WB analytic and advisory work on economic diversification, support for the creation of SME-FDI linkages, trade facilitation, and development of agricultural exports and non-timber forest products. The WBG will advise the government on the preparation and implementation of the Digital Economy Strategic Framework. It will also build on the work related to entrepreneurship and innovation to support the development of Cambodia's entrepreneurship ecosystem, nurture start-ups and assist existing enterprises to grow, innovate, improve productivity, and take advantage of global value chains. These are areas of potential financial support from the WB in the outer years.

#### ***Objective Two: Strengthen public sector accountability and public finance***

*WBG support will focus on budget execution, public investment management, strengthening planning capacity in targeted areas (such as disaster management financing), subnational government capacity and improved citizen engagement.*

**54. *Cambodia has embarked on an extensive program to reform public sector management, but continued efforts will be needed to deepen reforms.*** Although the Government has launched a broad-based reform effort, better sequencing and coordination of this ambitious agenda will be needed going forward. Continued progress is expected in areas where reform has taken hold, particularly related to public service delivery and public financial management. For instance, public investment management would benefit from continued reform to improve upstream functions of the project cycle, strengthen the legal and regulatory framework for public investment management, as well as the capacity to prepare, appraise, budget, and implement projects and manage contracts.<sup>23</sup> Other reforms are expected to take longer, such as those related to decentralization and deconcentration, where a clear consensus is lacking on the overall vision and reform agenda. In parallel to reforms of the public sector, an effort is underway to enhance citizen feedback mechanisms to improve service delivery, accountability and transparency. Continued work is needed to enhance the transparency of key public services, raise awareness of citizen rights and service standards, strengthen citizen voice, build trust between citizens and public officials and service providers, and strengthen capacity for local level social accountability.

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<sup>23</sup> "Public Investment Management in Cambodia: Ready for the Next Stage of Development?", Cambodia Public Expenditure Review Discussion Paper, WBG, 2018

Finally, increasing the use of modern information technology could significantly modernize Cambodia's public service delivery, payments and monitoring systems, as well as improve the efficiency of beneficiary feedback.

**55. *WB support has provided a critical underpinning for public sector reforms.*** The WB has taken the lead in coordinating donor support to Cambodia on public sector reform. Comprehensive ASA has been produced and discussed with Government, including on Fiscal Policy and Public Services, Public Expenditure Review, Public Financial Management, Decentralization and Public Administration Reforms, Public Investment Management, and Macroeconomic Management. The work on poverty aspects has helped to improve the poverty estimation methodology using international best practices and contributed to building institutional capacity. The WB also supports enhanced citizen engagement, including through the 2013 Social Accountability Framework (SAF), and Implementation Plan for the Social Accountability Framework (ISAF), which is now a significant part of the ten-year (2010–2020) Subnational Democratic Development (SNDD) Strategy, and was supported by the Voice and Action: Social Accountability for Improved Service Delivery Project. The framework is currently operating in more than half of the communes, located in three quarters of the provinces across the country, with more than 3,700, volunteer Community Accountability Facilitators.

**56. *Continued WB support for public sector management and citizen engagement will be key to maintaining reform momentum.*** Under the umbrella of a multi-donor trust fund, the WB-led donor constituency will focus on continued support for improved public financial management (revenue mobilization, budget/planning/expenditure management, and systems for enhanced service delivery) and public administration reform. It will also incorporate capacity building into other projects to strengthen planning, such as for disaster management financing and urban planning at multiple levels of government. The WB will continue its support for citizen engagement; it has recently supported Government and civil society representatives to prepare a country-wide second phase of the SAF and has begun laying the groundwork for a multi-donor trust fund to support this second five-year phase. Social accountability concepts will also be incorporated into other projects, such as the community platform component of the upcoming Nutrition project as well as the Water Supply and Sanitation Improvement Project to develop the capacity of municipal officials and the mechanisms they use to engage citizens and respond to their feedback. Going forward, the WB will explore the potential for outer year financing to strengthen public sector performance, investment management at the local level, as well as possible support for ICT development, including building a more effective and coordinated digital government.

### ***Objective Three: Expand and improve sustainable infrastructure services***

*WBG support will focus on improved water services through piped household water connections; improved sanitation services; rehabilitated national roads; climate resilient upgrading of rural roads; and improved drainage and solid waste management.*

**57. *Improving infrastructure services is key to Cambodia's growth, employment, connectivity and citizen wellbeing.*** Water, sanitation, roads and solid waste management are all in critical need of improvement. Upgrading infrastructure services will support business development, create jobs and improve the connectivity. Given Cambodia's vulnerability to disasters, it will be critical to ensure that resiliency is incorporated into future infrastructure investments, along with improved drainage in rural areas. While infrastructure services in rural areas are lagging and represent a priority, accelerating urbanization is also highlighting the urgent need for infrastructure services in rapidly growing areas



experiencing increasing discrepancies in service provision across population groups. Cambodia also needs to continue to build the foundations for digital economy, including a combination of infrastructure, enabling technologies and supportive policies, to improve the competitiveness of the private sector as well as public sector service delivery.

**58. During the CEN period, the WB supported Cambodia's investments in roads to improve connectivity and resiliency, as well as improving the enabling environment for the provision of water supply and sanitation services.** Road expansion was supported through two phases of a Road Asset Management project - which is being extended with Additional Financing - as well as through disaster risk management support to enhance the resiliency of rural roads. This support has improved connectivity and helps strengthen Government capacity and systems for road asset management (including oversight through performance-based maintenance contracts), incorporate disaster risk resilience into its planning framework and enhance road safety measures. Additional support has also been provided to promote improved connectivity through ASA to develop a Logistics Master Plan. Finally, the ASA in water and sanitation supported capacity development for, and regulatory oversight over, the small-scale private water suppliers who currently provide 50 percent of piped water.

**59. WBG support during the CPF period will focus on water, sanitation, waste management, and roads to improve connectivity and access to basic infrastructure services in rural and urban areas.** Support for the roads sector will continue, focused on improving the quality of national highways as well as extending climate resilient all-weather roads to rural areas to improve access to markets, connectivity and reduce rural isolation. The Road Asset Management project supports Cambodia's Nationally Determined Contribution (NDC) priority actions, which include repairing and rehabilitating existing road infrastructure and ensuring effective operation and maintenance, considering climate change impacts.<sup>24</sup> The WB will also ramp up its support for improved water and sanitation through the Water Supply and Sanitation Improvement Project. These investments will promote the proper use of clean water to improve sanitary food intake and hygiene to improve health and nutrition outcomes as well as help mobilize sustainable private sector financing. The support will help fill unmet demand for clean water and sanitation services as well as plan for emerging urban areas and secondary cities to ease urbanization pressures. As urbanization progresses and demand for urban infrastructure increases, support will also be provided for urban planning and urban infrastructure improvement—such as urban water supply, sanitation and solid waste management—through the proposed urban development project. To mobilize additional financial resources and expertise from the private sector, PPPs could play an important role across a range of sectors, particularly to address the country's infrastructure needs, given the current increased investor interest in Cambodia and the growing capacity of domestic institutions.

### ***Focus Area II: Fostering Human Development***

*This focus area will support enhancement of quality education services and alignment of education with labor demands, with a particular focus on tertiary education. It will also expand access to quality early childhood services, especially nutrition services, and increase access to quality health services.*

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<sup>24</sup> Under the UN Framework Climate Change Convention, laid out in the Paris Agreement, every country is requested to outline and communicate their post-2020 climate actions known as the Nationally Determined Contribution (NDC). Cambodia has made important contributions to its NDC, including a reduction in greenhouse gas (GHG) emissions by 27 percent as compared to a business-as-usual scenario by 2030 and increased forest cover to 60 percent of national land area by 2030.

*Cambodia's strong focus on building human capital will benefit from tracking its progress on global human capital indicators, such as the Human Capital Index.*

***Objective Four: Enhance quality and alignment of education with labor demands***

*WBG support will focus on higher education partnership programs; accreditation of higher education institutions; enrollment in new secondary education facilities; and teacher upgrading in secondary schools.*

**60. A focus on skills development will be key to move from a low-technology/low-skills economy to one built on knowledge and innovation.** To sustain Cambodia's economic development and enhance its competitiveness, a skilled and productive workforce with better qualifications is essential. While Government funding for education has increased over the past several years, spending remains below average for LMICs. Over the years, development partners have provided significant support to improve basic education. The focus must now shift to building a pipeline for secondary and especially tertiary enrollment. Gaps in higher education achievements are particularly acute; the share of the adult population aged 25 years or more who have completed at least a short cycle tertiary education in Cambodia is a mere 3 percent (2014) while the corresponding figures for Vietnam and Korea are 7 percent (2009) and 35 percent (2010) respectively. Cambodia not only has a small higher education sector, but also has few students enrolled in scientific and technical (STEM) degrees.

**61. Going forward, the WBG will focus the efforts on higher education and job skills development.** The WB will build on the long-standing engagements and investment support in the education sector, as well as on ASA such as public expenditure review, public expenditure tracking system and jobs diagnostic. The CPF program to build skills relevant to labor market demand will be two-pronged. The first prong will be higher education, particularly in the areas of STEM, agriculture, and health by improving the curriculum (through partnership agreements with international and domestic higher education institutions), upgrading faculty (through mentoring programs), and enhancing research. This will be complemented by sectoral governance reform, including accreditation standards, financial and human resource management, and monitoring of graduates' participation in the labor market. The second prong will be building the pipeline for higher education, by expanding access to secondary education through newly built schools (especially in rural areas) and improving quality through lower secondary teacher upgrading, strengthening school-based management, and improving school facilities. Short, agile learning programs for the adult working population, including a specific focus on assisting poor, vulnerable households, also will be developed to adjust their skills over their work-lives. Specific programs targeted to women, such as training programs and childcare programs, will support female employment. The WB will also seek opportunities to support programs in building skills for the digital economy. Building on successful experience in financing a private vocational training center, IFC will seek future opportunities to engage with the private sector to create skills for modern economy.

***Objective Five: Expand access to quality early childhood services***

*WBG support will focus on optimal nutrition for pregnant women and young children, promoting effective use of commune resources through performance-based grants to deliver nutrition programs, and addressing gaps in childhood immunization.*

**62. Healthy children are Cambodia's future, but insufficient childhood nutrition and early life deprivation remain major obstacles.** The effects of this early life deprivation - poor nutrition, lack of

nurturing care, and absence of early stimulation - are present in the majority of Cambodia's current cohort of young workers. The problem persists with today's young children, given the high incidence of stunting and late schooling and limited access to early childhood care, particularly for disadvantaged and remote households. Quality child care services are key to improving children's health and are also important to increase women's participation in the labor force. However, childcare services are often limited to more affluent urban areas, and informal caregivers both in urban and rural areas lack important knowledge on nutrition, among other things. Lack of access to improved water and sanitation, in addition to the suboptimal infant feeding practices and low dietary diversity, contributes to poor linear growth and child stunting. The low availability and coverage of nutrition services hampers efforts to reduce child malnutrition, with only an estimated 9 percent of children with acute malnutrition received treatment in 2015. Less than half of pregnant women in remote areas received the recommended dose of iron-folic acid supplementation during pregnancy in 2014, and a recent decline in full immunization between 2010 (79 percent) and 2014 (73 percent) also remains a concern, especially in several provinces where only about half of the children below 12 months were fully immunized.

**63. *The WB has been supporting programs for early childhood care and will expand this support to investments in a "nutrition convergence" approach.*** Building on previous support for early childhood education, trust fund resources have been provided for the Early Childhood Care and Development (ECCD) for Floating Villages Project. The project improves access to quality services through community and home-based programs for 0 to 5-year-olds, particularly targeting those from disadvantaged backgrounds. The new Cambodia Nutrition Project will aim to improve the availability and quality, as well as incentivize the use of a package of maternal and child health and nutrition interventions targeted at the first 1,000 days of life. It will engage the subnational administration to extend the delivery of nutrition information and service provision from public health facilities down to communities. Additional contributions to nutrition will come from the ongoing Water Supply and Sanitation Improvement project, which will prioritize connections to households with children under the age of two, as well as the Agricultural Sector Diversification Project which will provide support to strengthen nutrition-sensitive value chains and the Livelihood Enhancement and Association of the Poor (LEAP) project which will provide training to farmers on cultivation and nutrition with behavioral change messaging conveyed through self-help groups. These projects will contribute to a multi-sectoral nutrition convergence approach. Ongoing ASA is supporting the government to conduct an impact evaluation of different modalities to provide early childhood development and care, and support for development and operationalization of an evidence-based national strategy for food security and nutrition is being provided as part of a regional effort. The planned trust-funded Community-based Child Care for Garment Workers project will ensure that children under care receive nutritious meals and that parents are well educated about nutrition practices.

#### ***Objective Six: Expand access to quality health services***

*WBG support will focus on improvements in health centers; increased utilization of health services, especially for the disadvantaged; and reduction in household health spending.*

**64. *Cambodia's public health expenditures are low and improving access to and quality of services is a key priority.*** Public health expenditure was at 1.3 percent of GDP in 2016 in Cambodia compared to an average of 2.4 percent for LMICs. Out-of-pocket health expenditures as a percent of total health expenditures are significantly higher at 58.6 percent in Cambodia relative to an average 40.8 percent in LMICs in 2016. Access to and quality of health services in Cambodia are suboptimal; challenges in developing the skills and competences of the health workforce, as well as gaps in infrastructure and

availability of essential supplies, have undermined the quality of care in many public facilities. Inequities persist in health outcomes by socioeconomic status, geographic areas, and between urban and rural populations. Despite improvements over the last two decades, child mortality in 2014 was 76 deaths per 1,000 live births for the poorest quintile compared to 19 in the wealthiest, which underscores problems in access to and quality of health services.

**65. WB support will continue in the health sector through investments in health programs and health workers.** The WB has been supporting and will continue to engage in programs to increase the quality and equity of Cambodia's health services through the Health Equity and Quality Improvement Project (H-EQIP), which has helped accelerate reforms in the health sector, improve social health protection for the poor, expand access to quality and affordable health care services, and create sustainable government institutions for health care management. A proposed project will support pre-service training for health workers, improve the competencies and skills of health workers and improve the regulation of health professionals. In addition, the Cambodia Nutrition Project will provide support to pregnant women and child Health Equity Fund (HEF) beneficiaries. It will also incentivize improvements in the quality of essential maternal and child health and nutrition services in some of the most disadvantaged regions of Cambodia. The WB is also undertaking a multi-year ASA supported by a multi-donor trust fund. The work will continue during the CPF period and will include systematic impact evaluation of performance-based financing to build capacity of domestic institutions for managing HEF and quality enhancement initiatives, and coordination platforms for improved health security and pandemic preparedness.

### ***Focus Area III: Improve Agriculture and Strengthen Sustainable Use of Natural Resources***

*This focus area will support the strengthening of natural resource management, particularly water and forestry in and around Cambodia's major ecosystems, as well as management of rapidly urbanizing areas. It will also focus on improvements in agricultural productivity and diversification.*

#### ***Objective Seven: Strengthen management of water and land use***

*WBG support will focus on developing landscape management plans; water resource management models and systems; as well as integrating climate resiliency into urban development planning and infrastructure investments.*

**66. Better planning for conservation and investment in water, land and natural resource management are key to Cambodia's future.** Cambodia's environmental health and ecosystem vitality ranks lower than the average for LMICs. Cambodia is home to two great ecosystems--the Tonle Sap Lake and the Mekong River - and has considerable land and forestry resources. Yet, pressure on Cambodia's natural resources is growing and threatening the long-term sustainability of these natural assets. The country's water resources, land, and forest have been degraded significantly due to poorly-managed hydropower development, poor practices, uninformed decision-making, and limited investments in sustainable management, resulting in lower agricultural and fisheries productivity. Addressing Cambodia's natural resource and environmental challenges, including climate change, requires a spatially integrated approach which takes into account managing and restoring degraded land and water-based assets and investing in supporting infrastructure to maximize the sustainable economic contribution of natural wealth assets.

**67. During the CEN period, the focus was primarily on water resource management.** Given the primacy of water in Cambodia, and its variability with continual shifts between droughts and flooding, water has been a key focus of Government programs. Transboundary issues are also critical; upstream and downstream development of the Mekong river has had key impacts on Cambodia. As part of regional work on the Mekong Delta, the Mekong Integrated Water Resources Management project has focused on establishing the foundation for effective water resource management (including institutional strengthening and monitoring) and fisheries management (including community fisheries management and infrastructure, and enhancement of fisheries communities) in Cambodia's coastal and northeast areas.

**68. The WBG's ongoing and future engagements aim to identify and promote improved natural resource management, particularly water and landscapes.** The upcoming Sustainable Landscape and Ecotourism Project will use landscape management and support community livelihoods in critical value chains and eco-tourism to help transform natural resource management, reverse land and forest degradation and increase economic returns from natural capital in the Cardamom Mountain and Tonle Sap areas. Considerable resources will also be devoted to an environmental programmatic ASA with pillars on climate resiliency, landscape management, pollution management and marine (blue) economy, including coastal zone protection. A Plastic Action Plan will be developed to identify priority activities for improving plastic management and enforcement capacity. Continued efforts will also be made to strengthen technical and institutional capacity on environmental and social standards and safeguards. In addition, the proposed project in urban development will focus on improving urban planning and investing in infrastructure and systems to improve service delivery and mitigate environmental degradation in Cambodia's growing urban areas. Building on Cambodia's Nationally Determined Contribution, Climate Change Strategic Plan (2014-23) and the National Adaptation Plan, WB support includes efforts encompassing both adaptation and mitigation, including exploring areas related to green climate funds. During the CPF period, IFC will seek to expand successful regional green buildings and manufacturing resource efficiency efforts to Cambodia.

***Objective Eight: Improve agricultural productivity and diversification***

*WBG support will focus on diversifying agriculture value chains and enhancing productivity of targeted farms and agribusinesses.*

**69. Cambodia needs to modernize its agricultural sector and reverse lackluster growth in agricultural production.** Cambodia's population remains predominantly rural, with heavy reliance on agriculture for income and employment. Concerns have intensified about the sector's underlying strength and competitiveness, its poorly performing irrigation systems, and particularly its over-reliance on rice production which hampers competitiveness of small farms and firms. With greater crop diversification and improved value-chain linkages, Cambodia can extend agri-business beyond rice, for example in cashew nut or fruits and vegetables. Developing processing capacities will also help link Cambodia to broader export markets. Together these efforts can help reposition Cambodian agriculture and enable agriculture businesses and farms to be competitive in the future. Many Cambodian producers lack the knowledge and skills to successfully diversify and commercialize their agricultural output, and financial services and public infrastructure remain inadequate. While the diversity of actors along the supply chain (farmers, small and medium sized agribusinesses, producer organizations) has increased over the years, support has been provided in a top-down fashion, and government needs to shift into a more facilitating and regulating role while unleashing private sector actors.

**70. The WBG has supported the agricultural sector throughout the CEN period.** Cambodia's pressing needs in the agricultural sector originally focused on land usage and ownership rights. The WB supported the Government's Social Land Concession Program through two land allocation projects, which highlighted distribution of land to the landless and land poor as a key component of its strategy to enhance equitable growth through the agricultural sector. These projects also helped improve beneficiaries' access to agriculture resources and selected infrastructure and social services in project communities and were complemented by support by other development partners in related areas. Follow up support has focused on livelihood enhancement for the poor, which emphasized building well-functioning self-help groups, producer groups and agricultural cooperatives, to enable poor households to improve their livelihoods, address poverty, and increase welfare in their communities. In parallel, IFC has supported Cambodia's agriculture sector over the years, with ongoing support in agribusiness and targeted support for the rice industry to create higher value exports (see Box 6).

**Box 6: Making Markets: Cambodia's Rice Sector**

Through a series of coordinated efforts, IFC helped to raise industry standards, upgrade rice milling capacity and mill management systems (including food safety systems), improve the efficiency of rice millers and re-processors, and bolster the Cambodia rice brand. From 2009 to 2016, Cambodia increased its rice export volume by more than 40,000 metric tons in 2010 to more than 635,000 metric tons in 2017. Through supply-chain-level support, IFC advisory projects have reached more than 34,000 farmers of whom nearly 10,000 are women. Among millers, IFC has improved the performance and productivity of 20 mills and re-processors and promoted market linkages that resulted in more than 300 new contracts for clients valued at over \$100 million. Firm-level support has focused on efficiency, demonstrating that for every US\$1 spent, export sales revenues increased by US\$53, and Cambodia now exports rice to 66 countries.

**71. The WBG will continue support aimed at greater diversification and increased productivity.** WB support will be extended to facilitate development of diversified agriculture value chains in selected geographical areas in Cambodia, supporting rural poor by enhancing access to finance, technical advice, market information and infrastructure to ease access to markets and enhance productivity. The Agriculture Sector Diversification Project will facilitate diversification into higher value agriculture products and enhance productivity, resilience and market access of farmers and agribusinesses. It will finance direct credit lines to farmers as well as priority rural infrastructure investments directly related to agriculture production and sales. Cambodia's agriculture is defined as one of the sectors most affected by and vulnerable to climate change, and the project provides a framework to achieve some of the NDC commitments. The project will also promote investments, both private and public, that will decrease vulnerability to climate variability and mitigate emissions through high yield crop varieties, carbon sequestration species and cropping patterns, and sustainable water management practices. An ASA on Agriculture Sector Strategy will help Government in developing a medium-term sector development strategy. This will be complemented by IFC efforts to seek opportunities to foster partnerships and forge stronger linkages between small landholders and large-scale agricultural farms and corporations to further develop agro-processing. IFC will continue supporting Cambodia in the development of its cassava and pepper production and will potentially expand efforts in the rice sector to include increased internal partnerships with local firms to develop a sustainable, traceable, and inclusive rice supply chain by scaling up the adoption of Sustainable Rice Platform standards.

***Cross-cutting theme: Strengthening governance, institutions and citizen engagement***

**72. *Strengthening governance and institutions and increasing citizen engagement will be a critical part of all activities in the CPF program.*** While Objective Two focuses on strengthening government capacity in specific areas, a deliberate effort will be made as activities are developed to strengthen governance, institutions and citizen engagement across multiple sectors and in all WBG interventions. All WB support will reflect aspects of institution building and improved governance, and IFC will also provide significant advisory services to strengthen domestic public and private sector capacity. One of the key elements of improving governance is to strengthen state-society relations. The WB has invested in social accountability engagement in health, education and commune administration to improve service delivery, strengthen the responsiveness of government programs and WB operations. It will expand this to include new public services such as district administration, water and sanitation, urban/municipal services and other areas of support, including through its support for decentralization efforts.

**73. *Governance and citizen engagement will figure prominently in all focus areas of the CPF, and progress will be measured by key indicators within each of the focus areas.*** Examples of governance support, institution building and citizen engagement across the focus areas include:

*Focus Area 1:*

- finalizing key elements of financial infrastructure/institutional development (such as collateral registry systems) and debt market development;
- strengthening public sector performance through improved public financial management;
- enhancing mechanisms for citizen feedback on the quality of services provided, including water supply and sanitation;
- improving institutions overseeing public infrastructure such as roads and water supply (e.g., performance-based maintenance contracts); and
- strengthening planning capability for disaster risk management and urban planning.

*Focus Area 2:*

- capacity building for improved management of hospitals and health care centers/systems;
- strengthening health volunteers at the grassroots level, Village Health Support Groups and Health Center Management Committees;
- improving governance of education facilities through e.g. accreditation processes;
- performance-based grants for health facilities, and communes for improved quality of health and nutrition services;
- strengthening provider management and supervision (e.g. of schools, health centers);
- accreditations, autonomy and financial management of universities;
- user feedback on critical services such as through the education public expenditure tracking and quality of service survey.

*Focus Area 3:*

- strengthening community-based institutions such as forestry and fishery committees, agriculture producer groups and cooperatives, and self-help groups comprised of poor households;
- strengthening the capacity for environmental and social safeguards in public investments;
- improving statistical and mapping system for decision making on integrated landscapes and natural resource management;
- developing water resource management models and systems;

- strengthening feedback mechanisms between farmer groups, public and private service providers;
- improving agricultural information and regulatory systems (e.g. soil maps, animal health and food safety);
- improving service provision to private farmers, forest dwellers and fishermen; and strengthening systems for food safety standards.

## **D. Implementing the Country Partnership Framework**

### **(i) Financial Envelope and Instruments**

**74. The IDA envelope for Cambodia is growing, building on the satisfactory overall performance of the current portfolio.** The active IDA portfolio for Cambodia consists of eleven IPF operations amounting to a US\$611.9million net commitment. The WB program also benefits from significant pooling of trust fund. The CEN reengagement program rested on ASA and IPFs. It included results-based financing, with three projects introducing Disbursement Linked Indicators into traditional investment operations, helping to incentivize the achievement of results. The Cambodia CPF spans the IDA 18 and IDA 19 period. The IDA18 envelope for Cambodia (SDR343.2million) is about 30 percent higher than for IDA17, reflecting a good track record over the CEN period, and the increased engagement for the CPF period.<sup>25</sup> In FY18, two operations totaling US\$200million were approved (US\$90 million Higher Education Improvement Project and US\$110 million Road Asset Management Project II Additional Financing). In FY19, three operations were approved (US\$91.67million Agricultural Sector Diversification Project; US\$55million Water Supply and Sanitation Improvement Project; US\$15million Cambodia Nutrition Project) and one operation is scheduled for delivery together with the CPF (US\$50.66million Cambodia Sustainable Landscape and Ecotourism Project). The remaining space for FY20 is approximately US\$71million, for a proposed two operations. The FY21-23 period includes financing proposals for which the Government has shown interest and will be determined later, leaving flexibility to adjust to changing circumstances (see Table 3). Additional IDA resources will be sought through reallocation, the IDA Private Sector Window (PSW), IDA Regional Windows and trust funds to fully finance FY20 and beyond. The WB will continue to rely on investment lending as its dominant financing instrument, while retaining flexibility to consider other instruments complemented by a significant ASA program to respond to continued Government demand and pave the way for future lending operations.

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<sup>25</sup> Referenced IDA18 volumes are indicative. Actual PBA allocations will be determined annually during the IDA18-20 period and will depend on: (i) total IDA resources available; (ii) the number of IDA-eligible countries; (iii) the country's performance rating, per capita GNI, and population; and (iv) the performance and other allocation parameters for other IDA borrowers.



**Table 3: IDA Indicative Lending Program**

Focus Area	IDA 18 Program			IDA19 FY 21-23 (tbc)
	FY 18	FY19	FY20	
<b>Focus Area 1:</b> <u>Promote State Efficiency and Boost Private Sector Development</u>	AF Road Asset Management project – US\$ 110 m	Water Supply and Sanitation Improvement project- US\$ 55m		Digital Economy and Competitiveness project  Road Connectivity Improvement project
<b>Focus Area 2:</b> <u>Fostering Human Development</u>	Higher Education Improvement project-US\$ 90m	Cambodia Nutrition Project -US\$ 15m	Pre-service Training for Health Workers project	Education Sector Support project  Health Sector project
<b>Focus Area 3:</b> <u>Improve Agriculture and Strengthen Sustainable Use of Natural Resources</u>		Agriculture Sector Diversification project – US\$ 91.67m  Sustainable Landscape and Ecotourism project – US\$ 50.66m	AF for Land Allocation for Social and Economic Development	Natural Resource Management project  Urban Development/ Solid Waste Management project

**75. Cambodia's IDA status may change over the CPF period.** Cambodia is one of 75 countries currently eligible for IDA resources on highly concessional terms.<sup>26</sup> Cambodia's GNI per capita rose from \$1070 in 2015, to \$1140 in 2016 and reached \$1230 in 2017. Thanks to its strong performance, Cambodia's GNI exceeded the IDA operational cutoff in FY19. If the GNI per capita also exceeds the cutoff in FY20 and FY21, Cambodia will become an "IDA-only gap country" in FY21<sup>b</sup>, resulting in the terms of IDA credits changing from "Regular" to "Blend"<sup>27</sup>.

**76. IFC efforts will continue to grow and will be guided by the IFC 3.0 strategy framework.** Since IFC's first commitment in 2000, IFC's long term finance commitments in Cambodia reached US\$1.1 billion, split almost equally between investments for IFC's own account and mobilization. Investment activity increased substantially in recent years: approximately 80 percent of commitments occurred over the course of FY14-FY19. IFC's committed portfolio stands at US\$427 million, of which US\$223 million for IFC's own account and US\$204 million in syndications (B-loans only), comprising exposure to eight clients – primarily banks and microfinance institutions.

**77. The IFC program in Cambodia will deploy multiple instruments.** During the CPF period IFC will leverage IFC Investment Services (IS) and Advisory Services (AS), as well as continue syndications (mobilization), while bringing to bear the full resources of the WBG. IFC will continue to leverage the IDA Private Sector Window and the Creating Markets Advisory Services Window to enable IFC 3.0 Making

<sup>26</sup> IDA eligibility depends on the country's lack of creditworthiness, as well as on the level of development, defined as GNI per capita below an established threshold and updated annually (\$1,165 in fiscal year 2018).

<sup>27</sup> Blend terms apply to blend countries and IDA countries with GNI per capita above the operational cutoff for more than two consecutive years, known as "gap" countries. As of January 2019, terms include 30 years maturity (vs. 35 for Regular), 5 years grace period (vs. 6 years for Regular), principle repayment 3.3% for years 6-25 and 6.8% for years 26-30 (vs. 3.125% for years 7-38 for Regular).

Markets efforts. During the CPF period, IFC's real sector efforts will continue to scale up, with a particular focus on agriculture, infrastructure (logistics and transport, and potentially education and healthcare. Financial Institutions Group efforts will aim to increase banking interventions as the Cambodian financial sector continues to evolve and focus on more complex engagements including capital markets and potential targeted support for gender, green and SME finance. As other unforeseen making markets opportunities arise, IFC may assess and engage as relevant - IFC has had a successful track record in mobilizing international investors alongside IFC and will build on this experience during the CPF cycle.

**78. *Development partners play a substantial role in Cambodia's development program, and Sector Technical Working Groups are the main vehicle for donor coordination.*** Cambodia receives a substantial amount of support from the development community, with Official Development Assistance (ODA) totaling \$1.35 billion in 2017. A large spectrum of development partners is present across multiple sectors (see Annex 2), and the RGC leads a number of sector and thematic donor working groups to ensure the appropriate complementarity and division of labor of donor activity and alignment with national priorities. During 2017, the World Bank disbursed \$40 million, which is less than 1% of all donor grants and loans. During the same period, approximate disbursements from other development partners included: \$146 million from the ADB, \$210 million from UN agencies, \$126 million from Japan, \$102 million from France, and \$76 million from the US. China's role has been steadily growing; it is currently the largest provider of external assistance, disbursing approximately \$220 million in 2017. While donor assistance has increased over the last decade, the Government is preparing for a decline in assistance over the coming decade as it graduates from the Least Developed Countries (LDC) status.<sup>28</sup>

#### **(ii) Implementation Modalities**

**79. *The WB program is carried out within relevant agencies by building capacity through project implementation.*** The current WB program consists entirely of IPFs and ASA, as requested by the Ministry of Economy and Finance. Earlier years of WB support to Cambodia suffered from a proliferation of Project Implementation Units. During the CEN period onward, the WB has worked with the Government to build capacity for project implementation within Government agencies, using country systems where appropriate, and strengthening capacity in technical areas, as well as in procurement, financial management and other fiduciary and safeguard areas. Where needed, the WB provides additional oversight, especially in fiduciary areas.

#### **(iii) Financial Management and Procurement**

**80. *Continued efforts will be needed to strengthen fiduciary oversight.*** Since 2006, the Government has embarked on a PFM Reform Program aimed at improving the reliability and predictability of budget, accountability of expenditures and transparency of procurement process. The Government has formulated and implemented a Consolidated Action Plan-Stage 3 (CAP3) focusing on revenue, debt and cash management, and budget execution to further strengthen the system. Additional improvements under CAP3 will include continued roll out of the financial management system, and establishment of an independent body to review procurement complaints. While the fiduciary reform has progressed, key risks remain. A particularly problematic area continues to be that externally financed and government internally financed projects/contracts follow different procurement rules and systems. Fiduciary management relating to public procurement and financial management under IDA financed

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<sup>28</sup> Development Cooperation and Partnerships Report, Cambodian Rehabilitation and Development Board, RGC, 2018.

projects is carried out in accordance with Standard Operating Procedures (SOP)<sup>29</sup> and the applicable procurement policies and regulations of the WB. The two systems do not relate to each other, which limits the extent to which overall country systems may be utilized. Additionally, because the system for externally financed projects is mainly applicable to procurement at the level of central government, it is difficult to comingle donor and government funds for projects that involve subnational implementation. Over the past five years, government has made efforts to harmonize the two systems and has set 2025 as a target for harmonization. The WB, jointly with other development partners, will continue supporting the harmonization process as well as the implementation of the CAP3 to further strengthen public financial management system.

#### **(iv) Monitoring and Evaluation**

**81. *The CPF will be reviewed by the WBG team on an annual basis and monitored through its results framework based on monitoring and evaluation data collected by Government during project implementation.*** To date, Government's overall capacity for monitoring and evaluation has been considered satisfactory. As part of project implementation support and its regular portfolio reviews, the WB regularly assesses the monitoring and evaluation capacity of the counterparts and implementing agencies for its projects. Overall, capacity to carry out data collection, monitoring and reporting on project indicators is adequate. In those instances where M&E capacity has been found lacking (such as in the RAMP II and LASED II projects), additional capacity and training have been provided during project implementation. The WB will continue to engage in joint portfolio reviews with ADB and JICA to address implementation bottlenecks, disbursement issues, and systemic challenges. In addition, the WB and the Government have now agreed to institute separate portfolio meetings to review and address issues arising in implementing WB portfolio. A Performance and Learning Review (PLR) will be carried out at mid-term to take stock of the progress made against the objectives set out in the CPF, and adjust the strategy, portfolio and results framework as needed to reflect the evolving country context and demand.

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<sup>29</sup> The SOP is issued under Sub-Decree 74 (May 22, 2012) for externally funded projects.

#### IV. MANAGING RISKS

**82. Cambodia's overall risk rating is assessed as substantial.** The main risk is in the fiduciary area, due to a weak control environment along with weak implementing capacities (see Table 4). Other risks are rated substantial, which merit focused attention, including political and governance risks, institutional capacity for implementation and sustainability, and environmental and social risks. During the CEN period these risks have been mitigated by strong implementation support for WBG projects, and specific measures to strengthen country systems. These efforts will continue during the CPF period. Ensuring that projects are implemented in a participatory manner together with stakeholders will also continue to support overall risk mitigation effort. Broader risks that could impact the program might result from difficulties with, or deterioration in, client relations. To mitigate this, regular meetings will be held with main counterparts on the status of the portfolio, and the pace and type of engagement will be adjusted accordingly.

Table 4 : Summary of Risks to the Implementation of the CPF	
Risk Categories	Rating
Political and governance	Substantial
Macroeconomic	Moderate
Sector strategies and policies	Low
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	High
Environmental and social	Substantial
Stakeholders	Moderate
<b>Total</b>	<b>Substantial</b>

##### A. Political and Governance

**83. Cambodia's centralized political system provides predictability as well as risks.** Cambodia held national elections in July 2018 resulting in the CPP winning all seats in the National Assembly. While this strengthens the government's ability to act resolutely and provide clear guidance on WB activities, it leaves few checks and balances and little accountability within the political system to counter the party's policy positions. To enhance transparency and accountability of Government, the WBG has been a strong advocate for increased citizen voice and engagement; it makes an extra effort to seek out a diversity of viewpoints from within academia, civil society and the private sector to inform policy analysis, advice and project development. The WBG works extensively with civil society and other development partners to enhance demand-driven accountability as part of its projects as well as working with Government to increase accountability and transparency. The WB will continue supporting the social accountability framework and increasingly involve communities to ensure oversight during project implementation.

##### B. Fiduciary

**84. The WB continues to apply a risk-based approach to procurement oversight.** Overall procurement performance is satisfactory except for routine delays in project start up. Projects which involve implementation at subnational levels incorporate integrated independent financial and procurement audits hired by the Government, and there have been no significant irregularities during the reviews. The WB carried out a procurement assessment in FY17 aimed at deepening dialogue with

the Government on areas that require strengthening. The assessment pointed to several areas of vulnerability, including: procurement legislation is generally fragmented with incomplete implementation instructions for the law; no system exists for independent complaints; the MEF maintains dual functions of oversight and procurement implementation; procurement staff are not well-qualified, and the private sector continues to flag lack of access to information on tender opportunities. The WB will continue supporting the implementation of the public procurement reform strategy 2019-2025 and will contribute to the improvement of the government SOP for externally funded projects. In addition, support will be extended to strengthen institutional capacity through annual training workshops for implementing agencies and other stakeholders, joint quarterly procurement clinics and hands-on support to project procurement staff in implementing agencies. The WB has a significant on-the ground presence in Cambodia, which will assure regular engagement on fiduciary issues. Intensive supervision and training to meet WB fiduciary standards will also be undertaken, especially for the counterparts that are new to WB projects.

**85. *Support will continue to enforce strong internal controls for project financial management, monitoring and auditing.*** The Government has recognized the importance of the Government Internal Audit Agency in helping departments and Ministries to manage public funds effectively by developing better governance, risk management and internal controls. A total of 35 internal audit departments have been established in line Ministries and state-owned enterprises, and improvement in their work has been modest but gradual. The WB will continue to engage with project implementing line ministries to strengthen their internal audit functions and will monitor improvements in the capacity of the National Audit Authority to provide oversight over the use of public funds. A project- specific supplementary financial management manual is now operational with monitoring of interim financial reports (IFRs), allowing for timely follow up on the submission of IFRs and enhanced monitoring of the quality of FM project information and progress, in addition to the normal IFR reviews during project supervision. The WB will continue to support efforts to strengthen the National Accounting Council and the Kampuchea Institute of Certified Public Accountants and Auditors to help put in place a quality assurance system for the profession in Cambodia.

### **C. Environmental and Social**

**86. *Environmental and social risks remain substantial, due to limited implementing agency capacity to meet requirements of environmental and social risk management.*** The current portfolio has a moderate level of exposure to environmental and social risks, and all projects under implementation are currently in compliance with WB safeguards policies and requirements. The WB recently completed a Social and Environmental Risk Management Assessment, which identified institutional capacity constraints and weaknesses in policy applications. With the roll-out of the new WB Environmental and Social Framework (ESF), the challenge will be to manage two sets of policies, as the ongoing operations will continue to use previous policies. Continued efforts will be made to build awareness and capacity of both staff and client counterparts, particularly in areas receiving more emphasis such as climate change, labor conditions and attention to marginalized and vulnerable groups. In addition, the WB will strengthen safeguard capacity on the ground. With climate vulnerability being a significant risk in Cambodia, WB projects are emphasizing elements focused on climate readiness and emergency planning. The WB will also build flexibility into its program, including through scalability and contingent emergency response components (CERC), as well as through adjustments based on the Performance and Learning Review (PLR).

#### **D. Institutional Capacity**

**87. *Limited institutional capacity remains a constraint.*** Although capacity has improved, it remains weak, particularly at the subnational level. In addition, limited cross-institutional cooperation could affect project implementation, especially for multi-sectoral operations. The WBG continues to provide a substantial program of ASA, including significant amounts of free-standing technical assistance, and mobilizes significant amounts of additional donor grant resources targeted to capacity building. In addition, the WB has made institutional development a key cross-cutting focus of its overall program, incorporating capacity building and institutional strengthening as important components of virtually all its operations. When preparing new operations, the WB will avoid complex design and will provide enhanced implementation support, especially in the early stages of project implementation.

## ANNEX 1: Cambodia Country Partnership Framework Results Matrix

Focus Area 1: Promote State Efficiency and Boost Private Sector Development		
CPF Objective 1: Enhance financial sector development and foster private enterprises		
<p><b>Intervention Logic:</b> Cambodia's financial and business sectors are still emerging, and their further development will be critical for future growth. Continued development of Cambodia's financial sector and capital markets is needed to deepen financial markets, and to support the development of a more robust private sector. Access to finance remains one of the obstacles to business development, competitiveness, diversification, and job creation. It is especially critical to broaden the economic participation of MSMEs, especially those in rural areas, to enhance asset accumulation particularly for Cambodia's poorer population segments and for women, and to develop value chains to boost domestic sales and exports. Going forward, Cambodia will need to diversify its manufacturing sector beyond garments, attract higher quality FDI and link to domestic firms, exploit new markets, and support the development of domestic enterprises that have the capability to grow into medium- and large-sized enterprises and compete in regional and global. The Government's RS4 prioritizes promotion of private sector development and employment, and economic diversification.</p> <p>The WBG has provided significant support to the development of the financial and business sectors through analytic work, technical assistance and direct investment in the financial sector, including the provision of microfinance and the development of financial infrastructure. During the CPF period, coordinated WBG support will help deepen capital markets and strengthen financial sector resilience. Support will be provided to the financial sector to develop government and corporate debt markets (building on IFC's investment in the first corporate local currency bond with support from the IDA18 IFC-MIGA Private Sector Window). Assistance will also focus on developing financial infrastructure (such as payment systems, money market/foreign exchange markets), and providing SME finance (including green financing and credit targeted at women). IFC Advisory will support efforts to promote insolvency and debt resolution reform, and the promotion of a secured transactions and collateral registry. IDA investment financing will provide support for private business development in sectors with growth potential, such as agribusiness and tourism. Building on extensive analytic work, the WB will continue its advocacy and advisory work to improve the investment climate and create jobs. In addition, the CPF program will include ASA on economic diversification, support for the creation of SME-FDI linkages, trade facilitation, and development of agricultural exports and non-timber forest products. The WBG will advise the government on the preparation and implementation of the Digital Economy Strategic Framework. It will also build on the work related to entrepreneurship and innovation to support the development of Cambodia's entrepreneurship ecosystem, assist existing enterprises to grow, innovate, and take advantage of global value chains. These are areas of potential financial support from the WB in the outer years.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program

<p>Number of individuals and businesses covered by credit reporting service providers</p> <ul style="list-style-type: none"> <li>• Baseline: 5.7 million (2016)</li> <li>• Target: 6.5 million (2022)</li> </ul> <p>Number of MSMEs that received loans secured with movables property:</p> <ul style="list-style-type: none"> <li>• Baseline: 5,710 (2018)</li> <li>• Target: 10,000 (2022)</li> </ul> <p>Access to finance: Outstanding SME/MSME IFC Portfolio</p> <ul style="list-style-type: none"> <li>• Baseline: 415,222 (2018)</li> <li>• Target: 521,611 (2022)</li> </ul>	<p>Finalizing key elements of financial infrastructure:</p> <ul style="list-style-type: none"> <li>• Payment systems in place (Yes/No)</li> <li>• Recommended laws/regulations/ amendments/codes enacted, or government policies adopted (Yes/No)</li> </ul> <p>Finalize guidelines for ecotourism concessional agreement with private sector operators/entrepreneurs by 2023 (Yes/No)</p> <p>Establishment of domestic corporate and government debt markets demonstrated by bond issuance by 2023 (Yes/No)</p> <p>Digital Economy Strategic Framework (DESF) is adopted by 2022(Yes/No)</p>	<p><b><u>Ongoing engagement:</u></b></p> <p><b>WB ASA:</b></p> <ul style="list-style-type: none"> <li>• Jobs Diagnostics/Future Jobs ASA</li> <li>• Cambodia Investment Climate Assessment and Doing Business Reform</li> <li>• Cambodia Logistics Master Plan Development</li> <li>• Policy Note on Entrepreneurship and Innovation</li> <li>• Policy Note on Digital Economy</li> <li>• Economic Diversification Study</li> <li>• Financial Sector Development TA/Payment Systems Reform</li> <li>• Cambodia DMF Government Bond Market Development</li> </ul> <p><b>IFC TA/Advisory:</b></p> <ul style="list-style-type: none"> <li>• Microfinance: Hattha Kaksekar Ltd, Sumitomo Corporation; BRED Bank</li> <li>• Insolvency and debt resolution reform</li> <li>• Credit reporting</li> <li>• Secured Transactions and Collateral Registry</li> <li>• Doing Business Reform Advisory</li> <li>• Debt market development</li> </ul> <p><b>IFC Investments:</b></p> <ul style="list-style-type: none"> <li>• Banking and Mico-finance: Advanced Bank of Asia Ltd, ACELDA Bank PLC, Amret Co, Ltd; BRED Bank (Cambodia) Plc Hattha Kaksekar Ltd; Prasac Microfinance Institution</li> <li>• Morris Hong Kong Project</li> </ul> <p><b>New engagement:</b></p> <p><b>WB ASA:</b></p>
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		<ul style="list-style-type: none"> <li>• Support to the preparation of the Digital Economy Strategic Framework</li> <li>• Investments, Savings, and Dollarization (CEM)</li> <li>• Policy dialogue on Competitiveness and Trade Facilitation Reforms</li> </ul> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• Sustainable Landscape and Ecotourism Project</li> <li>• Digital Economy and Competitiveness Project (TBC)</li> </ul> <p><b>IFC Investments</b></p> <ul style="list-style-type: none"> <li>• Potential bond issuance by financial institutions to support establishment of the local debt capital market, including themed bonds such as social/gender bond</li> <li>• Potential Risk Sharing facility projects with financial institutions to increase access to finance to SMEs</li> <li>• Potential long-term financing to increase access to finance to MSMEs and promote green finance</li> <li>• Potential SWAP projects to provide risk mitigation for financial institutions</li> </ul> <p><b>IFC Advisory</b></p> <ul style="list-style-type: none"> <li>• Potential SME financing project with financial institutions in Cambodia to increase lending to underserved SMEs</li> <li>• Potential finance projects with financial institutions to develop financing solutions that leverage the supply chain, enhance digital finance services, and promote affordable housing for semi-urban and rural clients</li> </ul>
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## CPF Objective 2: Strengthen public sector accountability and public finance

**Intervention Logic:** Cambodia has embarked on an extensive program to reform public sector management, but continued efforts will be needed to deepen reforms, including better sequencing and coordination of this ambitious agenda. Drawing on existing reform efforts, focus will need to be placed on enhancing public financial management processes and advancing civil service reform. Public service delivery is improving but continued work is needed to enhance the transparency of key public services, raise awareness of citizen rights and service standards, strengthen citizen voice, build trust between citizens and public officials and service providers, and strengthen capacity for local level social accountability. Using modern information technology, Cambodia could leapfrog over earlier phases and modernize payment and service delivery, as well as monitoring and beneficiary feedback. Deepening and sustaining improvements in overall governance and efficient use of public resources is a core element of the RS4. Strengthening the efficiency and transparency of public financial resource management in areas such as public investment management, financial management systems, public administration, and service delivery as well as capacity building, will be key to achieving this. Improved macroeconomic management will also be needed to safeguard economic stability and sustained growth.

Over the past years, the WB has provided substantial analytic and advocacy support in a broad array of public sector reform areas (financial management, public administration, decentralization and deconcentration) and through enhancing citizen engagement. Going forward, the WB will focus on continued support for improved public financial management (revenue mobilization, budget/planning/expenditure management, and systems for enhanced service delivery) and public administration reform. It will also incorporate capacity building into other projects to strengthen planning, such as for disaster management financing and urban planning at multiple levels of government. The WB will continue its support for citizen engagement; it has recently supported Government and civil society representatives to prepare a country-wide second phase of the SAF and has begun laying the groundwork for a multi-donor trust fund to support this second five-year phase. Social accountability concepts will also be incorporated into other projects, such as the community platform component of the upcoming Nutrition project as well as the Water Supply and Sanitation Improvement Project to develop the capacity of municipal officials and the mechanisms they use to engage citizens and respond to their feedback. Going forward, the WB will explore the potential for outer year financing to strengthen public sector performance, investment management at the local level, as well as possible support for ICT development, including building a more effective and coordinated digital government.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Number of line ministry-FMIS connected to MEF to improve efficiency of budget execution system</p> <ul style="list-style-type: none"> <li>Baseline: 10 (2018)</li> <li>Target: 15 (2023)</li> </ul> <p>Number of schools with School Operational Budgets available to the school, committee,</p>	<p>Enact PIM Sub-decree and Prepare the PIM Standard Appraisal and Implementation Manuals to provide uniform procedures for the management of project execution at all line ministries (2023) Yes/No</p> <p>Adopt Public Service Delivery Law by 2023 (Yes/No)</p>	<p><b>Ongoing engagement:</b></p> <p><b>WB Lending/TF:</b></p> <ul style="list-style-type: none"> <li>Voice and Action: Social Accountability for Improved Service Delivery Project</li> <li>Cambodia Southeast Asia Disaster Risk Management Project</li> </ul> <p><b>ASA:</b></p>

<p>and to the local community through public display and to anyone requesting it.</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2017)</li> <li>• Target: 100 (2023)</li> </ul> <p>Increased voice of citizens in their engagement with education, health and local government service providers (disaggregated by gender)</p> <ul style="list-style-type: none"> <li>• Baseline: 27% (2017)</li> <li>• Target: 45% (2023)</li> </ul>	<p>Percent of citizens participating in Social Accountability Framework process able to cite standards for school, health center or commune services (information awareness)</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2016)</li> <li>• Target: 60% (2022)</li> </ul> <p>National disaster risk finance strategy developed by 2022 (Yes/No)</p>	<ul style="list-style-type: none"> <li>• Cambodia's Cross-Cutting Public Financial Management, Decentralization, and Public Administration Reforms</li> <li>• Cambodia Fiscal Policy and Public Services</li> <li>• Social Accountability Impact Evaluation</li> </ul> <p><b><u>New engagement:</u></b></p> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>• Public Financial Management and Service Delivery MDTF</li> <li>• Cambodia Social Accountability and Subnational Governance MDTF</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Cambodia Economic Update</li> <li>• Public Administration Reform</li> </ul>
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### CPF Objective 3: Expand and improve sustainable infrastructure services

**Intervention Logic:** Improving infrastructure services is key to Cambodia's growth, connectivity and citizen wellbeing. Cambodia ranks well below neighboring countries such as Thailand and Vietnam on the Global Competitiveness Index's infrastructure measure, and Cambodia's vulnerability to disaster underscores the need to ensure that its physical infrastructure incorporates resiliency features. Lack of climate resilient roads (especially rural roads) is a major challenge given Cambodia's vulnerability to flooding and limited access to water supply and sanitation is linked to poor health outcomes. Upgrading infrastructure services will support business development, create jobs and improve the connectivity. While infrastructure services in rural areas are lagging and represent a priority, accelerating urbanization is also highlighting the urgent need for infrastructure services in rapidly growing areas experiencing increasing discrepancies in service provision across population groups. Cambodia also needs to continue to build the foundations for digital economy, including a combination of infrastructure, enabling technologies and supportive policies, to improve the competitiveness of the private sector as well as public sector service delivery.

The WB has supported roads improvement and maintenance in recent years and will extend support in this area to improve the quality of national roads (under the Road Asset Management project), as well as extending all weather roads to rural areas to improve connectivity of small towns and villages. In addition, knowledge work continues to strengthen Government capacity to manage road assets and to improve the enabling environment for the provision of water supply. Going forward, support for the roads sector will continue and will focus on improving the quality of national roads as well as extending climate resilient roads to provinces and rural areas to foster private sector investments and improve access to markets and services. The WB will also ramp up its support for improved water and sanitation through the Water Supply and Sanitation Improvement Project. These investments will promote the proper use of clean water to improve sanitary food intake and hygiene to improve health and nutrition outcomes as well

as well as help mobilize sustainable private sector financing. As urbanization progresses and demand for urban infrastructure increases, support will also be provided for urban planning and urban infrastructure improvement—such as urban water supply, sanitation and solid waste management—through the proposed urban development project. To mobilize additional financial resources and expertise from the private sector, PPPs could play an important role, particularly to address the country’s infrastructure needs, given the current increased investor interest in Cambodia and the growing capacity of domestic institutions. The opportunities to create jobs that arise from improving infrastructure will be explored.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Length and share of national roads maintained under performance-based maintenance contracts</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2015)</li> <li>• Target: 218 (2023)</li> </ul> <p>Length of rural roads receiving climate resilient upgrades</p> <ul style="list-style-type: none"> <li>• Baseline: 0 km (2017)</li> <li>• Target: 290 km (2023)</li> </ul> <p>People provided with access to improved water sources through piped household water connections</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2017)</li> <li>• Target: 79,000 (2023)</li> </ul> <p>People provided with access to improved sanitation services through connection to sewer network</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target: 16,000 (2023)</li> </ul> <p>Number of cities with financially and environmentally sustainable solid waste management improvement plans developed</p>		<p><b><u>Ongoing engagement:</u></b></p> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• Road Asset Management Project II</li> <li>• Road Asset Management II Additional Financing</li> <li>• Cambodia Southeast Asia Disaster Risk Management Project</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Urbanization ASA Phase 2: Secondary Cities</li> <li>• Improving Rural Water and Sanitation Services</li> </ul> <p><b><u>New engagement:</u></b></p> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• Water Supply and Sanitation Improvement project</li> <li>• Urban Development project</li> <li>• Road Connectivity Improvement project</li> </ul> <p><b>IFC:</b></p> <ul style="list-style-type: none"> <li>• Potential logistics/transport support</li> </ul>

<ul style="list-style-type: none"> <li>• Baseline 0 (2018)</li> <li>• Target 3 (2023)</li> </ul>		
<b>Focus Area 2: Foster human development</b>		
<b>CPF Objective 4: Enhance quality and alignment of education with labor demands</b>		
<p><b>Intervention logic:</b> A focus on skills development will be key to move from a low-technology/low-skills economy to one built on knowledge and innovation. Cambodia's recent economic success has been built largely on the expansion of relatively low-technology, low wage/skill production, but its comparative advantage in these industries is being eroded as wages rise. To sustain Cambodia's economic development and enhance its competitiveness, a skilled and productive workforce with better qualifications is essential. While significant support has been provided to improve basic education, Cambodia has an acute need to: enhance the pipeline of students who are prepared to enter higher education (through improved quality in primary education, and both access and quality in secondary education); increase higher education enrollment and quality; and focus particularly on the critical shortages of graduates in Science, Technology, Engineering and Mathematics (STEM). Gaps in higher education achievements are particularly acute; the share of the adult population aged 25 years or more who have completed at least a short cycle tertiary education in Cambodia is a mere 3 percent (2014) while the corresponding figures for Vietnam and Korea are 7 percent (2009) and 35 percent (2010) respectively. The longer-term challenge is to improve education access, quality and learning outcomes at all levels of schooling to build the pipeline for tertiary education and the skilled labor market.</p> <p><b>Going forward, the WBG will focus its efforts on higher education and job skills development.</b> The WB will build on the long-standing engagements and investment support in the education sector, as well as on ASA such as public expenditure review, public expenditure tracking system and jobs diagnostic. The CPF program to build skills relevant to labor market demand will be two-pronged. The first prong will be higher education, particularly in the areas of STEM, agriculture, and health by improving the curriculum (through partnership agreements with international and domestic higher education institutions), upgrading faculty (through mentoring programs), and enhancing research. This will be complemented by sectoral governance reform, including accreditation standards, financial and human resource management, and monitoring of graduates' participation in the labor market. The second prong will be building the pipeline for higher education, by expanding access to secondary education through newly built schools (especially in rural areas) and improving quality through lower secondary teacher upgrading, strengthening school-based management, and improving school facilities. Short, agile learning programs for the adult working population, including a specific focus on assisting poor, vulnerable households, also will be developed to adjust their skills over their work-lives. Specific programs targeted to women, such as training programs and childcare programs, will support female employment. The WB will also seek opportunities to support programs in building skills for the digital economy. Building on successful experience in financing a private vocational training center, IFC will seek future opportunities to engage with the private sector to create skills for modern economy.</p>		
<b>CPF Objective Indicators</b>	<b>Supplementary Progress Indicators</b>	<b>WBG Program</b>

<p>Number of higher education partnership programs evaluated as modest or higher by expert panels (to measure quality)</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target: 30 (2023)</li> </ul> <p>Number of HEIs that complete accreditation process (to measure governance and quality)</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2017)</li> <li>• Target: 25 (2023)</li> </ul> <p>Number of enrolled students in newly built lower secondary schools (gender disaggregated):</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target 5250 (2023)</li> </ul> <p>Number of secondary school teachers who graduate from teacher upgrading program</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target: 2000 (2023)</li> </ul>	<p>Participants receiving skills development training with new and improved employment or increased income</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2017)</li> <li>• Target: 80% (2023)</li> </ul> <p>Number of research projects in collaboration with industry completed (to measure relevance)</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target: 35 (2023)</li> </ul>	<p><b><u>Ongoing engagement:</u></b></p> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• Secondary Education Improvement Project</li> <li>• Higher Education Improvement Project</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• <b>Jobs Diagnostic</b></li> <li>• Improved Employment for Women in Cambodia: Constraints and Opportunities</li> </ul> <p><b>IFC IS:</b></p> <ul style="list-style-type: none"> <li>• ACLEDA Institute of Business Education Project</li> </ul> <p><b><u>New engagement:</u></b></p> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• Cambodia Pre-service training for Health Workers project</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Assessing teacher policy reform progress</li> </ul> <p><b>IFC IS:</b></p> <ul style="list-style-type: none"> <li>• Potential private education/training support</li> </ul>
<p><b>CPF Objective 5: Expand access to quality early childhood services</b></p>		
<p><b><i>Intervention logic:</i></b> Healthy children are Cambodia’s future, but insufficient childhood nutrition and early life deprivation remain major obstacles. The effects of this early life deprivation - poor nutrition, lack of nurturing care, and absence of early stimulation - are present in the majority of Cambodia’s current cohort of young workers. The problem persists with today’s young children, given the high incidence of stunting and late schooling and limited access to early childhood care, particularly for disadvantaged and remote households. Quality child care services are key to improving children’s health and are also important to increase women’s participation in the labor force. However, childcare services are often limited to more affluent urban areas, and only 43.1 percent of three-to-five-year-olds were enrolled in early childhood education during the 2016-17 academic year. In addition, informal caregivers both in urban and rural areas lack important knowledge on nutrition, among other things. Lack of access to improved water and sanitation, in addition to the suboptimal infant feeding practices and low dietary diversity, contributes to poor linear growth and child stunting. The low availability and coverage of nutrition services hampers efforts to reduce child malnutrition. Less than half of pregnant women in remote areas received the recommended dose of iron-folic acid supplementation during pregnancy in 2014, and only an estimated 9 percent of children with acute malnutrition received treatment in 2015.</p>		

The WB has been supporting programs for early childhood care and will expand this support to investments in a “nutrition convergence” approach. Building on previous support for early childhood education, trust fund resources have been provided for the Early Childhood Care and Development (ECCD) for Floating villages project to improve access to quality services through community and home-based programs for 0 to 5-year-olds, particularly for those from disadvantaged backgrounds. The new Cambodia Nutrition Project will aim to improve the availability and quality of nutrition services as well as utilization of a package of evidence-based maternal, infant, and young child nutrition (MIYCN) and health interventions targeted at the first 1,000 days of life. Additional contributions to nutrition will come from the ongoing Water Supply and Sanitation Improvement project, which will prioritize connections to households with children under the age of two, as well as the Agricultural Sector Diversification Project which will provide support to strengthen nutrition-sensitive value chains and the Livelihood Enhancement and Association of the Poor (LEAP) project which will provide training to farmers on nutrition with behavioral change campaign. These projects will contribute to a multi-sectoral nutrition convergence approach and will be complemented by ASA and trust-funded activities aimed at further expansion of early childhood services, including nutrition. Ongoing ASA will assess ways to improve social protection systems, including a conditional cash transfer program to target the first 1,000 days, and supporting the government to conduct an impact evaluation of different modalities to provide early childhood development and care. The planned trust-funded Community-based Child Care for Garment Workers project will ensure that children under care receive nutritious meals and that parents are well educated about nutrition practices.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Proportion of pregnant women in target provinces receiving appropriate micronutrient supplementation</p> <ul style="list-style-type: none"> <li>• Baseline: 80.2 (2017)</li> <li>• Target: 90 (2023)</li> </ul> <p>Proportion of children under 12 months of age immunized for Pentavalent-3 vaccine in target provinces</p> <ul style="list-style-type: none"> <li>• Baseline: 63 (2017)</li> <li>• Target: 70 (2023)</li> </ul> <p>Number of children in floating villages receiving home-based and community-based child care and education:</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2017)</li> <li>• Target: 13,382 (2023)</li> </ul>	<p>Number of communes receiving performance-based grants based on successful delivery of nutrition programs</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target: 200 (2023)</li> </ul> <p>Number of public health providers trained in updated MIYCN package</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target: 250 (2023)</li> </ul> <p>Number of sustainable, community-based child care facilities established for garment factory workers</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target: 20 (2023)</li> </ul>	<p><b><u>Ongoing engagement:</u></b></p> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>• Early Childhood Care and Development for Floating Villages</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Health Programmatic Support</li> <li>• ECE Impact Evaluation</li> <li>• Strengthening Social Protection Systems</li> </ul> <p><b><u>New engagement:</u></b></p> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• Cambodia Nutrition Project</li> </ul> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>• Community-based Child Care for Garment Factory Workers (JSDF)</li> </ul>

<b>CPF Objective 6: Expand access to quality health services</b>		
<p><b>Intervention Logic:</b> Cambodia's public health expenditures are low and improving access to and quality of services is a key priority. Public health expenditure was at 1.3 percent of GDP in 2016 in Cambodia compared to an average of 2.4 percent for LMICs. Out-of-pocket health expenditures as a percent of total health expenditures are significantly higher at 58.6 percent in Cambodia relative to an average 40.8 percent in LMICs in 2016. Access to and quality of health services in Cambodia are suboptimal; challenges in developing the skills and competences of the health workforce, as well as gaps in infrastructure and availability of essential supplies, have undermined the quality of care in many public facilities. Growing burden of non-communicable diseases (NCDs) will require reorienting health systems to increasingly focus on preventive measures. Furthermore, inequities persist in health outcomes by socioeconomic status, geographic areas, and between urban and rural populations. Despite improvements over the last two decades, child mortality in 2014 was 76 deaths per 1,000 live births for the poorest quintile compared to 19 in the wealthiest, which underscores problems in access to and quality of health.</p> <p>The WB will continue supporting the health sector through investments in health workers and health programs. The WB has been supporting and will continue to engage in programs to increase the quality and equity of Cambodia's health services through the Health Equity and Quality Improvement Project (H-EQIP), which has helped accelerate reforms in the health sector, improve social health protection for the poor, expand access to quality and affordable health care services, and create sustainable government institutions for health care management. A proposed project will support pre-service training for health workers, improve the competencies and skills of health workers and improve the regulation of health professionals. In addition, the Cambodia Nutrition Project will provide support to pregnant women and child Health Equity Fund (HEF) beneficiaries. It will also incentivize improvements in the quality of essential maternal and child health and nutrition services in some of the most disadvantaged regions of Cambodia. The WB is also undertaking a multi-year ASA supported by a multi-donor trust fund. The work will continue during the CPF period and will include systematic impact evaluation of performance-based financing to build capacity of domestic institutions for managing HEF and quality enhancement initiatives, and coordination platforms for improved health security and pandemic preparedness.</p>		
<b>CPF Objective Indicators</b>	<b>Supplementary Progress Indicators</b>	<b>WBG Program</b>
<p>Increase in the number of health centers exceeding 60% score on the quality assessment of health facilities</p> <ul style="list-style-type: none"> <li>• Baseline: 49 (2016)</li> <li>• Target: 700 (2023)</li> </ul> <p>Increase in the number of outpatient services (episodes) covered by HEF during the year</p>	<p>Percentage of rural health centers that have implemented community scorecards and service improvement actions agreed with citizens:</p> <ul style="list-style-type: none"> <li>• Baseline: 51 (2018)</li> <li>• Target: 80 (2023)</li> </ul>	<p><b><u>Ongoing engagement:</u></b></p> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>• Voice and Action: Social Accountability for Improved Service Delivery Project</li> </ul> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• Cambodia Health Equity and Quality Improvement Project</li> <li>• H-EQIP Additional Financing</li> </ul>



<ul style="list-style-type: none"> <li>• Baseline: 2.6 million (2015)</li> <li>• Target: 3.1 million (2023)</li> </ul> <p>Decrease in the share of households that experience impoverishing health spending during the year (percentage)</p> <ul style="list-style-type: none"> <li>• Baseline: 0.9 (2014)</li> <li>• Target: 0.7 (2023)</li> </ul>	<p>People who have received essential health, nutrition and population services (gender disaggregated):</p> <ul style="list-style-type: none"> <li>• Baseline: 13,221,685 (2017)</li> <li>• Target: 16,000,000 (2023)</li> </ul>	<p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Health Programmatic Support</li> </ul> <p><b><u>New engagement:</u></b></p> <p><b>TF:</b></p> <ul style="list-style-type: none"> <li>• Cambodia Social Accountability and Subnational Governance MDTF</li> </ul> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• Cambodia Pre-service Training for Health Workers project</li> <li>• Health sector project (TBC)</li> </ul>
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### Focus Area 3: Improve Agriculture and Strengthen Sustainable Use of Natural Resources

#### CPF Objective 7: Strengthen management of water and land use

**Intervention Logic:** Better planning for conservation and investment in water, land and natural resource management are key to Cambodia's future. Cambodia is home to two great ecosystems--the Tonle Sap Lake and the Mekong River - and has considerable land and forestry resources. Yet, pressure on Cambodia's natural resources is growing and threatening the long-term sustainability of these natural assets. The country's water resources, land, and forest have been degraded significantly due to poorly-managed hydropower development, poor practices, uninformed decision-making, and limited investments in sustainable management. Climate change – coupled with natural resource degradation, deficient natural resource management, and unplanned urbanization – could have a significant impact on growth. Addressing Cambodia's environmental challenges requires a spatially integrated approach, which considers managing and restoring degraded land and water-based assets, addressing emerging challenges in urban areas such as drainage and sewage systems, wastewater treatment, and solid waste management, and investing in supporting infrastructure to maximize the sustainable economic contribution of natural wealth assets.

The WBG's current and future engagements aim to identify and promote improved natural resource management, particularly water and landscapes. Support has been provided for the development of a Forest Investment Plan, and the Mekong Integrated Water Resources Management project focuses on establishing the foundation for effective water resource and fisheries management in Cambodia's northeast territory. The forthcoming Sustainable Landscape and Ecotourism project will use landscape management and support community livelihoods in critical value chains and eco-tourism to help transform natural resources management, reverse land and forest degradation and increase the economic returns from the natural capital in the Cardamom Mountain and Tonle Sap areas. Considerable resources will also be devoted to an environmental programmatic ASA with pillars on climate resiliency, landscape management, pollution management and marine (blue) economy, including coastal zone protection. A Plastic Action Plan will be developed to identify priority activities for improving plastic management and enforcement capacity. In addition, the proposed Urban Development

Project will focus on improving urban planning and investing in infrastructure and systems to improve service delivery and mitigate environmental degradation in Cambodia's growing urban areas. Building on Cambodia's Nationally Determined Contribution, Climate Change Strategic Plan (2014-23) and the National Adaptation Plan, WB support includes efforts encompassing both adaptation and mitigation, including exploring areas related to green climate funds. During the CPF period, IFC will seek to expand successful regional green buildings and manufacturing resource efficiency efforts to Cambodia.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Area (ha) brought under sustainable landscape management plans</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2017)</li> <li>• Target: 300,000 (2023)</li> </ul> <p>Hydro-meteorological monitoring stations newly established or improved and functioning in the Mekong River Sub-Basins</p> <ul style="list-style-type: none"> <li>• Baseline: 0 stations (2016)</li> <li>• Target: 25 provinces (2023)</li> </ul>	<p>Number of stakeholders who have increased knowledge, skills and capacities on how to develop and implement sustainable landscape management, using an integrated approach across a watershed.</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target: 150 (2023)</li> </ul> <p>Water resources management models and information systems developed by 2023 (Yes/No)</p>	<p><b><u>Ongoing engagement:</u></b></p> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• Mekong Integrated Water Resources Management - Phase III</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Environmental and Social performance and Country Systems Assessment</li> <li>• ENR Programmatic ASA with pillars on climate resilience, landscape management, pollution management, E&amp;S capacity strengthening</li> </ul> <p><b><u>New engagement:</u></b></p> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• Sustainable Landscape and Ecotourism Project</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Mekong Delta water resource management transboundary ASA</li> <li>• Plastic Action Plan</li> </ul>

#### CPF Objective 8: Improve agricultural productivity and diversification

**Intervention logic:** Cambodia needs to modernize its agricultural sector and reverse lackluster growth in agricultural production. Cambodia's population remains predominantly rural, with heavy reliance on agriculture for income and employment. Concerns have intensified about the sector's underlying strength and competitiveness, its poorly performing irrigation systems, and particularly its over-reliance on rice production which hampers competitiveness of small farms and firms. With greater crop diversification and improved value-chain linkages, Cambodia can extend agri-business

beyond rice, for example in cashew nut or fruits and vegetables. Developing processing capacities will also help link Cambodia to broader export markets. Together these efforts can help reposition Cambodian agriculture and enable agriculture businesses and farms to be competitive in the future. Many Cambodian producers lack the knowledge and skills to successfully diversify and commercialize their agricultural output, and financial services and public infrastructure remain inadequate. While the diversity of actors along the supply chain (farmers, small and medium sized agribusinesses, producer organizations) has increased over the years, support has been provided in a top-down fashion, and government needs to shift into a more facilitating and regulating role while unleashing private sector.

The WBG has supported the agricultural sector over many years and will continue support aimed at greater diversification and increased productivity. Ongoing engagement through Land Allocation for Social and Economic Development and Livelihood Enhancement and Association of the Poor projects provides support for rural livelihood enhancement, focusing on productivity of small-scale household farming, and has supported efforts to improve land allocation for social and economic development, development of an agricultural strategy, as well as rice and agribusiness investments. WB support will be extended to facilitate development of diversified agriculture value chains in selected geographical areas in Cambodia, supporting rural poor by enhancing access to finance, technical advice, market information and infrastructure to ease access to markets and enhance productivity. The Agriculture Sector Diversification Project will facilitate diversification into higher value agriculture products and enhance productivity, resilience and market access of farmers and agribusinesses. It will finance direct credit lines to farmers as well as priority rural infrastructure investments directly related to agriculture production and sales. Cambodia's agriculture is defined as one of the sectors most affected by and vulnerable to climate change, and the project provides a framework to achieve some of the NDC commitments. The project will also promote investments, both private and public, that will decrease vulnerability to climate variability and mitigate emissions through high yield crop varieties, carbon sequestration species and cropping patterns, and sustainable water management practices. An ASA on Agriculture Sector Strategy will help Government in developing a medium-term sector development strategy. This will be complemented by IFC efforts to seek opportunities to foster partnerships and forge stronger linkages between small landholders and large-scale agricultural farms and corporations to further develop agro-processing. IFC will continue supporting Cambodia in the development of its cassava and pepper production and will potentially expand efforts in the rice sector to include increased internal partnerships with local firms to develop a sustainable, traceable, and inclusive rice supply chain by scaling up the adoption of Sustainable Rice Platform standard.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Increase in the value of gross sales at benefitting farms:</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target: 15% (2023)</li> </ul> <p>Share of non-rice production area of participating farmers:</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target: 45% (2023)</li> </ul>	<p>Number of farmers adopting good agricultural practices (GAP)</p> <ul style="list-style-type: none"> <li>• Baseline: 10% (2019)</li> <li>• Target: 70% (2022)</li> </ul> <p>Self-Help Groups (SHGs) supported:</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2017)</li> <li>• Target: 1250 (2022)</li> </ul>	<p><b><u>Ongoing engagement:</u></b></p> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• Livelihood Enhancement and Association of the Poor Project</li> <li>• Land Allocation for Social and Economic Development project</li> <li>• Cambodia Agricultural Sector Diversification Project</li> </ul> <p><b>IFC AS:</b></p>

<p>Increase in the value of gross sales at benefiting agribusinesses:</p> <ul style="list-style-type: none"> <li>• Baseline: 0 (2018)</li> <li>• Target: 15% (2023)</li> </ul>		<ul style="list-style-type: none"> <li>• Cambodia Agribusiness project, including rice sector</li> <li>• Sustainable Rice Platform</li> </ul> <p><b>ASA:</b></p> <ul style="list-style-type: none"> <li>• Agriculture_Sector ASA/TA</li> </ul> <p><b><u>New engagement:</u></b></p> <p><b>WB Lending:</b></p> <ul style="list-style-type: none"> <li>• AF Land Allocation for Social and Economic Development project</li> </ul> <p><b>IFC AS:</b></p> <ul style="list-style-type: none"> <li>• Continued efforts in rice, pepper and/or cassava including supply chain</li> </ul> <p><b>IFC IS:</b></p> <ul style="list-style-type: none"> <li>• Potential agriculture investments</li> </ul>
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## ANNEX 2: Summary of Stakeholder Consultations

- 1. Stakeholder consultations were held at each stage of Country Partnership Framework (CPF) development.** Nine consultation meetings were held in November and December 2016 for the Systematic Country Diagnostic (SCD) at the national and subnational levels with elected officials, private sector representatives, development partners, civil society organizations, and the National Assembly. 375 people participated in face-to-face consultations, and 1100 postcards with feedback were received from the general public. These SCD consultations provided a strong background for beginning to develop the CPF. In September 2018, the WBG also conducted the Cambodia Opinion Survey. The Survey results reflected that overall perceptions of the WBG are positive and the WBG is viewed as a reliable, respectful and collaborative long-term development partner. Stakeholders pointed to financial resources and policy advice as the WBG's greatest value to Cambodia and noted the institution's comparative advantage in leading donor work to support areas related to governance such as public financial management and the capacity of state institutions. These survey findings suggest that stakeholders consider education, skills, governance, jobs and agriculture as the top development priorities for the WBG support. The findings of this survey were also used as inputs for the CPF design.
- 2. Additional stakeholder consultations specifically for the CPF were held in January and February 2019.** Extensive public engagement with stakeholders was undertaken through face-to-face meetings and an online survey. Face-to-face consultations engaged 195 participants from central and subnational Government officials, parliamentarians, academia, private sector representatives, development partners, and civil society organizations. The focus areas proposed for WBG support in the draft CPF were endorsed by participants as reflective of many of the remaining development challenges in Cambodia. Key themes raised by stakeholders included building human capital, social protection, improved public sector management and service delivery, digital economy, agriculture and sustainable rural development, and strengthening of the private sector. The knowledge services provided by the WBG were widely recognized.
- 3. The January 18, 2019 consultation meeting with Ministry of Economy and Finance (MEF) highlighted the important focus areas of human capital, public sector capacity building, digital economy, and Public-Private Partnerships.** MEF participants emphasized the importance of the World Bank's knowledge services, including introducing new frameworks and systems through its operations. They appreciate sharing of World Bank experience related to future development and economic trends. The WB was encouraged to include ICT in operations to facilitate more advanced growth of Cambodia's economy. Furthermore, the Ministry of Economy and Finance suggested to continue engaging private sector to support government's PPP strategy. Participants encouraged the World Bank to further explore issues of debt management strategy, remittances, and overseas jobs.
- 4. Participants from the National Assembly, line ministries, and National Committees agreed that the CPF's focus areas are adequate in the current country context.** They also highlighted rural infrastructure, digital economy, social protection, climate change, gender, and Small and Medium Enterprises (SMEs) as the priority development areas. Several participants suggested that the World Bank should ensure strong gender focus in all projects. Additional suggestions emphasized the need to continue supporting higher education, capacity building of civil servants, public administration, public financial management, and the business environment. Rural development, environmental protection, and agriculture were also mentioned.
- 5. Stakeholders from the subnational government expressed appreciation of the ongoing World Bank engagement in education, health, and skills development and urged the World Bank to continue**

**supporting these key sectors.** At the consultation meeting, participants highlighted additional priority areas for development, including capacity building, strengthening public service delivery, natural resource management, water management, rural infrastructure, and agriculture. In the agriculture sector, they suggested the World Bank should support improved irrigation to allow for year-round cropping, diversification, improved techniques, and commercialization.

6. **Social protection, environment, agriculture, accountability and governance were the top priorities raised by the Development Partners.** They encouraged the World Bank to engage in social protection, given its international experience. Many development partners would like to better link social protection to human capital, economic growth and mitigation of economic risks. In the areas of governance, they appreciated the World Bank's work on public financial management and accountability, particularly related to procurement and transparency and they encouraged the World Bank to explore innovation and digital economy. In natural resource management, they suggested to link with community development and sustainable growth, as there are still good ecotourism opportunities.
7. **Human capital and social protection were raised as a priority for the World Bank support from many stakeholders from civil society organizations.** CSOs requested the World Bank to study issues related to migration, as this is an ongoing challenge resulting in insufficient labor and skills to advance Cambodia's development. They also asked the World Bank to ensure inclusion of the most vulnerable people: people with disabilities, LGBT, children, women and indigenous people. Participants appreciated World Bank engagement in human capital and suggested to continue investing in all levels of education. In governance, participants supported the World Bank's selection of CPF focus area 1 and suggested further allocation of funding to support good governance and social accountability. This could include improving capacity of public sector and supporting civil service reform. They also commented that the World Bank could finance less infrastructure and focus on other priorities, as Cambodia is able to access financing for infrastructure from other lenders.
8. **Improving logistics, agriculture, the financial sector, and skills development were the topics raised by the private sector stakeholders.** Private sector representatives requested the World Bank to support reduction of logistics costs to improve investors' confidence through law enforcement, predictability and transparency. In agriculture, they want the World Bank Group to support farmers to transform themselves to be agri-entrepreneurs and to support diversification to higher value agriculture products. Private sector participants would appreciate the World Bank support to increase agro-processing efficiency through establishment of agro-processing centers, agriculture land zoning and tax incentives, and improving connectivity.
9. **Between January 21 and February 8, 2019, an online survey was posted on the World Bank's website.** However, only 18 people responded (11 in English and 7 in Khmer). The survey asked to identify areas where the World Bank Group can have the most impact on development results in Cambodia. The top three priorities were: creating jobs, improving education quality, and social protection and safety nets. These were followed by access to finance, reducing poverty and inequality, improving public service delivery, agriculture and food security. The next question examined respondents' views on what could contribute to the efficiency of the government to deliver services to citizens and boost private sector development. Top responses included providing support for small and medium enterprises, advancing public administration reform and strengthening public service delivery, expanding and improving sustainable infrastructure services, advancing decentralization and strengthening local government capacity, and increasing financial inclusion, especially for women. The subsequent questions examined participants' views on the priority actions that could contribute most to selected sectors:

- a. **Improving Education:** roll out decentralization to build greater management autonomy at provincial, district and school level, develop sustainable policies to modernize education sector management, improve equitable access and quality of education to address late school entry and reduce early school drop-out rates, and provide lifelong learning opportunities for teachers.
- b. **Improving Health:** enhance knowledge and competencies of health professionals, eliminate fake/substandard drugs, and allocate more qualified staff to sub-national level, particularly remote health as topics that need support to improve health services.
- c. **Improving Agriculture:** promote farmers' organizations, support small-scale farmers to enhance productivity and access to markets for increased income, and better access to irrigation.
- d. **Improving natural resources:** strengthen community-based groups that are managing natural resources such as fisheries, forestry and agriculture, improve natural resources management, embed climate change adaptation/mitigation measures across development policies, optimize water resources use and mobilize non-conventional water resources.
- e. **Improving governance, strengthening institution and promoting citizen engagement:** encourage more partnership between government, civil society and the private sector in delivery of services, strengthen systems for public service providers to respond to citizen feedback on service quality, give more voice to citizens in the design and delivery of government programs, and transfer responsibilities from national to subnational level to enhance responsiveness to citizens.

**External Stakeholders:**

*Ministry of Economy and Finance:* 5 representatives from the Ministry of Economy and Finance

*National Assembly and Government:* 57 representatives from two National Assembly Commissions, line ministries of the Royal Government of Cambodia, and national committees

*Subnational government:* 57 representatives from provinces, cities, districts, and communes/Sangkats

*Development Partners:* 25 Development Partners, including representatives from the Asian Development Bank, AFD, EU, IMF, JICA, KfW, DFAT, Sweden, ILO, UNDP, UNICRF, UNIDO, UNOPs, UNRCO, WFP, WHO, USAID.

*Private Sector:* 10 representatives from the private sector, including AMK, Amru Rice, Bayon Cereal, ACLEDA Bank, CAFFFA, Agri-Master Co., Ltd, Maersk, HKL, CAMFEBA/GMAC

*Civil Society:* 41 representatives from civil society, selected by three main NGO networks—NGO Forum on Cambodia, Cooperation Committee for Cambodia (CCC), and Khmer Youth Association

**Online:** Outreach to public through WB website

### ANNEX 3: Donor Coordination Matrix

CPF Focus Area	Sectors	ADB	Australia	China	EU	FAO	France	Germany	IFAD	Japan	Korea	UNDP	UNICEF	UNIDO	USA
<b>Focus Area 1: Promote State Efficiency and Booth Private Sector Development</b>	Transportation	x	x	x						x	x				
	Water and Sanitation	x	x	x	x		x	x		x	x				x
	Urban Planning and Management	x	x		x					x					
	Industrialization and Trade						x	x		x	x	x		x	x
	Business and Financial Services	x			x		x	x		x	x				x
	Public Financial Management	x	x		x		x	x		x		x			x
<b>Focus Area 2: Fostering Human Development</b>	Basic/Primary Education	x			x					x	x				x
	Secondary Education	x								x					
	TVET	x					x			x					
	Higher Education		x				x			x	x				
	Health	x	x	x	x		x	x		x	x		x		x
<b>Focus Area 3: Improve Agriculture and Strengthen Sustainable Use of Natural Resource</b>	Agriculture	x	x	x	x	x	x	x	x	x	x				x
	Environment and Sustainability	x			x	x	x	x		x	x	x		x	x
	Energy, Power & Electricity	x	x	x	x			x		x	x				x



**ANNEX 4: Cambodia Country Gender Action Plan - Summary Table (2019-2020)**

Link to SCD Pathways	Link to CPF Focus Areas	CGAP Priorities	Primary Causes	Intervention by the WBG	World Bank Group Program	CGAP Output/Outcome Indicator
<b>Increasing economic competitiveness and diversification to sustain strong growth and create jobs</b>	<b>Promote State Efficiency and Boost Private Sector Development</b>	<b>Access to Economic Opportunities:</b>  Access to land as a driver of poverty reduction included for female-headed households  Reduce trade-offs between household and market roles for women  Remove barriers to women's productivity	<ul style="list-style-type: none"> <li>- Gendered impact of climate change on business growth</li> <li>- Limited opportunities for formal sector work;</li> <li>- Access to land and credit;</li> <li>- Low agriculture productivity</li> <li>- Limited access to training opportunities</li> <li>- Limited women's voice and representation</li> <li>- Remote rural communities with limited access to services</li> </ul>	<ul style="list-style-type: none"> <li>- Addressing ownership of, resources among women engaged in subsistence agriculture and rural livelihoods;</li> </ul>	<ul style="list-style-type: none"> <li>- Land Allocation for Social and Economic Development Project II</li> </ul>	<ul style="list-style-type: none"> <li>- Increase number of (female) clients who have adopted an improved agriculture technology promoted by the project</li> </ul>
				<ul style="list-style-type: none"> <li>- Prioritization of female-headed households for the provision of land titles and provides gender-sensitive agriculture and livestock extension services.</li> <li>- Participation of women in road works, and promotion of the equitable participation of women in skilled and non-skilled positions</li> </ul>	<ul style="list-style-type: none"> <li>- Land Allocation for Social and Economic Development Project II</li> <li>- KH-Road Asset Management Project II Additional Financing (RAMP II AF)</li> <li>- Livelihood Enhancement and Association of the Poor Project (LEAP)</li> </ul>	<ul style="list-style-type: none"> <li>- Targeted clients satisfied with agricultural services - female (number)</li> <li>- Percentage of women employed by contractors;</li> <li>- Participants receiving skills development training with new or improved employment or increased income (percentage)</li> </ul>

		<b>Agency:</b> Increasing women's active participation and voice in decision-making at the commune and at the local level	<ul style="list-style-type: none"> <li>- Culture, gender norms and social attitudes</li> <li>- Low representation at commune provincial and local levels</li> </ul>	<ul style="list-style-type: none"> <li>- Equal role and voice in the management of Community Fishery Organizations (CFO), through the development of Gender Action Plans for each CFO.</li> <li>- Promotion of women's equal role and voice in CFis and their committees</li> <li>- Increase focus on prevention of Gender Based Violence (GBV) and Violence Against Children (VAC)</li> </ul>	<ul style="list-style-type: none"> <li>- Voice and Action: Social Accountability for Improved Service Delivery Project</li> <li>- Mekong Integrated Water Resources Management Project - Phase III</li> <li>- KH-Road Asset Management Project II Additional Financing (RAMP II AF)</li> </ul>	<ul style="list-style-type: none"> <li>- Percentage of women participating in SAF process in target areas reporting that their voice in local service delivery has been strengthened</li> <li>- Number of approved CFi Fisheries Management Plans with Gender Action Plans.</li> <li>- Personnel trained in GBV and VAC</li> </ul>
<b>Building human assets to facilitate economic mobility and shared prosperity</b>	<b>Foster Human Development</b>	<b>Endowments:</b>  Access to maternal and reproductive health services for women,	<ul style="list-style-type: none"> <li>- Inadequate access to services in rural areas</li> <li>- Unmet demand for family planning</li> </ul>	<ul style="list-style-type: none"> <li>- Expanding access of poor households to health care, in particular women-headed households</li> </ul>	<ul style="list-style-type: none"> <li>- Health Equity and Quality Improvement Project</li> </ul>	<ul style="list-style-type: none"> <li>- Increase in number of females who have received essential health, nutrition, and population (HNP) services; increase in number of women</li> </ul>

		including elder women, lesbian and transgender, and linkages to nutrition and employment	- Inadequate levels of maternal and child nutrition			screened for cervical cancer screening with VIA;
<b>Ensuring a sustainable growth pattern by investing in natural capital, climate resilience, and sustainable urban development.</b>	<b>Improve Agriculture and Sustainable Use of Natural Resources</b>	<b>Risks:</b> Vulnerability to emerging risks and low benefit sharing from natural resources management	- Natural disasters - Migration - Low participation of women in climate change adaptation and mitigation program and decision-making	- Beneficiaries' exposure to disaster and climate risks, in particular droughts and flooding mitigated through water management and irrigation investments	- Land Allocation for Social and Economic Development Project II  - Cambodia Southeast Asia Disaster Risk Management Project	- Project beneficiaries – male and female (number) (number, core supplement)  - Proportion of beneficiaries (of which are women) satisfied with road condition, safety, and climate resilience of rehabilitated and maintained roads

## ANNEX 5: Selected Indicators of World Bank Portfolio Performance and Management\*

Indicator	FY16	FY17	FY18	FY19
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	5.0	8.0	8.0	11.0
Average Implementation Period (years) <sup>b</sup>	1.3	1.5	1.6	1.7
Percent of Problem Projects by Number <sup>a, c</sup>	0.0	0.0	0.0	9.1
Percent of Problem Projects by Amount <sup>a, c</sup>	0.0	0.0	0.0	3.3
Percent of Projects at Risk by Number <sup>a, d</sup>	0.0	12.5	0.0	9.1
Percent of Projects at Risk by Amount <sup>a, d</sup>	0.0	22.0	0.0	3.3
Disbursement Ratio (%) <sup>e</sup>	75.2	7.2	7.8	10.4
<b>Portfolio Management</b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by IEG by Number	41	9
Proj Eval by IEG by Amt (US\$ millions)	819.4	149.0
% of IEG Projects Rated U or HU by Number	25.0	0.0
% of IEG Projects Rated U or HU by Amt	13.9	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

\* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

## ANNEX 6: Operations Portfolio (IBRD/IDA and Grants)

**Closed Projects** **39**

**IBRD/IDA\***

Total Disbursed (Active)	69.96
of which has been repaid(1)	0.00
Total Disbursed (Closed)	819.61
of which has been repaid	136.61
Total Disbursed (Active + Closed)	889.57
of which has been repaid	136.61
Total Undisbursed (Active)	535.89
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	535.8928367

<u>Active Projects</u>		<u>Last PSR</u>								Difference Between Expected and Actual Disbursements <sup>a/</sup>	
Project ID	Project Name	Supervision Rating		Fiscal Year	Original Amount in US\$ Millions				Undisb.	Orig.	Frm Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>		IBRD	IDA	Grants	Cancel.			
P163264	Cambodia Agricultural Diversification	#	#	2019	0.0	91.7		0.0	91.1	0.4	0.0
P162971	Cambodia HEIP	S	S	2018	0.0	90.0		0.0	79.3	-1.0	-1.8
P162675	Cambodia Nutrition Project	#	#	2019	0.0	15.0		0.0	15.0	0.0	0.0
P160929	Cambodia Southeast Asia DRM Project	MS	MS	2017	0.0	60.0		0.0	59.8	0.9	0.1
P157858	Secondary Education Improvement Project	S	S	2017	0.0	40.0		0.0	19.2	-0.1	4.6
P150631	KH-LASED II (P150631)	S	S	2016	0.0	25.1		0.0	16.3	-2.6	-0.6
P150572	KH - Road Asset Management Project II	S	S	2016	0.0	170.0		0.0	150.4	-3.6	2.9
P153591	Livelihood Enhancement & Association of	MU	MU	2017	0.0	20.2		0.0	19.4	6.5	0.0
P148647	Mekong IWRM Project- Phase III	S	MS	2016	0.0	15.0		0.0	11.1	1.4	0.3
P157291	P157291 H-EQIP	S	MS	2016	0.0	30.0		0.0	19.8	34.2	28.9
P163876	Water Supply and Sanitation Improvement	#	#	2019	0.0	55.0		0.0	54.6	0.1	0.0
Overall Result					0.0	611.9		0.0	535.9	36.2	34.4

\* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

**ANNEX 7: Statement of IFC's Held and Disbursement Portfolio (In USD Millions)**

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
FY17	ABA BANK	2.89	0.00	0.00	0.00	2.11	2.89	0.00	0.00	0.00	2.11
FY13	ACLEDA BANK	0.00	0.00	0.00	0.60	0.00	0.00	0.00	0.00	0.60	0.00
FY15	ACLEDA BANK	13.33	0.00	0.00	2.50	10.00	13.33	0.00	0.00	1.65	10.00
FY16	ACLEDA BANK	53.81	0.00	0.00	0.00	78.57	53.81	0.00	0.00	0.00	78.57
FY17	ACLEDA BANK	0.00	0.00	0.00	5.43	0.00	0.00	0.00	0.00	3.75	0.00
FY18	ACLEDA BANK	0.00	0.00	0.00	6.41	0.00	0.00	0.00	0.00	1.74	0.00
FY16	ACLEDA TC	13.00	0.00	0.00	0.00	0.00	13.00	0.00	0.00	0.00	0.00
FY14	AMRET	4.29	17.31	0.00	0.00	0.00	4.29	17.31	0.00	0.00	0.00
FY16	AMRET	6.67	0.00	0.00	0.00	0.00	6.67	0.00	0.00	0.00	0.00
FY18	AMRET	10.00	0.00	0.00	0.00	60.00	10.00	0.00	0.00	0.00	35.00
FY18	BRED CAMBODIA	0.00	13.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FY16	HKL	14.29	0.00	0.00	0.00	20.29	14.29	0.00	0.00	0.00	20.29
FY17	HKL	5.00	0.00	0.00	0.00	0.00	5.00	0.00	0.00	0.00	0.00
FY18	HKL	19.83	0.00	0.00	0.00	55.00	19.83	0.00	0.00	0.00	55.00
FY12	PRASAC MFI	0.56	0.00	0.00	0.00	0.00	0.56	0.00	0.00	0.00	0.00
FY13	PRASAC MFI	0.00	0.00	3.00	0.00	0.00	0.00	0.00	3.00	0.00	0.00
FY15	PRASAC MFI	3.33	0.00	0.00	1.00	3.33	3.33	0.00	0.00	0.04	3.33
FY16	PRASAC MFI	13.33	0.00	0.00	0.00	0.00	13.33	0.00	0.00	0.00	0.00
<b>Total Portfolio:</b>		<b>160.33</b>	<b>30.81</b>	<b>3.00</b>	<b>15.94</b>	<b>229.30</b>	<b>160.33</b>	<b>17.31</b>	<b>3.00</b>	<b>7.78</b>	<b>204.30</b>

## ANNEX 8: Cambodia Map

