



Cambodia

An IEG Country Assistance Evaluation
1999–2006



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Abbreviations

AAA	Analytical and advisory assistance
ADB	Asian Development Bank
CAE	Country assistance evaluation
CAS	Country assistance strategy
CESSP	Cambodia Education Sector Support Project
CG	Consultative Group
CSES	Cambodia Socio-Economic Survey
DFID	Department for International Development (UK)
DHS	Demographic and Health Survey
EDC	Électricité du Cambodge
ESP	Education Strategic Plan
GDP	Gross domestic product
GNI	Gross national income
HSSP	Health Sector Support Project
IDA	International Development Association
IEG	Independent Evaluation Group
IFAPER	Integrated Fiduciary Assessment and Public Expenditure Review
IICCR	Institutional Investor Country Credit Rating
IMF	International Monetary Fund
INT	Department of Institutional Integrity
LJR	Legal and judicial reform
MEF	Ministry of Economy and Finance
MPDF	Mekong Private Sector Development Facility
NGO	Nongovernmental organization
NIS	National Institute of Statistics
NPRS	National poverty reduction strategy
NRM	Natural resource management
NSDP	National strategic development plan
PER	Public expenditure review
PFM	Public financial management
PFMRP	Public financial management reform program
PIU	Project Implementation Unit
PPAR	Project Performance Assessment Report
PRGO	Poverty Reduction and Growth Operation
PSD	Private Sector Development
SAC	Structural Adjustment Credit
SME	Small and medium enterprise
TA	Technical assistance
TWG	Technical working group
UNDP	United Nations Development Programme



Making artificial legs in a factory at the Veterans International Center, Cambodia.
Photo by Masaru Goto, courtesy of the World Bank Photo Library.

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A boy sits at a desk working on a computer, Cambodia. Photo by Masaru Goto, courtesy of the World Bank Photo Library.

Foreword

Following more than three decades of conflict beginning in the 1960s, Cambodia, by the early 1990s, had become one of the poorest of developing countries. Social indicators were below those of other low-income countries and far below Cambodia's Southeast Asian neighbors. Following the 1991 peace treaty and United Nations intervention, the newly installed coalition government was struggling to rebuild social and economic institutions and physical infrastructure. Despite these positive steps, low-level conflict persisted through much of the 1990s, and political stability was not fully established until after the second national elections in 1998. Allowance must be made for this troubled past in assessing Cambodia's recent accomplishments.

Cambodia joined the World Bank in 1970 but did not borrow from the International Development Association (IDA) until fiscal year 1994. A previous country assistance evaluation (CAE) covered the Bank's activities during fiscal years 1994–98. This CAE reviews results of the Bank's assistance program from fiscal 1999 through the end of 2006. During this period the Bank's support focused on governance reforms, maintained macroeconomic stability, and sustained economic growth, private sector development, rural development and sustainable natural resource management, improvement and expansion in health and education services, and investment in infrastructure. These objectives were consistent with the government's own development goals. However, Cambodia did not receive adequate attention in the early years of Bank engagement because the Bank did not build up a critical mass of staff in the field office until 2003.

Governance reforms have been a key focus of Bank activity during the CAE period. However, Bank-government relations have been adversely affected by events resulting from weak governance, such as what was found by the Inspection Panel and Department of Institutional Integrity investigations—the latter leading to findings of misprocurement in several projects, credit suspensions, cancellation and repayment of IDA funds, and sanctions. The government expressed dissatisfaction with the follow-up to these Bank actions. However, these issues are being resolved. The government has taken remedial actions required by the Bank and suspensions have been lifted. The Bank and government have also agreed that the government will employ an independent agent to handle all procurement in Bank projects. The Bank has also adopted a more focused and selective approach to governance reforms.

In contrast to these negative aspects, donor support for Cambodia has remained strong; the country has received over US\$5 billion in highly concessional aid since 1994. The economy has grown at over 9 percent per year since 1998, led by the garment manufacturing and tourism sectors, and poverty incidence has been reduced significantly. Bank support has led to substantial progress in poverty analysis and poverty reduction, health and education, urban and rural infrastructure, and public financial management. However, the results of the Bank's interventions in agriculture, rural development, and natural resource management have been weaker. The Bank should continue to support the government's programs in these areas.



A rice field in a rural area of Cambodia.

Photo by Masaru Goto, courtesy of the World Bank Photo Library.

Preface

This country assistance evaluation (CAE) examines World Bank assistance to Cambodia from fiscal year 1999 to the end of calendar year 2006. It analyzes the objectives and content of the Bank's assistance program during this period, the outcomes in terms of economic and social development, and the contributions of the Bank and other development partners to these outcomes. The report is based on a review of project files, economic and sector reports, implementation completion reports (ICRs), Project Performance Assessment Reports (PPARs), other IEG evaluations, Quality Assurance Group (QAG) ratings of quality-at-entry and supervision for Cambodia projects and economic and sector reports, and interviews with Bank staff. The CAE also incorporates work on background papers on macroeconomic management, public sector management and

governance, poverty alleviation, progress in the social sectors, agriculture, rural development and natural resource management, private sector development, and infrastructure. The CAE team visited Bangkok in January 2007 and Cambodia in February 2007 for interviews with Cambodian government officials, representatives of other development partners, the private sector, nongovernmental organizations, and Bank staff in the two field offices responsible for the Cambodia program. A list of people interviewed is provided in appendix C. Their assistance is gratefully acknowledged.

Comments received from the Bank's Regional Management have been incorporated into the report. The report was also sent to the Cambodian government authorities, whose comments are reflected in the report.



A handicapped boy plays with his wheelchair in a rehabilitation center, Cambodia. Photo by Masaru Goto, courtesy of the World Bank Photo Library.

Cambodia: Summary of Bank Program Outcome Ratings

Bank Strategic Goals ^a	Achievement of Associated Country Assistance Strategy (CAS) Outcomes or Results	Bank Program Outcome Ratings ^b
1. Macroeconomic stabilization, economic growth and poverty reduction		Moderately satisfactory
Public financial management reform	After limited results over many years, substantial progress is now being made in public financial management. The ratio of public spending on health, education, and rural development to GDP, a key objective of the Structural Adjustment Credit (SAC), doubled during 1998–2006. Revenue increased with introduction of a value-added tax but fell short of Bank and IMF targets.	Moderately satisfactory
Improved environment for private sector development	Growth is narrowly based on foreign investment in the garment industry, with limited spread effects to other sectors. Modest progress has been achieved in reforming the regulatory regime but Cambodia is still ranked among the least competitive in the region. Corruption is the major constraint. The Bank has produced relevant economic and sector work and policy advice but has had limited impact on improving the competitive environment. Some progress has been made in trade reform but key measures proposed by the Bank have not been adopted by government.	Moderately unsatisfactory
Sustained economic growth	Bank lending, economic and sector work and policy advice have contributed significantly to macroeconomic stability and other preconditions for sustained growth. Economic growth averaged over 9.5 percent per year during CAE period, exceeding SAC target and 2000 CAS projections.	Satisfactory
Poverty reduction	Poverty incidence fell from 47 percent in 1994 to 35 percent in 2004, a faster rate of decline than targeted in 2003 National Poverty Reduction Strategy, driven by GDP per-capita growth of 5.7 percent per year in this period. The poor have also benefited from pro-poor expenditures in the social sectors. Continued high growth has undoubtedly further reduced poverty since 2004 but incidence remains relatively high and concentrated in rural areas.	Moderately satisfactory

(continued on next page)

Bank Strategic Goals ^a	Achievement of Associated Country Assistance Strategy (CAS) Outcomes or Results	Bank Program Outcome Ratings ^b
2. Improved delivery of social services		Satisfactory
Improve access and quality of education services	Education sector indicators have improved significantly, including access for the poor, girls, and in remote regions. Public spending on education has risen sharply. Net primary enrollment rate rose from 78 percent to 91 percent, and lower secondary enrollment from 16 percent to 31 percent between 1997/98 and 2005/06, faster than CAS targets. Bank is supporting quality enhancement programs and learning assessments to measure quality and efficiency.	Satisfactory
Improve access and quality of health services	Most health indicators have improved significantly, with infant mortality falling from 89 in 1998 to 66 in 2005, more rapidly than targeted in CAS. Health service access has improved for the poor and in remote regions and the cost burden for the poor has been reduced.	Satisfactory
3. Agriculture, rural development, and natural resource management		Moderately unsatisfactory
Improve agricultural productivity and farmer incomes, support rural development	While Bank support for rural infrastructure development has had a positive impact and a Bank operation supporting the government's land titling program (a high-priority initiative) is making good progress toward the target of 1 million titles by end-2007, other Bank lending and analytical work has not addressed other key constraints to rural development and has had limited impact on agricultural service delivery and farm-level productivity.	Moderately unsatisfactory
Support reforms in management of natural resources	Management and protection of biodiverse areas is being effectively supported by a Bank project. However, the Bank's efforts to support reform of the forest concession system, which threatened total loss of Cambodia's timber resources, has not resolved the problem and resulted in civil society protests and an Inspection Panel investigation, which faulted the Bank on application of safeguards.	Moderately unsatisfactory
4. Support infrastructure rehabilitation, reconstruction, and expansion	Initial Bank projects in urban water and power supported major expansion of systems and improved operational performance with outcomes rated <i>satisfactory</i> to <i>highly satisfactory</i> . The Bank has also assisted government in development of a regulatory framework for private investment in power and water. The outcome of early investments in rural infrastructure through Social Fund projects was also generally satisfactory, while the outcome of more recent Bank projects in small-scale rural infrastructure has not been fully evaluated.	Satisfactory

(continued on next page)

Bank Strategic Goals ^a	Achievement of Associated Country Assistance Strategy (CAS) Outcomes or Results	Bank Program Outcome Ratings ^b
5. Reforms in public administration and governance		Unsatisfactory
Civil service reform	The Bank has supported a civil service census, functional review of government ministries, training and compensation reform with little result. Average civil service wages are well below the poverty line. A modest beginning at selective pay reform has been made. The government recognizes the need for more far-reaching reforms, but progress has been slow.	Unsatisfactory
Legal and judicial reform	The government has established a Council for Legal and Judicial reform and taken other mainly procedural steps but progress on needed reforms has been slow. Several important laws have been adopted but others are still pending. The Bank's initiatives have had little impact.	Unsatisfactory
Measures to reduce corruption	The Bank has elevated anticorruption to the highest priority in the most recent CAS and supported development of an anticorruption action plan and other measures to strengthen transparency and accountability but the impact of the Bank's program has been very limited to date. An anticorruption law has been pending for over 10 years and repeated target dates for its passage set by government have not been met. The Bank is now focusing on limited steps where evidence of government commitment is clear.	Unsatisfactory
OVERALL		Moderately satisfactory

a. The goals of Bank assistance may be distinct from the client country's own development objectives. For Cambodia, most goals of Bank assistance were fully aligned with, but were a subset of, the government's objectives.

b. The Bank program outcome rating and subratings assess the extent to which the Bank program helped achieve the results targeted in the relevant strategy document(s). This is, of course, distinct from assessing the quality of Bank's or the client country's performance.



A fishing village on stilts in a river, Cambodia. Photo by Masaru Goto, courtesy of the World Bank Photo Library.

Executive Summary

At the beginning of the 1990s, following three decades of conflict, during which between two to three million people died under the Khmer Rouge regime (1975–79), Cambodia was one of the poorest countries in the world. Income per capita was below US\$250, social indicators were substantially poorer than in other Southeast Asian countries, and the government was struggling to rebuild social and economic institutions and physical infrastructure. Despite a strong United Nations peacekeeping force in the early 1990s, low-level armed conflict continued until the late 1990s. Political stability was only fully established following national elections in 1998. However, the donor community responded to Cambodia’s needs with sustained support; from 1994 through 2005 Cambodia received over US\$5 billion in aid. While donor coordination was poor in the early years of the country assistance evaluation (CAE) period, this has improved markedly in recent years and the Bank has been a major contributor to this improvement.

Between fiscal year 1999 and the first half of fiscal 2007, the period covered by this evaluation, the World Bank was Cambodia’s third largest donor, providing US\$390 million in International Development Association (IDA) funds. The Bank’s antipoverty focus and support for rebuilding infrastructure (focusing initially on urban projects) and for health and education had positive outcomes. The Bank also produced high-quality analytical work, which provided the basis for the progress in these sectors and, more recently, in public financial management. The economy has grown at over 9 percent per year since 1998 and poverty incidence fell from 47 percent to 35 percent between 1994 and 2004. Substantial progress has been made in health and education indicators, although from such a low base that Cambodia still lags behind other Southeast Asian countries. The rural sector has grown more slowly, agricultural production is subject to strong weather-related fluctuations,

and productivity remains well below that of Cambodia’s neighbors. In governance, which received increasing emphasis from the Bank over this CAE period, progress has been disappointing.

The Bank should remain engaged in areas where reasonable success is being achieved—in education, health, poverty reduction, rural infrastructure, and public financial management. Because governance problems present a significant obstacle to private investment and potential future growth, the Bank should continue to engage the government on governance issues through operations such as Poverty Reduction and Growth Operations (PRGOs) and with the wider donor community through the Consultative Group process. Given the importance of rural development for reducing poverty, and the potential for improving agricultural productivity, the Bank should address weaknesses in its rural strategy. The Bank’s lending operations

should be more streamlined than in the past and focus on a few key objectives and limited actions to meet these objectives. Finally, the Bank should continue to focus attention on fiduciary safeguards with respect to the IDA portfolio. In this regard, the follow-up to the Department of Institutional Integrity investigations in Cambodia left a legacy of government ill-will toward the Bank, and affected progress in the lending program and in policy dialogue. For the future, the Bank should formulate a new disclosure policy for its fiduciary investigations.

Background

Cambodia emerged in the early 1990s from 30 years of conflict, the brutal Khmer Rouge era, and a decade of Vietnamese occupation, with one of the world's lowest per-capita incomes, and with social indicators far behind those of neighboring Southeast Asian countries. Physical infrastructure had been largely destroyed. United Nations intervention led to a peace agreement in 1991, a new constitution, elections, and formation of a coalition government, although a reduced level of conflict and political instability continued until the late 1990s. The government began a process of economic liberalization in the late 1980s which has been sustained. The donor world responded rapidly to Cambodia's huge resource need with a high level of concessional aid which has been sustained. Since the mid-1990s the economy has been growing steadily; by 2006, per-capita incomes were double the 1998 level and the incidence of poverty had been significantly reduced. Social indicators have improved, generally to above the average for low-income countries, but are still well below those for most Southeast Asian countries.

Bank Assistance

During the time frame covered by this CAE, IDA's assistance strategy was set out in three country assistance strategies, in fiscal years 1997, 2000, and 2005. While the objectives shifted somewhat over the period, the Bank consistently focused on sustained growth and poverty reduction, improving the delivery and quality of social services, rural development and natural resource management, and

rehabilitation and expansion of the country's infrastructure. The Bank emphasized throughout the period the importance of macroeconomic stability as an essential underpinning for sustained growth, and gave increasing emphasis to private sector development for growth and poverty reduction. While the Bank recognized the importance of rural development, given that Cambodia is a predominantly rural and agricultural economy, with poverty concentrated in the rural areas, initially the Bank lacked knowledge of the sector and problems of insecurity limited access to some rural areas. Nevertheless, during this CAE period the Bank substantially increased its support to rural development, primarily through investments in rural infrastructure. Finally, while the need for reforms in public administration and governance was fully apparent in the 1990s, and the Bank attempted to work with the government on civil service reforms, legal and judicial reforms, and development of an anticorruption strategy, the lack of success in these earlier efforts led the Bank to give even greater but more selective emphasis to governance in the fiscal 2005 country assistance strategy.

Commitments of IDA credits and grants over the CAE period totaled US\$391 million, of which over 60 percent was for infrastructure, health, and education. (Only one adjustment operation accounted for 8 percent of the portfolio.) Annual lending levels dropped sharply toward the end of the review period. The Bank also carried out an extensive program of analytical and advisory assistance (AAA), focused on macroeconomic management, growth and poverty reduction, and the environment for private sector development, as well as relevant sector studies in health, education, and infrastructure. This work provided a basis for policy dialogue and was well integrated with the lending program.

With almost 40 donor countries and multilateral agencies providing assistance to Cambodia, donor coordination has been challenging. For a number of years, donor activity in most sectors was characterized more by competition than by cooperation, and the Bank did little to improve

coordination, due in part to its limited field presence. Since 2003 the situation has improved considerably with a strong contribution from the Bank's expanded field office. Improved donor coordination also resulted in a more coherent strategic approach, illustrated by the joint country strategy produced in 2005 by the World Bank, Asian Development Bank (ADB), U.K. Department for International Development (DFID), and the United Nations Development Programme (UNDP). One problem in the donors' engagement with Cambodia that still needs to be addressed is the use by donors of separate project implementation units, which compete for the limited pool of qualified staff in the public service.

Findings

In the pursuit of broad-based growth and poverty reduction, one of the essential prerequisites is macroeconomic stability. The Bank's support for this subobjective was focused on public sector financial management, primarily through technical assistance, but these efforts produced slow and halting progress for a decade. However, following the recommendations of a joint Bank/ADB Public Expenditure Review, the government in late 2004 adopted a reform program, supported by a multidonor trust fund managed by the Bank, which has shown significant progress. At the same time, supported by the Bank's Structural Adjustment Credit, public spending was reoriented from defense and security to the social sectors and rural development. However, progress in revenue mobilization has been limited. Some improvement in the environment for private sector development has been achieved but Cambodia remains at a strong competitive disadvantage relative to neighbors. Nevertheless, overall economic growth has been impressive, led by garment manufacturing and tourism; the dollar value of exports has increased almost fourfold since 1998 and the share of exports in GDP has doubled. Poverty incidence has declined from 47 percent in 1994 to 35 percent in 2004, and has likely declined further since 2004 due to continued high economic growth. Balancing the positive outcomes in expenditure reorientation, economic growth,

and poverty reduction, and the recent progress in public expenditure management, against limited progress in the environment for private sector development, and the unsatisfactory performance relative to the objective in revenue mobilization, IEG rates the outcome of the Bank's support for economic management and poverty reduction as *moderately satisfactory*.

The Bank's support to the education and health sectors has produced strongly positive results. Education sector indicators, including enrollment rates, gender balance, access for the poor and access in remote regions have improved markedly. Excessively high student/teacher ratios, which rose sharply as access was increased, still need to be addressed. Health indicators have also improved, including prenatal care, infant mortality, maternal mortality, and child immunization. The significant increase in public spending in both sectors, a reform which the Bank promoted, has reduced the private cost burden, especially for the poor. Bank analytical work and projects have, in close collaboration with other donors, been instrumental in assisting government to develop and implement these reforms. The outcome of the Bank's program of support in these sectors is rated *satisfactory*.

Results of the Bank's interventions in agriculture, rural development (excluding rural infrastructure), and natural resource management have been mixed. Bank support for land titling and management of biologically diverse, protected areas has shown positive results. However, the Bank has devoted insufficient resources to the problems of limited irrigation infrastructure, poor irrigation water management, and low agricultural productivity, and has not developed a clear strategy for future engagement in agriculture. In forestry the Bank worked with other donors to develop a strategy for controlling serious overexploitation of Cambodia's timber resources, but the program became a focus of attacks on the Bank from civil society groups, leading to an Inspection Panel investigation that criticized the Bank for failure to apply certain safeguards in project design and implementation. There is at present no clear strategy for further Bank

engagement in forestry. The overall outcome for this area of Bank assistance is rated *moderately unsatisfactory*.

The Bank's involvement in urban power and water and road reconstruction led to marked improvements in physical indicators and financial performance. Vehicle operating costs were significantly reduced; water availability in Phnom Penh and electricity availability throughout the country more than doubled, and system losses were sharply reduced as a result of Bank projects. The Bank is also supporting development of a regulatory framework for private supply of electricity and water. In rural infrastructure, outcomes were generally satisfactory in the Social Fund projects and the Northeast Village Development project, but it is too soon to assess the outcomes of the more recent projects. Despite notable progress in many areas, the country still lags well behind neighbors in terms of infrastructure services, and there remain wide disparities between urban and rural areas. Nevertheless, given the positive results of Bank interventions, the outcome of the Bank's contributions to infrastructure is rated *satisfactory*.

The Bank has focused on governance issues with increasing intensity in each succeeding country assistance strategy, and has worked with other donors in a number of areas. Progress has been made on certain governance-related issues such as public financial management, including expenditure reorientation, the poverty focus in health and education services, and support for decentralized, community-based development programs. However, in other areas there has been little progress. Civil service reform has been a focus of Bank efforts since the mid-1990s, but with negligible results until the introduction (thus far on a limited scale) of a merit-based pay initiative. In legal and judicial reforms, the government has created administrative structures but produced limited reforms to date. The government began working on an anticorruption law in 1995, but the law has yet to be passed. Cambodia's World Bank Institute governance ratings are below those of neighboring East Asia and Pacific Region countries and have deteriorated between

1996 and 2005. Also, while Cambodia's Country Policy and Institutional Assessment rating has improved over time and is now comparable to the IDA average of 3.2 in 2006, the specific governance components of the index are significantly lower. Despite the Bank's best efforts, and the Bank's more focused governance program under the fiscal 2005 country assistance strategy, the outcome of the Bank's efforts over the CAE period under this pillar of the Bank's strategy is rated *unsatisfactory*.

Taking into account the results across all pillars of the Bank's strategy, the overall rating for the outcome of the Bank's assistance to Cambodia over the CAE period is evaluated as *moderately satisfactory*.

Bank performance has improved over the review period, but in the earlier years (1998–2003) the Bank program suffered on a number of counts, due in part to a limited field presence. Donor coordination was poor, policy dialogue was weak, and several projects were too ambitious and complex in design for the country's limited capacity. With the Country Director in the field, a Country Manager based in Phnom Penh, and a significantly expanded field office, these issues have now been addressed. Because Cambodia was a postconflict country, the Bank should have followed its own guidelines calling for a stronger field presence in postconflict cases.

Given the poor governance environment in Cambodia, another weakness of the Bank's performance was the inadequate attention to possible fiduciary risks to the Bank's lending. Only after numerous complaints about bid awards in a Bank project in 2002 did the Bank react. In the course of subsequent investigations the Bank found evidence of fraudulent practices in many contracts in about half of the Bank's ongoing operations, resulting in cancellation of project funds and suspension of three projects. Because of Bank policy in such investigations, the Bank could not disclose the names of confidential witnesses which, according to the government, made it difficult to accept the validity of the findings or to take

follow-up actions. The remedies that the Bank invoked in follow-up to the investigations had a negative impact on Bank operations and on Bank-country relations.

Recommendations

The findings of this CAE suggest the following principal recommendations:

- The Bank’s program has produced satisfactory outcomes in several areas during the CAE period—in education and health, poverty analysis leading to an increased poverty focus in government programs, small-scale rural infrastructure, and, recently, in public financial management. The Bank should continue to focus on these areas.
- Although Cambodia has experienced strong economic growth, weak governance remains an obstacle to future private investment and growth. The Bank’s efforts to improve governance in a number of areas were not successful. The Bank should continue to pursue reforms in governance, through Bank analytical and advisory assistance, policy dialogue, and operations such as the PRGOs and in collaboration with the other donors through the Consultative Group Joint Monitoring Indicators and follow-up meetings.
- Given the importance of rural development, including natural resource management, for reducing poverty, and the potential to improve agricultural productivity, the Bank has given inadequate attention to key issues in the sector, including water availability and usage, agricultural markets, and the scope for diversification. Although the Bank is not the lead donor in agriculture and rural development, the Bank should work with other donors and the government to carry out diagnostic work and develop a strategy that identifies the main sector constraints and priorities for government action and donor intervention, including the Bank.
- The Bank’s lending operations should be more streamlined than in the past, focusing on a few key objectives and specific implementation steps to achieve those objectives.
- The Bank should continue to focus on fiduciary safeguards in its own portfolio.



Two young Cambodians. Photo by Masaru Goto,
courtesy of the World Bank Photo Library.

Management Action Record

IEG Recommendations Requiring a Response	Management Response
<p>1. The Bank's program has produced satisfactory outcomes in several areas during the CAE period—in education and health, poverty analysis leading to an increased poverty focus in government programs, small-scale rural infrastructure, and, recently, in public financial management. The Bank should continue to focus on these areas.</p>	<p>1. Management agrees that we should continue to focus on these areas of success; and believes that by maintaining selectivity in our focus we can expect to contribute to further progress in these areas.</p>
<p>2. The Bank should continue to pursue reforms in governance, both in the more focused approach outlined in the fiscal 2005 CAS which is incorporated in the series of IDA grants for PRGOs and, with respect to the broader governance agenda for civil service reform, legal/judicial reform, and anticorruption, through policy dialogue and AAA and through the Joint Monitoring Indicators approach adopted by all donors as part of the Consultative Group process.</p>	<p>2. Management agrees that we should continue to pursue reforms in governance along these lines; and initial discussions on the CAS progress report suggest that other stakeholders also agree that the Bank should continue with this approach.</p>
<p>3. Although the Bank is not the lead donor in the agricultural sector, the Bank should work with other donors and government to identify the main constraints to agricultural diversification and productivity increases and the priorities for future donor interventions, including the Bank.</p>	<p>3. Management intends to maintain the selectivity of the CAS with other donors taking the lead in the agricultural sector; and initial discussions on the CAS progress report have confirmed the need to continue with such selectivity. But within this overall context, Management agrees that the Bank can and should continue working with others on the overall constraints to agricultural diversification and productivity increases. On-going work by the Bank on such issues includes work on agrarian structure and on value chains in agriculture; and is expected to be followed by further analytic work on sources of growth, including agriculture.</p>
<p>4. The Bank's lending operations should be more streamlined than was the case for some past operations, focusing on a few limited objectives and specific implementation steps to achieve these objectives.</p>	<p>4. Management agrees on the importance of having a clear and limited set of objectives and specific implementation steps for each of our operations; and focuses on these matters as part of the review process during project preparation. Management also believes that encouraging the government, donors and other stakeholders as well as the Bank to move toward sectorwide approaches, with appropriate fiduciary safeguards, will contribute greatly to streamlining and enhancing the overall effectiveness of Bank support.</p>

(continued on next page)

IEG Recommendations Requiring a Response	Management Response
<p>5. The Bank should continue its intensified focus on fiduciary safeguards in the IDA portfolio.</p>	<p>5. Management agrees on the importance of continuing its intensified focus on fiduciary safeguards in the IDA portfolio. This is expected to include a continued focus on good governance frameworks for all our projects, capacity building support for the government’s anticorruption working group and for the Ministry of National Assembly-Senate Relations and Inspections (the government ministry responsible for investigations), maintaining a Bank anticorruption committee to advise management and task team leaders on appropriate fiduciary arrangements in project design and implementation, and continuing to ensure we have in place strong procurement, financial management, governance and anticorruption capacity in the field.</p>

Chairperson's Summary: Committee on Development Effectiveness (CODE)

On December 10, 2007, the Informal Subcommittee of the Committee on Development Effectiveness (CODE) considered the Cambodia Country Assistance Evaluation (CAE), prepared by the Independent Evaluation Group (IEG).

Background

At the beginning of the 1990s, following three decades of conflict, during which 2–3 million people died, Cambodia was one of the poorest countries in the world. Income per capita was below US\$250, social indicators were poor, and the government was struggling to rebuild social and economic institutions as well as physical infrastructure. National elections were held in 1993 but political stability was not fully established until 1998. The donor community responded to Cambodia's plight with sustained support. From 1995 through 2006 the country received over US\$5.5 billion in aid.

The CAE reviews the Bank's assistance program from fiscal 1999 through the end of 2006. During this period the Bank's support focused on governance reforms, maintained macroeconomic stability and sustained economic growth, private sector development, rural development and sustainable natural resource management, improvement and expansion in health and education services, and investment in infrastructure. These objectives were consistent with the government's own development goals.

Conclusions and Next Steps

The Subcommittee members welcomed IEG's evaluation of the Bank's work in Cambodia. Members concurred that the Bank should continue to capitalize on areas such as education, poverty analysis, and infrastructure, where Bank operations had shown positive results. Regarding the Bank's engagement going forward, members' queries centered on governance issues; continued use of Project Implementation Units (PIUs); technical assistance; economic diversification of the local economy; and the Department of Institutional Integrity (INT) investigations into allegations of fraud and corruption in Bank-supported projects, among others. IEG acknowledged that the Bank's principal areas of contribution included the education and health sectors, as well as infrastructure, and public financial management. Also, IEG recognized the Bank's contribution in developing analytic work and improving overall donor coordination in Cambodia. The Cambodian authorities concurred with the overall findings of the IEG evaluation. The Board of Executive Directors will meet later to discuss the Cambodia Country Assistance Strategy progress report.

General Comments

Members welcomed IEG's evaluation and agreed with the findings and recommendations of the Cambodia CAE. One member noted that the CAE was an insightful report that provided important lessons learned, which are relevant to other fragile and/or postconflict countries.

Sector Focus

Some members pointed to the cases of the health and education sectors where government commitment was critical to the success of Bank operations. Also, one member noted the improved performance in Cambodia operations once Bank field staff were in place. Members concurred that the Bank should continue to capitalize on successful areas (for example, education, poverty analysis, and infrastructure). IEG acknowledged that the Bank's principal areas of contribution included the education and health sectors, as well as infrastructure, and public financial management. IEG recognized the Bank's contribution in developing analytic work and improving overall donor coordination in Cambodia. A member urged the Bank to emphasize agricultural development within Cambodia because it had the potential to impact poverty reduction. Another member asked the Bank to break the current stalemate in dealing with the natural resource management sector (that is, forest concessions) since this area held great potential. Management recognized the importance of the agriculture sector to the Cambodian economy. Similarly, management noted the importance of land issues (that is, titling) and natural resource management in the development of agricultural growth.

Governance and Commitment to Reforms

Some members noted that a lack of government commitment had weakened efforts in governance, although the government of Cambodia had underscored a lack of capacity rather than commitment. IEG agreed that both commitment and capacity were essential to move forward on reforms (for example, civil service, judicial). Management added that in the context of preparing the current country assistance

strategy, the Bank had focused on four areas of governance where it believed there was commitment to reform: public financial management, private sector development, natural resource management, and decentralization. One speaker asked how the Bank was addressing corruption risks. Management noted that as a result of the most recent investigations of the INT into allegations of fraud and corruption in Bank-supported projects, the Bank and the government of Cambodia have introduced anticorruption action plans in all on-going and new projects.

Poverty Reduction and Growth Operations

One speaker asked about the reference in the CAE to Poverty Reduction and Growth Operations (PRGOs) as a tool to confront governance challenges. Management noted that it was endorsing a more focused approach through PRGOs on specific issues such as public financial management, private sector development, and natural resource management instead of a broader approach. It also noted that other development partners (that is, the United Kingdom, Japan, European Commission) were looking to support PRGOs with cofinancing.

Project Implementation Units

Members observed that the continued use of project implementation units (PIUs) in Cambodia was weakening local technical capacity as well as ownership. Management noted that there had been progress in moving away from multiple PIUs (that is, from parallel to fully integrated) for different donor-supported projects, and that in on-going projects (for example, education, transport, rural investment) there was increased coordination with government counterparts. Management also acknowledged that it was moving toward sector-wide approaches at the sector level. A speaker queried the move to more streamlined approaches (that is, sector-wide) when there are on-going fiduciary challenges and asked management to clarify. Management commented that sector-wide approaches would help reduce the need for PIUs and increase donor coordination going forward. Lastly, IEG added that the continued use of PIUs was due to

fiduciary concerns and was thus moving slower than expected.

Technical Assistance

Some members commented on the high level of technical assistance (TA) provided by donors in Cambodia, including the Bank, and noted the CAE's conclusion that this TA had not brought about the desired results. Management acknowledged that local authorities were disappointed as to the level of knowledge transfer from TA. In that sense, the Cambodian authorities wanted donors to increase the use of local capacity and, when using external consultants, donor partners should be working with local staff to develop skills effectively.

International Development Association Credits and Grants

A member inquired about the level of International Development Association (IDA) credits and grants (that is, US\$391 million) and asked if this amount was adequate to support reform and development objectives in a country such as Cambodia. IEG commented that the IDA commitment for Cambodia was a performance-based allocation and that actual commitments had recently dropped owing to concerns regarding fiduciary safeguards in the wake of the investigations.

Economic Growth and Diversification

A member pointed to the recent economic growth in Cambodia (that is, over 9 percent, 1999–2006) and suggested that the Bank look into assisting the country in diversifying its economy beyond the garment and tourism industries. Another member asked management to comment on the impact that the lifting of export quotas (that is, China) would have on Cambodia's garment sector. Management commented that it was difficult to assess what impact increased competition to the garment sector in Cambodia might have, and noted that it was important to continue diversifying the country's export base.

Private Sector

One member queried management about the private sector environment in Cambodia since

it had been rated in the CAE as “moderately unsatisfactory.” Management pointed to on-going discussions with the Doing Business team to try to mainstream concerns into reform programs. It also noted that it was currently working on an Investment Climate Assessment where these concerns would be analyzed.

Debt Sustainability

A member sought further information on the level of external debt and its sustainability. IEG noted that the debt-to-GDP ratio had come down quite rapidly and was not a source of concern at the moment.

Donor Coordination and Harmonization

Members noted the need to emphasize further coordination with donors on the ground (that is, 42 in all) to support weak administrative capacity and improve governance issues. Management commented that on the policy side, there were 19 Technical Working groups, in which the donor community discusses issues jointly as well as in quarterly meetings with Cabinet members and the entire donor community.

Disclosure of INT Investigation Findings

Members pointed to the lack of progress in governance and anticorruption issues and inquired as to the investigations into allegations of fraud and corruption. IEG noted that the Bank's efforts in improving governance and anticorruption had been disappointing, because investigations during the 2005–06 period had identified numerous instances of fraud and corruption, which had been presented to the Cambodian authorities. A member asked management to comment on the limits of disclosure of evidence uncovered by the investigations since the government of Cambodia sees this as vital to remediate issues of corruption. Management noted that the Bank had disclosed as much information as possible regarding the investigations. Certain evidence collected during the investigations was protected by confidentiality due to the concern that certain witnesses may face potential reprisals. Finally, INT commented that it was working with the Cambodian authorities to help build their capacity to carry out their own investigations.

Edits to Cambodia CAE

IEG commented that after consulting with INT colleagues, some editorial changes in the redacted version of the Cambodia CAE would be introduced. A member asked that these editorial changes would be made available to Subcommittee members. IEG agreed to make them available, while also emphasizing that the editorial changes would bring factual clarification and ensure greater accuracy without affecting the CAE's findings, conclusions and/or recommendations in any way. (The revised text was subsequently circulated.)

Release of Cambodia CAE

In response to a query regarding the release of the Cambodia CAE, IEG noted that it had agreed

with the Cambodian authorities that the report would be released after the National Assembly elections in July 2008.

Upcoming Country Assistance Strategy

A member noted that the previous Cambodia country assistance strategy had been prepared jointly (for example, with ADB, DFID, UNDP) and queried management on the donor partners involved in preparing the next country assistance strategy. Management noted that donors had asked the Bank to take the lead in bringing donors together to develop the upcoming country assistance strategy.

Jiayi Zou, Chairperson

Chapter 1



An elderly person walks through a market in Cambodia.
Photo by Masaru Goto, courtesy of the World Bank Photo Library.

Introduction and Country Background

This country assistance evaluation (CAE) reviews the World Bank’s assistance to Cambodia from fiscal year 1999 through the first half of fiscal 2007; a previous CAE evaluated Bank operations in fiscal 1994–98.¹ In the fiscal 1994–98 period, the Bank focused on macroeconomic stability and resumption of growth. The earlier CAE judged that International Development Association (IDA) assistance was appropriate for the country’s post-conflict situation and rated the outcome of the Bank’s program *satisfactory*. However, it found that capacity-building initiatives had limited impact and Bank objectives were not achieved in public sector management (especially financial management), in civil service and legal/judicial reforms, in natural resource management (NRM), and in the environment for private sector development (PSD). Sustainability was deemed uncertain due to the unstable political environment, precarious macroeconomic balance, and governance issues. The CAE recommended that future Bank assistance should focus on poverty alleviation, governance, improved fiscal management, agriculture and rural development, and the environment for PSD.

Cambodia experienced prolonged armed conflict over many decades—guerilla warfare beginning in the 1960s, massive American bombing in the early 1970s, and four years of genocidal rule (1975–79) by the Khmer Rouge, which sought to “wipe the slate clean” by creating a classless rural society. An estimated two to three million people were killed during the 1970s, and most of the educated middle class who survived fled the country. An estimated 75–80 percent of all teachers and higher education students

either were killed or fled, and formal schooling was largely eradicated. The Khmer Rouge regime destroyed most of the country’s social, economic, and physical infrastructure. Low-level armed conflict continued during the 1980s and most of the 1990s, despite a 1991 United Nations–brokered peace agreement, a transitional United Nations peacekeeping force,² a new constitution, and the installation of an elected coalition government in 1993. The political situation has stabilized since an aborted coup attempt in 1997,

with the dominance of the ruling Cambodian People’s Party steadily increasing through national elections in 1998 and 2003. While democratic processes have been established, and limited decentralization of government authority to provinces and communes is under way, the administration remains highly centralized and authoritarian. The public sector is characterized by weak institutions and human resources and widespread problems in governance.

In the early 1990s, Cambodia was one of the poorest countries in the world, with an estimated per capita income below US\$250. Social indicators were well below the average for the East Asia and Pacific Region as well as those for other low-income countries (see table 1.1 below). The international donor community responded quickly and strongly to Cambodia’s plight and this donor support has been sustained through this CAE period (see chapter 2).

The government began a process of economic liberalization in the late 1980s, restoring private property rights (including land ownership), eliminating domestic price controls and most nontariff barriers, simplifying the tariff structure and lowering tariff rates, liberalizing the exchange rate, adopting a liberal foreign invest-

ment law, and privatizing most state-owned enterprises. Due in large part to high aid inflows and prudent macroeconomic management, aggregate economic performance has been positive and the poverty level, while still high, has been significantly reduced. Recent economic performance and poverty reduction is discussed in chapter 3.

Almost all social indicators have improved substantially across the entire population, often faster than the average for low-income countries, but are still low, as described in chapter 4. Cambodia faces many other economic and social challenges, including the still severely underdeveloped institutional and human resource base, extremely low civil service wages, which inhibit effective delivery of public services, lack of infrastructure, and serious weaknesses in governance. Exploitation in the near future of substantial oil and gas reserves could generate, by some estimates, a doubling of government revenues, creating an opportunity for substantial increases in public expenditures for health, education, and rural development, as well as significant increases in civil service wages, but it could also increase the risks of a “Dutch Disease” effect or waste of resources if the funds are not managed for the public good.

Table 1.1: Economic and Social Indicators for Cambodia, East Asia and Pacific Region, and Low-Income Countries

Indicator	Cambodia	East Asia & Pacific	Low-income countries
GDP per capita (US\$, 1994 in 2000 prices)	216	677	327
Population growth rate (1996)	2.6	1.2	2.1
Primary enrollment (gross, 1989–94)	47	118	83
Infant mortality (per 1,000 live births, 1992)	110	40	89
Maternal mortality (per 1,000 live births, 1992–97)	6.5	1.2	6.8
Life expectancy (1990)	54	67	56
Access to improved water source (percent, 1992–97)	13	72	64

Source: World Bank database, country reports.

Chapter 2



Children wait for a free lunch at a center where street children are taken care of by a local nongovernmental organization, Cambodia.

Photo by Masaru Goto, courtesy of the World Bank Photo Library.

The Bank's Strategy and Assistance Program

Country Assistance Objectives

Cambodia became a member of the World Bank in 1970 but began to borrow only in fiscal 1994. During fiscal 1994–98 the Bank had a limited program of lending and analytical and advisory assistance (AAA), with operations focused primarily on emergency rehabilitation and restoration of economic and social infrastructure. In the area of economic policy and management the Bank concentrated on improving public financial management (PFM) through technical assistance (TA), working in collaboration with the International Monetary Fund (IMF).

Since the mid-1990s the Cambodian government has produced numerous strategy documents, each of which focused on the key development issues—economic and social development, with emphasis on the rural areas, employment, poverty reduction, and governance reforms. However, these strategies generally lacked clear priorities or effective means of monitoring implementation or outcomes.¹ Furthermore, in many cases, donors took a leading role, which reduced the government's commitment and sense of ownership. In one case, the Bank and IMF were supporting a poverty reduction strategy paper titled the National Poverty Reduction Strategy (NPRS), in direct competition with the Asian Development Bank (ADB)-supported Socio-Economic Development Plan (see chapter 3). Fortunately, there is now only one government strategy document, the 2006–2010 National

Strategic Development Plan (NSDP), which is endorsed by all donors. The goals of the NSDP include eradicating poverty, enhancing agricultural productivity, achieving improvements in health and education, environmental sustainability, gender equity, sustained economic growth, and improved fiscal performance. It also incorporates Cambodia's Millennium Development Goal targets. The NSDP was prepared in a less participatory manner than earlier strategy documents but was also less donor-driven.

During this CAE period Bank operations were guided by three country assistance strategies (CASs) from the mid-1990s to 2005. Each CAS had several main objectives (see box 2.1). Although the primary objectives of these CASs shifted slightly over time, the principal aims can be summarized under the headings: (i) macroeco-

Box 2.1: World Bank Country Assistance Strategies

Objectives of the first CAS:

- Support macroeconomic stability through improved fiscal management and support private sector development.
- Support agriculture, rural development, and natural resource management.
- Improve social services and reduce poverty.
- Rehabilitate physical infrastructure.

Objectives of the second CAS:

- Maintain a sound macroeconomic framework.
- Improve governance through legal/judicial reform, civil service reform, and military demobilization.

- Build infrastructure, especially in rural areas.
- Improve quality of and access to social services.
- Support private sector development.

Objectives of the third CAS:

- Improve governance by addressing constraints to PSD, improve transparency and accountability in NRM, support continued PFM reforms, and promote accountability by supporting decentralization and citizens' partnerships.
- Support the strategy development and investments needed for attainment of the Millennium Development Goals.

conomic stability and economic policy reforms (the primary objective in the first and second CASs), and private sector development leading to sustainable growth and poverty reduction; (ii) improving the delivery of social services, linked to attainment of the Millennium Development Goals; (iii) support for agricultural and rural development and sustainable natural resource management; (iv) rehabilitating and rebuilding physical infrastructure; and (v) improving governance through reforms in public sector management (elevated to the primary objective in the third CAS). These CAS objectives have been broadly consistent with the stated priorities of the Cambodian government. While the Bank has, in the past, overestimated government's commitment to politically difficult reforms, the third CAS was more realistic than the previous ones about what could be accomplished and set out a more nuanced approach to pursuing governance reforms. Also, in keeping with the efforts of all donors to improve aid coordination, the third CAS was prepared as a joint strategy with the Asian Development Bank (ADB), U.K. Department for International Development (DFID) and United Nations Development Programme (UNDP).

Overview of Lending

During this CAE period the Bank committed US\$391 million of IDA resources (US\$334 million in credits and US\$57 million in grants)

for 20 projects,² or an average annual commitment level of US\$49 million through fiscal 2006.³ There were significant changes in the composition of IDA lending from the first CAE period to the second, shown in table 2.1. In the earlier period, 38 percent was for nonproject lending (rehabilitation credits for balance of payments support without policy conditionality) while this CAE period saw only one adjustment credit for 8 percent of total commitments.⁴ Within investment lending the composition of lending did not change significantly, although the sectoral distribution for this CAE period (see table 2.1) is somewhat arbitrary because of several multipurpose projects—the Social Fund projects, which built schools and infrastructure; the Flood Emergency Rehabilitation project, which financed reconstruction of roads, irrigation systems, schools, and other rural infrastructure; and the rural development projects, which financed primarily rural infrastructure but also contributed to strengthening rural governance. What *is* significant is the shift between the two CAE periods, particularly for infrastructure investments, in the share of rural projects. Projects *entirely* focused on the rural areas increased from 28 percent to 58 percent of the investment portfolio between the two CAE periods. The priority for shifting Bank resources to the rural areas, emphasized in each CAS, became a reality over the course of this CAE period.

Table 2.1: Cambodia: Composition of Lending, 1994–98 and 1999–2006

	1994–98 (US\$m)	Share of commitment	1999–2006 (US\$m)	Share of commitment
Nonproject lending	102.7	38%	30.0	8%
Investment lending	165.4	62%	361.1	92%
Public Financial Management ^a	17.0	6%	37.9	10%
Health, Education, Social Protection ^b	50.4	19%	95.0	24%
Infrastructure ^c	71.0	26%	152.2	39%
Agriculture/Rural Development/Environment ^d	27.0	10%	66.0	17%
Private Sector Development	—	0%	10.0	3%
Total (US\$ million)	268.1	100%	391.1	100%

Source: World Bank database.

a. Includes Demobilization Project.

b. Includes Social Fund Projects.

c. Includes Northeast Village Development Project and Rural Investment and Local Governance Project.

d. Includes Flood Rehabilitation Project.

The proposed CAS annual IDA commitment levels for Cambodia have declined sharply over the CAE period, from US\$70–80 million (base case) in fiscal 1999–2003, to US\$25–45 million in fiscal 2005–08, due to the shift to a performance-based allocation system for IDA, and the influence of weak governance and portfolio performance on Cambodia's allocation. The trend in actual commitments has also been sharply downward, from an average of US\$56.5 million in the first six years of the CAE period to US\$26 million per year in fiscal 2005–06. The recent decline in actual commitments may also be due in part to the disruptions in Bank-country relations

resulting from the Inspection Panel report and the remedies the Bank invoked in response to the Department of Institutional Integrity (INT) investigations (see chapters 5 and 7).

Portfolio Management

The Bank conducted country portfolio performance reviews in 2000, 2001, 2002, 2004, 2005, and 2006, the last three of which were carried out jointly with the ADB. A major focus of these reviews was the slow pace of project implementation and, more recently, the fiduciary risk to Bank operations. The percentage of projects at risk has fluctuated

Table 2.2: Cambodia: Planned vs. Actual Lending (US\$ millions)

Lending	Total (1999–2003)	Total (2004) ^a	Total (2005–06)	Total (1998–2006)
Planned lending	350.0		84.0	434.0
Actual lending	279.1	60.0	52.0	391.1

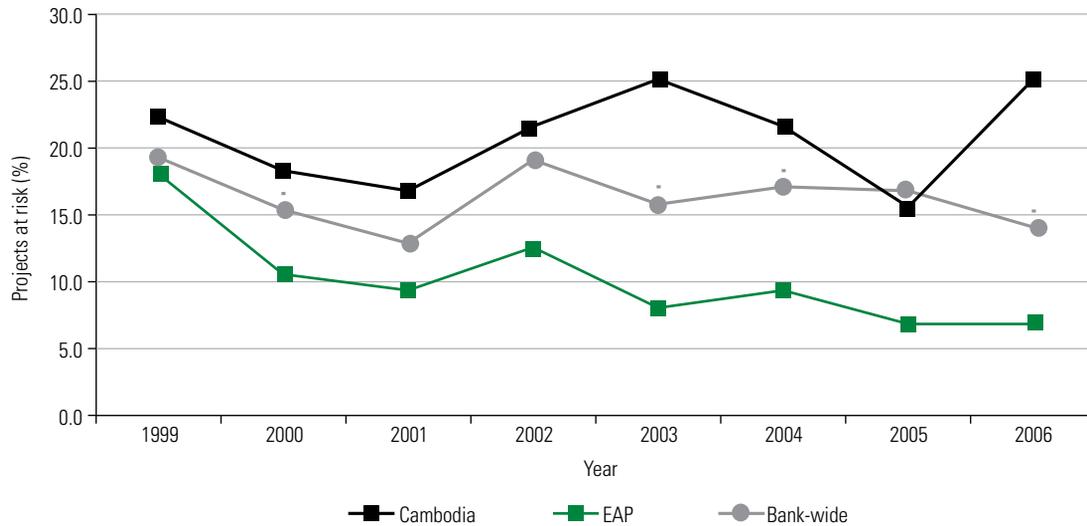
Source: World Bank database.

a. The second CAS originally covered only fiscal 2000–03; the program was extended through fiscal 2004 due to delay in issuing the next CAS while a new government was being formed following the July 2003 election.

between 15 and 25 percent, significantly above the East Asia and Pacific average, as shown in figure 2.1. The disbursement ratio (figure 2.2)

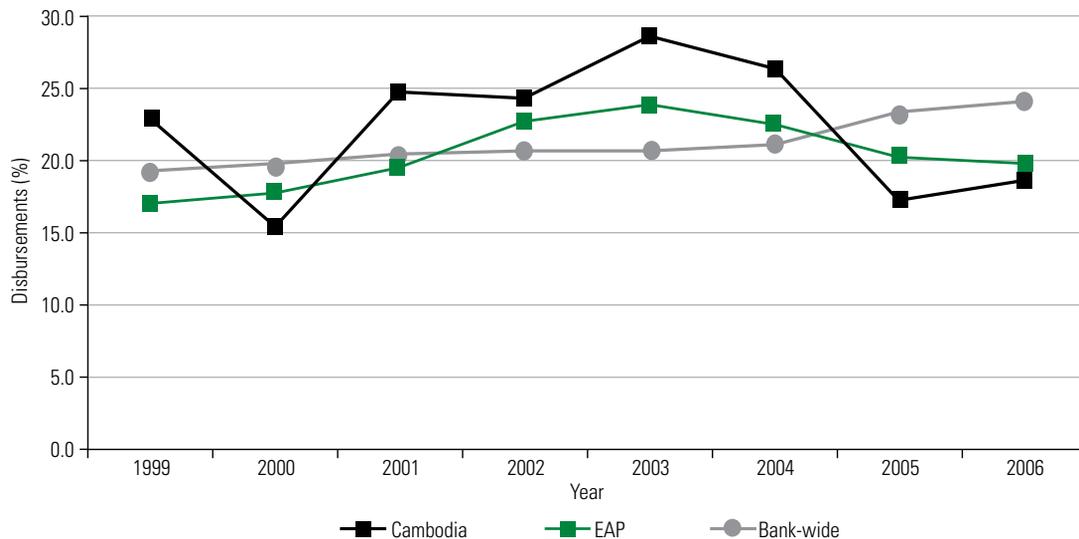
has been close to Bank and Regional averages, before falling to 10 percent in the first half of fiscal 2007. Appendix table A.6 indicates

Figure 2.1: Cambodia’s Percentage of Projects at Risk



Source: World Bank database.

Figure 2.2: Disbursement Ratios, Fiscal 1999–2006



Source: World Bank database.

the problem areas, which help to explain the relatively high percentage of projects at risk. Problems in procurement and project management are more frequent in the Cambodia portfolio than in East Asia and Pacific Region or Bank-wide. Problems of mismanagement and misprocurement in several active and recently closed projects have been uncovered over the past three years, leading to cancellations of contracts, repayments to the Bank, and project suspensions (see chapter 7 for details). This has undoubtedly contributed to the recent decline in disbursements. In the critical area of procurement supervision the Bank has, until recently, operated with headquarters procurement specialists based in neighboring countries but without adequate staffing in the Phnom Penh Country Office. This issue has now been addressed by shifting a procurement specialist from Viet Nam to Cambodia. The Bank and government have also agreed that the government will employ an independent procurement agent for virtually all IDA projects.

IEG Evaluation of Closed Projects

During fiscal 1999–2006, ten closed projects for Cambodia totaling US\$249 million in commitments were evaluated by IEG. The number of project outcomes judged satisfactory was equal to the East Asia and Pacific Region average and slightly above the Bank-wide average. Institutional impact was also above the East Asia and Pacific Region and Bank averages, but sustainability was judged less likely (see table 2.3).

Overview of Analytical and Advisory Assistance

The Bank carried out an extensive program of AAA over this period, with several economic reports focused on the preconditions for sustaining growth and poverty reduction, including a country economic memorandum, two Poverty Assessments and support for the NPRS and the NSDP. Reports focused on macroeconomic management, revenue mobilization, and PFM included a Public Expenditure Review (PER), an Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER), and Public Expenditure Tracking Surveys in education (jointly with ADB and with Cambodia Development Research Institute conducting the field work) and health (with WHO technical input). An impressive volume of work has been done on the constraints to PSD (see chapter 3). These economic reports have been of generally high quality and well integrated with policy advice and lending.⁵ One of the PSD reports, the Investment Climate Assessment, provided the analytical basis for the Trade Facilitation and Competitiveness project. The IFAPER was a collaborative exercise with government, ADB, and other donors, which set out the recommendations that were subsequently incorporated in the government's Public Financial Management Reform Program (PFMRP) (see chapter 3). The IFAPER also linked the findings of the 1999 poverty assessment with social sector spending priorities and was used as a teaching tool at the Cambodian Economic and Finance Institute.

Table 2.3: IEG Evaluation of Project Outcomes

Country/region	Outcome: percentage of projects, by number, rated satisfactory	Institutional development impact: percentage of projects, by number, rated substantial	Sustainability: percentage of projects, by number, rated likely
Cambodia	80.0	60.0	62.5
East Asia and Pacific Region	79.7	54.5	74.5
All Bank	76.2	49.6	73.3

Source: World Bank database.

Table 2.4: Aid per Capita for Cambodia and Other Low-Income Countries under Stress (in current US\$)

Country	Average, 1999–2005
Angola	33
Burundi	29
Cambodia	33
Congo, Dem. Rep. of	28
Lao PDR	51
Central African Republic	21
Timor-Leste	219

Source: World Development Indicators.

The Bank also produced numerous sector studies of generally high quality, including reports on the power sector, private solutions for infrastructure, urban water supply, access and quality issues in basic education, and a rural sector strategy. These and other sector studies, and their relevance for the Bank's sector programs in Cambodia, are discussed in the succeeding chapters.

Overview of Partnerships

Cambodia, a low-income country under stress and a postconflict country, remains heavily aid dependent. During the period of this CAE for which data are available (calendar years 1998–2005), Cambodia received over US\$3.4 billion in aid, an annual average of US\$430 million, equal to 10 percent of GDP, compared to an annual average of US\$390 million (12 percent of GDP) in 1994–98.⁶ On a per-capita basis, aid over the CAE period has averaged US\$33 per year. While the average for all low-income countries under stress for these years was only US\$18.4, a number of these countries received comparable or greater volumes of aid per-capita than Cambodia did (see table 2.4). Aid has been highly concessional—almost 80 percent on grant terms and the rest in soft loans. Given Cambodia's recognized capacity constraints, an estimated 40 percent of donor assistance has been for technical assistance, well above the

15–20 percent norm for aid recipients. Donor support has been sustained despite donors' unhappiness over policy shortcomings on the part of the government and persistently weak governance. This is evidenced in the donor pledges totaling US\$600 million at the 2006 Consultative Group (CG) meeting, and US\$700 million at the 2007 meeting. In addition, China in 2006 made a multiyear pledge of US\$600 million outside the CG framework.

Some 40 bilateral and multilateral donors have aid programs in Cambodia (for details see appendix table A.3a). The largest contributors are Japan, the ADB, and the World Bank, with 22 percent, 14 percent, and 10 percent, respectively, of net official development assistance disbursements in the CAE period. With this large number of donors, coordination of donor programs presents a significant challenge. During the 1990s donor coordination in Cambodia was generally poor; the environment was frequently more one of competition than collaboration.⁷ For much of this period the Bank's participation in donor coordination was also constrained by limited staffing in the field office. In an effort to improve donor coordination and increase government's role in the management of aid, joint technical working groups (TWGs) were established in 1999. Today there are 18 TWGs covering all areas of donor

support, with normally a lead donor in each group.

With the notable exception of the education and health sectors, the effectiveness of TWGs was limited in the initial years. However, over the past three to four years, the TWG approach has definitely led to substantial improvements in donor coordination and collaboration with the government. Nevertheless, there is still room for improvement. Some TWGs function more effectively than others and the government maintains that donor commitments in TWGs are not always delivered.⁸

Some donors express the view that too much effort is being expended in coordination, but all agree that the current situation is a vast improvement over the dysfunctional system that existed previously, and both government and other donors have offered strong praise for the Bank's contribution to improved donor coordination. In sectors such as health and education, where there are many donors but where the government is represented by a single ministry, coordination has been working well. Coordination is also strengthened by the presence of a government-owned strategy and development plan, as is the case in health, education, and PFM. The Bank's contribution is also enhanced when the task manager is stationed in the field office, as in health and PFM. In infrastructure, despite the division of responsibilities across several ministries, the TWG provides an effective forum

for discussion of sector plans and policies. The Bank, ADB, France, and Japan have been the principal donors in urban and national infrastructure, while many donors are involved with rural projects. To facilitate donor coordination among the partners in the third CAS, ADB takes the lead role in education, agriculture, transport, and rural water supply, and the Bank takes the lead role in health, NRM, energy, and urban water supply. The establishment of a TWG for poverty in the course of NSDP preparation is an example of effective use of the working group approach.

Given the acknowledged weaknesses in the government's institutional capacity, donors have provided an estimated 40 percent of their assistance in the form of TA, in contrast to a norm of 15–20 percent for all developing countries. At the same time, the Bank and other donors have reacted to lack of capacity within government by setting up Project Implementation Units (PIUs) outside of the governmental structure to handle project management. In some cases a ministry has had to deal with separate PIUs for each donor. These PIUs, along with international and domestic nongovernmental organizations (NGOs) and the private sector, compete for the available talent in the civil service by offering salaries and benefits often many times those provided by government, thereby depleting the capacity that they are trying to build. This issue is clearly recognized but, despite resolutions at successive CGs to end such activity, the problem persists.

Chapter 3



A marketplace in Cambodia. Photo by Masaru Goto, courtesy of the World Bank Photo Library.

Outcome in Areas of Bank Support

Macroeconomic Stabilization through Public Sector Financial Management Reforms Background

During their time in power the Khmer Rouge destroyed all institutions of financial management in the country. These institutions were gradually restored but in the first half of the 1990s, the existing systems for financial planning and budgeting, accounting and auditing, debt management, payment systems (relying entirely on cash for receipts and payments), and procurement, remained extremely rudimentary and weak. The Bank began supporting PFM in 1994 under a multisector TA project. Project design was complex and government ownership was weak outside of the Ministry of Economy and Finance (MEF). It became a problem project and was restructured. At closing, although it did introduce a national budget and other useful functions—such as economic analysis and debt units in the MEF—it was considered to have fallen short of its objectives and was rated *unsatisfactory* in the implementation completion report and its subsequent review. Meanwhile, the IMF supported reforms in public revenues and in the financial system (along with the ADB).¹ Bilateral donors also provided assistance in revenue and expenditure management. However, progress on both public revenues and expenditures was slow and disappointing. This lack of substantial progress continued well into the CAE period, including the limited impact of the 2001–03 multidonor Technical Cooperation Assistance Program, in which the Bank did not participate.² A Bank/IMF assessment of Cambodia’s PFM system in 2003–04 found that Cambodia rated poorly against the averages for heavily indebted poor countries. In 2003 Cambodia met only 3 out of 15 benchmarks, versus an average of 8 out of 15 benchmarks for twenty-four heavily indebted poor countries; and in 2004 Cambodia met only 5 of 16 benchmarks

versus an average of 6–7 for twenty-six heavily indebted poor countries.

Bank Objectives and Program

Throughout this CAE period the Bank gave high priority to PFM, especially expenditure management, focusing on the budget, expenditure reallocation, procurement reform, internal audits, and establishment of a National Audit Authority. The Bank provided policy advice through a PER (1999), the IFAPER, and a country economic memorandum. While the government did little to implement the recommendations of the first PER, the situation improved markedly following the joint Bank/ADB IFAPER, as described below.

Further lending support was provided through the operations listed in table 3.1. The Structural Adjustment Credit (SAC) and the Demobilization and Reintegration project supported reallocation of public expenditures from defense and security to health, education, and rural development. Unfortunately, the demobilization project was closed because of misprocurement before the full demobilization program could be carried out. The SAC was a multisector operation with multiple objectives, which experienced significant difficulties and delays. Program completion required almost four years, as compared with the two and a half years originally envisioned. The closing date was extended five times and

two waivers were required for second-tranche release. The Economic and Public Sector Capacity Building project—which continued some aspects of TA support for PFM reform that had been started under the earlier TA project—has also experienced significant problems, including an eight-month delay in effectiveness, and implementation delays. The project was restructured in 2005 and has been rated *unsatisfactory* during most of its life, including the most recent supervision report at the time of writing. However, support for the government’s PFMRP through the Bank’s Public Financial Management and Accountability Project is producing more positive results.

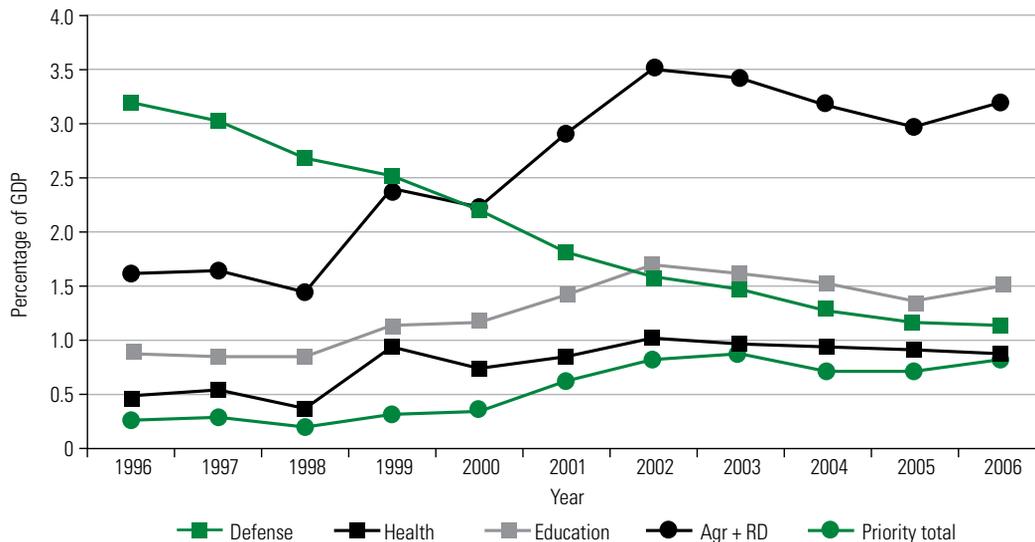
Outcomes and Bank Contribution

The Bank and allied donors have begun to see genuine progress in PFM. The significant difference is that while the essentials of the program are based on the recommendations of the IFAPER, the program has been designed by the government, and the pace of implementation is set by the government. Also, the government has a voice in the selection and terms of reference of consultants employed under the program. Launched in December 2004, the program is to be carried out in four stages (“platforms”) over 10 years. It is supported by 11 donors,³ 4 of whom have contributed US\$17 million to a Bank-managed Multi-Donor Trust Fund.

Table 3.1: IDA Projects Dealing with Public Financial Management Reform

Fiscal year	Name	Amount (US\$m)	Status	IEG outcome rating
1995	Technical assistance	17.0	Closed 12/31/01	Unsatisfactory
2000	Structural adjustment	30.0	Closed 12/31/03	Moderately satisfactory
2002	Demobilization and reintegration	18.4	Closed 12/31/04	Unsatisfactory
2002	Economic and public sector capacity building	5.5	Ongoing	
2006	Public financial management and accountability	14.0	Ongoing	

Source: Appendix table A.3c.

Figure 3.1: Reorientation of Domestic Public Spending (as % of GDP)

Source: IFAPER, 2003, and country office updated database, July 2007.

Progress under the PFMRP is regularly reviewed by an external advisory panel.⁴ For 2006 the panel found that 21 of 29 targets under platform 1 had been met or partially met.⁵ (However, in the critical area of government procurement, the panel reported that, while the necessary procedural steps were being taken—including decentralizing procurement to line ministries, new regulations, and adoption of a standard procurement manual—the reforms may not be sustainable because of inadequate staff training.) The panel concluded that there is strong government commitment to the PFMRP in MEF, but low commitment in other ministries so far. However, they found that government-donor coordination is working well and that donors express strong satisfaction with coordination arrangements and with the role of the World Bank office and the Bank's Multi-Donor Trust Fund coordinator. Also, as shown in figure 3.1, the progress on expenditure reorientation supported by the SAC and the Demobilization and Reintegration project has been sustained over the entire CAE period.

In contrast to the above-mentioned achievements, revenue performance, despite modest

improvements in tax administration, has remained disappointing. While revenue policy has been primarily an IMF responsibility, the Bank has supported the IMF's efforts with fiscal revenue targets in the SAC and TA support for value-added tax and customs reforms. However, the government has fallen short of the revenue targets set by the IMF and Bank. Under the SAC the objective was to increase total revenue from an estimated 11.2 percent of GDP in 1999 (actual was 11.5 percent) to 13.2 percent in 2002. However, revenue in subsequent years had remained at 10–10.5 percent of GDP until reattaining the 11.5 percent level in 2006 (see table 3.2). Studies have shown that tax avoidance, attributable to poor records, a cash payment system, and corrupt practices, could account for the loss of 30–40 percent of potential revenues.⁶ Furthermore, collection of nontax revenues, which account for one-fourth to one-third of total revenues, is also well below potential. The issue of tax avoidance is being partly addressed by shifting tax collections from a cash basis to the banking system. Also, given strong growth in GDP in recent years, there has been substantial real growth in government revenues. Nevertheless,

Cambodia ranks near the bottom of all developing countries in revenue mobilization. Combining the sustained, pro-poor reorientation of public spending supported by the SAC, and recent progress in the PFMRF, with the disappointing results in revenue mobilization, the overall outcome in PFM is rated *moderately satisfactory*.

Private Sector Development

Background

A few centers of private sector activity have been growing rapidly and are responsible for much of the dynamic growth in GDP over the past decade or more. Since 1994 the manufacturing sector has grown at an average annual rate of 17 percent, led by the garment subsector, which expanded from 1 percent of GDP in 1994 to 13 percent in 2006, and now accounts for 70 percent of manufacturing output. Between 1994 and 2000 garment output grew at an annual rate of over 50 percent, and since 2000 annual growth has continued at 20 percent. Garments now account for almost 80 percent of Cambodia's exports. The other source of rapid private sector growth is tourism. Visitor arrivals have risen sixfold since 1998, and tourism revenue as a share of GDP has risen from 3.5 percent in 1998 to 13.4 percent in 2005, with continued high growth forecast.⁷ These sectors have been responsible for stimulating a substantial inflow of foreign direct investment.⁸ However, while these sectors have enjoyed spectacular growth and generated substantial employment (an estimated 325,000 in the garment sector in 2006), they have provided few backward linkages or spread effects to the rest of the economy, other than to the construction industry.

The government has repeatedly affirmed the importance of the private sector for growth and poverty alleviation and the need to improve the environment for PSD.⁹ Positive steps the government has taken include accession to the Association of Southeast Asian Nations (ASEAN) and to the World Trade Organization, and adherence to fair labor standards under the International Labour Organization "better factories" program, which have benefited the garment industry in particular.¹⁰ The garment industry has also benefited from reductions in clearance times and transaction

costs for imports and exports. The government has passed over 20 of the 47 laws required for full compliance with World Trade Organization rules. The government has also introduced measures to support the small and medium enterprise (SME) sector. However, the Cambodian private sector still suffers from numerous constraints, including inadequate and high-cost infrastructure, low labor productivity, a weak financial sector which limits access to finance, especially for rural investments, a weak judicial system and a still-restrictive regulatory framework, and corruption.¹¹

Bank Objectives and Program

The Bank recognized the importance of PSD in the 2000 CAS. The 2005 CAS made an improved environment for PSD (an important component for achieving improved governance) the leading pillar for the CAS. Until recently, the Bank's work in PSD had been focused on TA, economic and sector work, and dialogue, although the Bank has also supported PSD indirectly through projects in infrastructure (especially energy and transport) and more directly through support for agriculture and rural development. The Bank participated in the fiscal 2001 Diagnostic and Trade Integration Study, which identified obstacles to Cambodia's integration into the global economy, and was the lead technical partner supporting Cambodia's accession to the World Trade Organization. A fiscal 2003 "value-chain analysis" quantified the high administrative costs and market barriers facing the private sector. A fiscal 2005 Investment Climate Assessment (a joint report of the Bank, IFC, Mekong Project Development Facility, and the Public-Private Infrastructure Advisory Facility) identified the regulatory reforms required to provide adequate incentives for private sector investment and supplied the analytical basis for the fiscal 2005 Trade Facilitation project, the primary Bank lending in direct support of PSD.¹² The Bank also provided TA support for development of several new laws, including the Concessions Act, Customs Law, and the law on Special Economic Zones.

Under the Trade Facilitation project the government committed to reducing the number of agencies involved in clearing imports and

exports, to adopt a single administrative document and “single window” for customs clearance, and a “one-stop” clearance procedure for (duty-free) Special Economic Zones. Progress has been slow and difficult and the project has faced delays in effectiveness (six months) and implementation. Implementation progress was rated *satisfactory* until 2007 but the project rating has now been downgraded to *moderately unsatisfactory*. The government has not accepted the Bank’s proposal that the single window should be managed by a joint public-private agency outside of the Customs Department, arguing that the consultant advice provided on the single window proposal was not relevant to Cambodia’s situation. As a result, the project has been restructured to shift funding that was originally intended to support the single window to support implementation of the Automated System for Customs Data documentation system.¹³

IFC has been active in supporting PSD since Cambodia joined the IFC in 1997. (See appendix B for details on the IFC program in Cambodia.) Through the Mekong Private Sector Development Facility (MPDF) IFC has assisted SMEs with management training, business support services, and financing through the Mekong Enterprise Fund. MPDF has also focused on improving the general business environment. Other IFC departments have also provided advisory services to the government and the private sector. Since 2002 IFC has coordinated the government-Private Sector Forum, which is the principal mechanism for direct government/private sector dialogue. The forum has been instrumental in achieving consensus on a number of issues including commercial legislation, financial sector reforms, and trade facilitation, as well as permitting open discussion of issues such as corruption.¹⁴ Finally, IFC has developed a small portfolio of investment projects. The most notable of these is the ACLEDA Bank, which has grown from a microcredit institution, with outstanding loans of US\$10 million in 1998, to a full-service commercial bank, with 164 branches across the country and a portfolio of almost US\$160 million in June 2007, while still providing SME financing.

Outcomes and Bank Contribution

In recent years the government has begun to improve the PSD climate but progress remains slow. As mentioned earlier, over half of the laws required for World Trade Organization compliance have been passed, including a customs law and a concessions law, and the commercial code is in the final stages of drafting.¹⁵ The government, at the Bank’s urging, adopted a 12-point plan to improve the investment climate and trade facilitation (reduced from a 24-point plan). Half of the elements in the plan have been adopted, with some progress on others, but despite the appearance of government ownership, some officials informed IEG that they felt the plan had been imposed by the Bank. There has been some limited progress in customs reforms; a survey done for the Bank in 2005 found a reduction in time required for import clearances from 30 days in 2003 to 10.5 days in 2005, and for export transactions from 6.6 days in 2003 to 20 hours in 2005. There were corresponding reductions in transaction costs and even in informal fees. The Bank/IFC *Doing Business* 2007 survey found that, since 2003, the cost of starting a business, as a percentage of income per capita, has decreased by over 50 percent. However, the cost is still 236 percent of income in Cambodia versus 45 percent in Vietnam, and 17 percent in Lao PDR.

Despite this limited progress, Cambodia still ranks as one of the least competitive countries in its region. In the Bank/IFC *Doing Business* 2007 report, Cambodia ranks 159th out of 175 countries on time and effort required to start a business, 151st on closing a business, and 159th on dealing with licenses. The Institutional Investors’ Credit Risk Report classifies Cambodia as “high risk.” IFC’s assessment is that the investment climate has improved very little in recent years.

While the Bank’s AAA and policy advice provided useful analysis, the Bank and other donors have, so far, made only a limited contribution to progress in PSD. Progress in the Trade Facilitation project has been downgraded to *moderately unsatisfactory*. The most notable achievement has been IFC’s contribution to

improving the dialogue between the government and the private sector. Undoubtedly the Bank and its main interlocutors attempted an overly ambitious program of legal and regulatory reforms in terms of scope and timing, and substantially more time will be required for some of the program's goals to be achieved. The overall outcome in PSD to date is judged *moderately unsatisfactory*.

Economic Growth Background

Cambodia began the 1990s as one of the poorest developing countries. In response to the economic liberalization measures introduced by the government, the economy grew at an average rate of 6 percent over 1994–98. The agricultural sector, a source of livelihood for an estimated 85 percent of the population, grew at over 4 percent, on average, during this period but with sharp year-to-year fluctuations in crop production.

Bank Strategy and Program

Sustained economic growth and poverty reduction were objectives in all three CASs during the CAE period. The Bank's program and policy advice were focused on developing the base for growth and poverty reduction through improvements in the environment for PSD, in governance, and delivery of social services, reorientation of public spending, and rehabilitation of physical infrastructure (topics treated elsewhere in this report). The Bank also carried out analytical work on the determinants of growth and poverty reduction (that is, a country economic memorandum, *Cambodia at the Crossroads: Strengthening Accountability to Reduce Poverty*, and two poverty assessments). Other growth-related AAA and lending included two PERs focused on improving the effectiveness of public expenditures, three reports on the environment for PSD, secure land tenure as a basis for productivity gains in agriculture, and improving government services for farmers.

Outcomes

Overall economic performance during the CAE period has been strong, as shown in table 3.2. GDP growth in 1999–2006 averaged over

9 percent per year, and over 11 percent for the past three years, raising per-capita incomes to over US\$500 in 2006.¹⁶ Growth has been led by garment manufacturing and tourism, as discussed in the previous section. These sectors have, in turn, supported a growth rate of 12 percent in the construction industry. The agricultural sector has grown at an average rate of 4 percent per year, but with wide year-to-year fluctuations. The dollar value of exports has increased almost fourfold since 1998, and the share of exports in GDP has doubled, with garments accounting for 80 percent of export value. Imports have increased at a comparable rate, but the balance of payments deficit has remained manageable due to aid inflows. The share of investment in GDP has doubled since the early 1990s and foreign investment, after slumping in 2002–04, reached new highs in 2005–06. Inflation, measured by the Consumer Price Index, which had reached annual levels of over 100 percent in the early 1990s, has been held to single digits since 1999. In terms of economic performance against monitorable indicators, in all cases, except US\$ per capita income, SAC targets for 2002 were exceeded and the trends since 2002 have remained positive.¹⁷ The overall outcome of the Bank's efforts in support of economic growth is judged *satisfactory*. The Bank has contributed to establishing some of the preconditions for sustained growth—macroeconomic stability, human resource development, and infrastructure rehabilitation—and, in the government's view, the Bank should continue to support reforms promoting growth as the most important contribution to poverty reduction.

Poverty Reduction Background

A 1994 household survey estimated that 47 percent of Cambodians lived below the poverty line, with 88 percent of the poor living in rural areas. By the late 1990s there was growing concern, based on subsequent surveys, that Cambodia's rapid growth was not generating significant poverty reduction. While inadequate attention to data quality and comparability in these later surveys made comparisons to the 1994 baseline survey invalid (see box 3.1), these

Table 3.2: Economic Indicators for Cambodia, 1998–2006

Indicator	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
GDP real growth rate	5.0	11.9	8.8	8.0	6.5	8.5	10.0	13.5	10.8
GDP per capita, current US\$	253	281	288	301	326	349	392	454	513
Agricultural sector growth rate	5.2	2.2	-0.4	3.6	-2.5	10.5	-0.9	15.7	5.5
Industrial sector growth rate	6.2	21.2	31.2	11.2	17.1	12.0	16.6	12.7	18.3
Manufacturing growth rate	15.2	19.7	30.3	15.2	14.4	12.3	17.7	9.7	17.4
Investment/GDP	12.4	15.9	16.9	18.5	19.7	21.5	17.5	19.7	
Foreign direct investment/GDP	7.8	6.6	4.1	3.8	3.4	1.8	2.5	6.1	6.5
Govt. revenue/GDP	8.9	11.5	10.2	10.0	10.5	9.7	10.3	10.3	11.5
Govt. expenditure/GDP	13.8	14.7	15.0	15.2	16.8	16.7	14.9	13.7	13.5
Exports/GDP	25.8	32.1	38.2	39.6	41.4	45.5	49.2	47.0	
Imports/GDP	37.6	45.3	53.0	52.7	55.2	58.1	62.1	63.4	
Current account balance/GDP	-5.6	-5.4	-3.8	-2.8	-2.6	-5.1	-3.5	-5.7	
Consumer prices—annual increase	13.3	-0.5	-0.8	0.7	3.7	0.5	5.6	6.7	2.8

Source: Cambodia National Institute of Statistics, National Accounts of Cambodia, June, 2007; World Bank database; IMF staff reports.

a. Preliminary.

Box 3.1: Measuring Results: Data Quality and Comparability Are Key

Three household surveys implemented by Cambodia's National Institute of Statistics (NIS) in the late 1990s, to measure consumption and poverty, provide important lessons on the critical need for data quality and comparability over time. These surveys, including two partly supported with Bank-executed trust funds, paid inadequate attention to data comparability, resulting in differing questionnaire designs, sampling frameworks, and/or implementation procedures. These problems, combined with misfiling of key data from the 1993/4 survey, prevented meaningful comparisons with the baseline survey, delaying the government's ability to monitor poverty trends for several years.^a

Bank support to the NIS from 2003 was far more effective, and included assistance in implementing the 2004 Cambodia Socio-Economic Survey (CSES) and in preparing a Statistical Master Plan for NIS' overall institutional development. The Bank organized sustained technical input for the CSES, including specialists in survey design and interviewer training, supported special efforts to make this survey as comparable as possible to the baseline, and

coordinated inputs with other development partners. The Bank's support for the CSES benefited from its enlarged field capacity for poverty analysis. The 2004 CSES, combined with the rediscovery of the misplaced data from the 1993/4 sample, allowed the first reliable analysis of poverty trends in Cambodia. An expert working with NIS stressed that Bank support was well used by NIS and was crucial in helping NIS achieve this result, but that further support would be needed to build NIS' capacity. A SWAP currently under consideration to assist in NSDP implementation and monitoring could potentially provide such support.

Cambodia's experience demonstrates that poverty surveys need to be comparable over time, well documented, and archived. The World Bank and other donors need to coordinate their support for statistics carefully to ensure continuity, comparability, and a focus on agreed priorities. These lessons extend beyond poverty analysis and apply as well to measuring results over time in other areas—efforts that will intensify as Cambodia and its development partners move to a more results-based approach.

^a For a discussion of these surveys and their various issues, see Cambodia, Halving Poverty by 2015? – Poverty Assessment 2006, World Bank, February 2006, p. 19, as well as NIS technical reports on the specific surveys.

flawed comparisons nevertheless did focus attention on the need for a more pro-poor development strategy.

Bank Assistance Strategy and Program

Poverty reduction has been a key objective in all three CASs in the CAE period, with broad-based, sustainable growth and improved access for the poor to better quality health and education services seen as the main drivers of poverty reduction. The Bank has issued two poverty reports (1999 and 2006) and contributed to producing a consistent time series on poverty incidence. The Bank also supported the government's work on the Poverty Reduction Strategy Paper (in Cambodia it is referred to as the 2003–05 National Poverty Reduction Strategy). Unfortunately, the NPRS competed with an alternative strategy, the Socio-Economic Development Plan, supported by ADB. Despite the government's request to combine the NPRS and Socio-Economic Development Plan approaches, the Bank and ADB did not agree.¹⁸ In addition to this duplication of effort, the NPRS process allowed inadequate time for consultation, drafts were produced only in English,

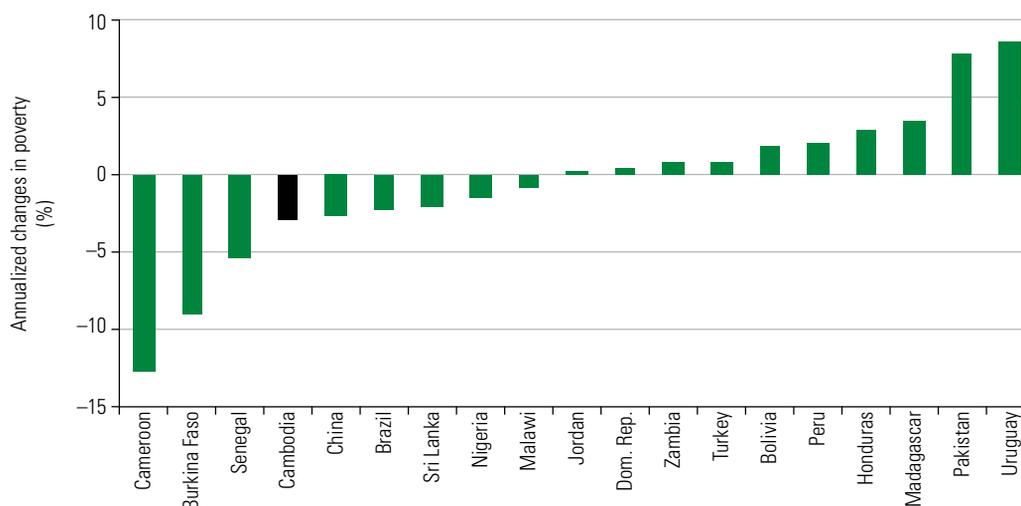
government ownership was weak, contact with other donors was limited, and the NPRS was not linked with the budget or with sector strategies.¹⁹ On the positive side, the process did establish limited consultation with civil society and brought poverty reduction more explicitly into the overall development strategy.

The NPRS experience made it clear that a much better approach to supporting a poverty reduction strategy would be required in the future, with coordinated backing for the government's strategy—the NSDP. This was reflected in the specific objective stated in the fiscal 2005 CAS—to strengthen government focus on poverty reduction “through a consolidated national plan with increased country ownership . . .” and to provide a basis for joint action and monitoring through “high-quality poverty analysis.”²⁰

Outcomes and Bank Contribution

The poverty rate in Cambodia declined from 47 percent to 35 percent between 1994 and 2004 (see figure 3.2), falling more rapidly than in 15 of 18 countries analyzed in the 2006 *Annual Review of Development Effectiveness*

Figure 3.2: Decline in Poverty



Source: 2006 Poverty Assessment for Cambodia; 2006 Annual Review of Development Effectiveness for comparators.

and more rapidly than targeted in the NPRS.²¹ Robust economic growth was the main reason for this decline in poverty. Moreover, growth was relatively efficient in reducing poverty—each 1 percent of annual growth in real GDP per capita was associated with a decline in poverty of over 0.5 percent. Continued high growth since 2004 has undoubtedly led to a further decline in poverty. However, evidence of rising inequality in consumption between 1994 and 2004 led the Bank to analyze equity issues in a 2007 report.²² While this report found that the rise in inequality took place almost entirely between 1993 and 1997, it cautioned against complacency since there are weaknesses in the data and widespread perceptions of rising inequality. Consequently, the report recommends careful monitoring and specific policies and programs to broaden the benefits of growth.

Beginning in 2003 the Bank installed a “poverty team” in the country resident mission to work together with headquarters staff on poverty analysis, leading to a high-quality poverty assessment, improved donor coordination, and effective support for the NSDP.²³ DFID funded much of this Bank activity through a US\$2 million

trust fund.²⁴ The team continues to work with government and donors through the TWG for Planning and Poverty Reduction. The Bank has also collaborated with other donors and United Nations agencies in a number of studies on gender issues, social protection, child labor, and women in the garment industry.²⁵

The Bank’s analysis, policy advice and lending have been relevant for poverty reduction and particularly effective in the second half of the CAE period. Through the Bank’s work, poverty reduction objectives and programs are now a central theme in national planning, and are particularly well integrated in education and health plans. The outcome for the Bank’s poverty reduction efforts over the entire CAE period is judged *moderately satisfactory*.

Overall Outcome Rating

The overall rating, balancing the positive outcomes in economic growth, expenditure reorientation and poverty reduction, and the recent progress in PFM, against the limited progress in PSD and the unsatisfactory performance in revenue mobilization, is *moderately satisfactory*.

Chapter 4



A handicapped woman attempts to walk with an artificial leg in the Veterans International Center, Cambodia.

Photo by Masaru Goto, courtesy of the World Bank Photo Library.

Delivery of Social Services

Education *Background*

At the beginning of the CAE period, education indicators were still far below regional averages and were much worse for the poor and for women. Efforts were made to restore the basic education system following its near eradication by the Khmer Rouge, but resource constraints, political instability, and lack of security limited progress. By 1997/98, fewer than 63 percent of adults were literate (55 percent for women). The net primary enrollment rate was rising but was still below 80 percent and the rate in lower secondary school had reached only 16 percent. Rates were lower still for the poor, for girls, and in remote areas. Nearly half of the primary schools offered fewer than six grade levels, and only about 9 percent of primary school teachers were educated beyond the lower secondary level. Drop-out and repetition rates were extremely high. Public spending on education was only 1 percent of GDP in the early 1990s. Virtually no funds were available for operating expenses and instructional materials, and teachers' compensation, like all government salaries, was abysmally low. Spending had risen to 2.3 percent of GDP by 1996–98 but over 60 percent was financed by donors.

Bank Assistance Strategy and Program

Improving social services has been an objective in all three CASs during the evaluation period. In education the Bank's strategy was relevant and closely aligned with the government's strategy, which was developed in the late 1990s—to expand, and make more equitable,

access to basic education, and to improve its quality and efficiency. A substantial increase in public spending on primary and lower secondary education, improvements in institutional capacity, and decentralized management were seen as essential for achieving these objectives. The government also sought improved donor

coordination to reduce fragmentation of efforts and to increase aid effectiveness. Sector analysis and TA, particularly from ADB, UNICEF, and UNESCO, and government dialogue with donors, including the Bank, led to the 2001–05 Education Strategic Plan (ESP) and the associated Cambodia Education Sector Support Project (CESSP), which is now updated annually based on government-led reviews with donors.¹ The plan, with an explicitly pro-poor focus, includes school construction in underserved areas, incentives for teachers to work in remote areas, quality improvement programs, provision of textbooks, use of budget funding to replace school fees, and scholarships for disadvantaged children in lower secondary schools.

Bank Operations

Bank projects in education are listed in table 4.1. The Bank's early interventions in education were through the first and second Social Fund projects, which financed small-scale social and economic infrastructure, mainly in underserved rural areas. Primary schools were the greatest source of demand for these funds; during fiscal 1995–2005 these projects built or renovated 1,144 primary schools. Following devastating floods in 2000, the Flood Emergency Rehabilitation Project built or rehabilitated 376 schools. Together, these three operations built or rebuilt nearly 25 percent of Cambodia's primary schools.²

The Education Quality Improvement Project (a Learning and Innovation Loan), focused on raising quality and efficiency in three of the most densely populated provinces, benefiting over 20 percent of Cambodia's primary students. It introduced school-based quality improvement plans and piloted learning assessments. Two independent evaluations gave highly positive assessments of this program's impact.³

The ongoing CESSP focuses on improving quality and access in basic education, applying the main lessons of Education Quality Improvement Project throughout the country, especially in underserved areas. It is also introducing a system of national standardized learning assessments. It is coordinated with other donors through a SWAP-like arrangement led by the government.⁴ Implementation progress has been satisfactory. The CESSP also provides limited support for higher education, but concerns that accreditation procedures are not sufficiently independent have postponed broader engagement in higher education by the Bank.

AAA

Both the PER and the IFAPER demonstrated how education expenditures could be increased and made more effective, while the two poverty assessments and Bank support for the NPRS and NSDP focused on how these expenditures could better assist the poor. Other analytical work

Table 4.1: IDA Projects in Education or with Education Components

Fiscal year	Project name	Amount (US\$m)	Status	IEG outcome rating
1995	Social Fund I	20.0	Closed 6/30/00	<i>Satisfactory</i>
1999	Social Fund II	35.0	Closed 3/31/05	<i>Moderately satisfactory</i>
2000	Education Quality Improvement	5.0	Closed 3/31/04	<i>Satisfactory</i>
2001	Flood Emergency Rehabilitation	35.0	Closed 6/30/05	<i>Satisfactory</i>
2005	Education Sector Support	28.0	Ongoing	

Source: Appendix table A.3c.

included a report documenting how the cost of education borne by households still limits access by the poor, even though increased government funding and abolition of school fees substantially reduced cost barriers. A public expenditure tracking survey in primary education measured the extent to which reforms in public expenditure management have resulted in greater availability and more timely releases of funds to the primary level. Policy and program impact assessments included *Getting Girls in School: Evidence from a Scholarship Program in Cambodia* and *Quality Basic Education for All*, which provided much of the analytic underpinning for the CESSP.⁵

Outcomes and Bank Contribution

Education sector outcomes in the CAE period have been strongly positive as shown in table 4.2.

Cambodia's primary enrollment and adult literacy rates have risen faster than the low-income country average and narrowed the gap with other East Asia and Pacific Region countries. Equity in primary school access has improved, with enrollment rates rising faster than average for girls, for students in remote areas, and for students in the

poorest income quintile, although disparities in access remain significant for poor students and in disadvantaged areas. Both the percentage of complete primary schools (offering all six grade levels) and the availability of early childhood education have also increased. Literacy rates have risen—more rapidly for women and for those in rural areas—with the largest improvements among ages 15–24, the group most affected by the recent enrollment expansion.⁶ Over time, the National Learning Assessments (being introduced through the CESSP) will provide more direct evidence on trends in learning outcomes. The one round available to date found that average performance of grade-three students is below the intended level.⁷ While this is not an unexpected result—given the recent rapid expansion in enrollment, which included a larger share of children less likely to be prepared for school—it signals an important future challenge. Another concern is the student/teacher ratio, which rose sharply, peaking in 2001 before subsiding to levels that are still quite high. However, the average education level of primary teachers has increased considerably. With enrollment of the school-age population now stabilized, and much of the growth in

Table 4.2: Education Outcomes

Indicator	Baseline (1997–98)	Outcome (2005–06)
Primary gross enrollment rate	88.3%	124.0%
Primary net enrollment rate (NER)	77.8%	91.3%
Lower secondary NER	16.3%	31.3%
Ratio of female NER to total NER (primary)	.93	.98
Ratio of female NER to total NER (lower secondary)	.76	.97
Ratio of primary NER in remote areas to total NER	.55	.92
Ratio of primary NER of poorest 20% to richest 20%	.69	.74
Primary teachers with secondary or higher education	9.3%	25.7%
Adult literacy rate (1998 and 2004)	63%	74%
Percent of domestic budget for education (1996/98 and 2004/06)	9.2%	15.8%

Source: Appendix table A.2b.

primary enrollment rates completed, it should be increasingly possible to see the impact of interventions embodied in the ESP and CESSP on learning outcomes.

These outcomes were underpinned by a significant increase in public spending on education, particularly basic education, with an increase in resources reaching the school level. The shift in resources supported by the SAC was crucial for achieving this result. As indicated in figure 3.1 and in appendix table A.2b, spending on education rose as a share of GDP, during a period of rapid GDP growth, increasing more than 50 percent in real per-capita terms. The share of education spending financed domestically rose from 38 percent to over 56 percent, reducing the reliance on donor financing. The share of public education spending allocated to basic education rose from an estimated 54 percent in the mid-1990s to about 80 percent in the mid-2000s. The increased resources financed expansion of the system, particularly in previously underserved areas, and funded a larger share of school operating costs, including textbooks, and permitted the elimination of nearly all formal school fees, which had been a barrier to entry for children from poor families. Analysis in the Bank's 2006 poverty assessment indicates that spending on primary education has been strongly pro-poor, and more recent analysis suggests that the pro-poor focus may have further intensified, with the share of spending on specifically pro-poor programs rising from 45 percent in 2002 to 66 percent in 2006.⁸ While budget releases were often delayed and sometimes lower than expected, this situation has apparently improved, although funding delays were still being reported in early 2007.

The government's ESP provided a coherent framework within which the Bank, other donors, and the government worked effectively. Bank operations met priority needs in the ESP, both in expanding access to underserved groups and in raising quality, while testing new community and school-based approaches and learning assessments, which provided valuable, field-based experience on how to improve access and quality. The Bank also built highly effective donor/

NGO/government partnerships. The Bank's analytical work, which put education issues in the broader context of public expenditure management, civil service reform, and poverty reduction, supported budget reallocations to finance higher levels of education spending, particularly for basic education and scholarship programs for disadvantaged students. A number of these activities were later incorporated into the government's countrywide Priority Action Program, and are being reinforced and further developed through the CESSP. The Bank has supported a flexible SWAP-like approach that integrates project support with assistance from donors providing budget support. There has been important progress in building a national school assessment system and a useful focus on monitoring and evaluation in both operations and analytic work. Institutional development has been substantial. While significant challenges remain, particularly in raising quality and learning outcomes after the massive increase in access, a process of strategic planning by government and donors has evolved, which seems sustainable and capable of meeting future challenges. Bank assistance in introducing learning assessments is providing an essential tool for improving learning outcomes over time. The Bank's contribution to these outcomes has been substantial, and the CESSP is well structured to assist in meeting the continuing challenges. Continuity of Bank staff involvement in education has been high, with well-qualified staff posted in the field. Government and other donors interviewed expressed strong appreciation for the Bank's role as an effective and collaborative partner in the education sector. The overall outcome in education is rated *satisfactory*.

Health Background

As in education, efforts were made to reestablish health services, which had been systematically destroyed by the Khmer Rouge. Gradual improvements were achieved, but health indicators remained stubbornly poor well into the 1990s. By 1998, the infant mortality rate was about the same as the average for low-income countries but was more than twice the East

Asia and Pacific Region average. Life expectancy was about 55 years, lower than the low-income country average of 58, and far below East Asia and Pacific Region's 68 years. HIV prevalence had risen to 3.3 percent of the adult population by 1997, the highest in Asia at that time. Total public spending on health was only 1.9 percent of GDP in 1996–98, with three-fourths funded by donors. Health system coverage was limited geographically, with only 13 percent of Ministry of Health staff posted in rural areas.

Bank Assistance Strategy and Program

The Bank's objectives in health were to expand access, make health services more equitable, and improve quality and efficiency. A significant increase in public spending was seen as essential for extending health services to the poor and to underserved areas. These objectives were highly relevant for Cambodia and closely aligned with government strategies for health and poverty alleviation. By the mid-1990s the Ministry of Health, with support from WHO, UNICEF, and other donors, had adopted a National Health Development Plan to reform the delivery system by establishing a countrywide network of community-level primary health centers backed up by district, provincial, and national hospitals. Over time, and in consultation with donors and other stakeholders, the Ministry of Health initiated a sector-wide management approach, leading to articulation of the Health Sector Strategic Plan, 2003–07. This plan moved beyond the initial concentration on construction and rehabilitation of public health facilities to improved service delivery, with a greater focus on reaching the poor.

Bank Operations

The Disease Control and Health Development Project (see table 4.3) supported a network of district health centers and referral hospitals in 11 provinces, as well as three national disease-control programs—for HIV/AIDS (including a small grants program administered by a Cambodian NGO), malaria, and tuberculosis. The project fit within the government's health strategy and with other donor programs. It shared a joint Project Management Unit with an ADB project and the two organizations agreed on a division of the provinces covered. The project funded a major increase in health system access (by 2.8 million people, or 21 percent of the population).⁹ The Implementation Completion Report and Project Performance Assessment Report (PPAR) had noted methodological flaws in the end-of-project evaluation survey that prevented direct comparisons with the baseline survey. However, the 2005 Demographic and Health Survey (DHS) shows improving trends in indicators consistent with the PPAR's assessment of substantial positive outcomes.¹⁰ Important lessons included the need for training in procurement and financial management, and showed that a relatively complex project can be implemented successfully if there are explicit implementation plans, with adequate prioritization, capacity building, and donor coordination. The PPAR also drew attention to the importance of monitoring and evaluation to guide implementation decisions, assess the impact of pilots, and track results over time. The project received an IEG Good Practice Award for institutional development impact in 2005.

Table 4.3: IDA Projects in Health

Fiscal year	Project name	Amount (US\$m)	Status	IEG outcome rating
1997	Disease Control and Health Development	30.4	Closed 12/31/02	<i>Satisfactory</i>
2003	Health Sector Support	27.0	Ongoing	

Source: Appendix table A.3c.

The ongoing Health Sector Support Project (HSSP)¹¹ supports the government's Health Sector Strategic Plan, within a multidonor framework. The HSSP partners and other donors active in the health sector participate in annual government-led, SWAP-like reviews of sector progress and Health Sector Strategic Plan financing needs for the coming year. The HSSP components include:

- i. Improving health service delivery, especially for the poor, by ensuring adequate health centers and referral hospitals, especially in underserved areas; improving the quality of services through training, upgraded standards and procedures, and essential equipment, with an increasing focus on maternal and child health issues; increasing affordability for the poor through equity funds; and continuing experiments with contracting service provision (see below) as a mechanism to raise efficiency and effectiveness;
- ii. Strengthening key public health programs to improve nutrition and control disease (notably malaria, dengue, tuberculosis, and STDs and HIV/AIDS); and
- iii. Further strengthening health sector management, particularly policy, legal and regulatory frameworks, sector planning and program coordination, financial management, and monitoring and evaluation.

The HSSP also supports contracting out health services to qualified international NGOs in selected operational districts, an innovation first introduced in an ADB project in 1998. Early results are positive and an HSSP-funded evaluation is assessing sustainability and replicability of contracting.¹²

The HSSP is a complex project which started slowly. Several factors may explain this, including excessive turnover in Bank task team leadership—four task team leaders in less than three years.¹³ This problem was resolved by posting a senior health specialist in Phnom Penh in January 2006. Based on the October 2006 midterm review, the operation now appears to be making good progress and, with extension of the closing

date to December 2008, is expected to achieve its development objectives.

AAA

While the Bank's analytic work on health has been limited, it has focused on priority issues and on areas of the Bank's comparative advantage.¹⁴ As in education, the Bank has integrated health issues with the macroeconomic framework, the public sector reform agenda, and poverty through its economic analysis, PERs, poverty assessments and dialogue. By highlighting the linkages between poverty and health through AAA the Bank helped ensure the integration of the Health Sector Strategic Plan in the poverty reduction strategy and provided the analytic underpinnings for interventions to lower health costs for the poor. Several health and education donors highlighted this as an important contribution of the Bank. Following the IFAPER, the health and education ministries were selected to pilot the public financial management reforms being developed by the MEF. Bank analytic work has also included a health financing study, which analyzed pro-poor financing policies. A draft health public expenditure tracking survey (being finalized in 2007) analyzes budget resource flows to health facilities to determine the extent to which resources reach the front line and to identify areas for improvement in resource management.¹⁵

Outcomes and Bank Contribution

Most health indicators have improved significantly and some more rapidly than in low-income countries, on average (see table 4.4). The 26 percent drop in infant mortality has moved Cambodia from above the low-income country average to well below it. The eight-year rise in life expectancy has put Cambodia well above the low-income country average and significantly narrowed the gap with the East Asia and Pacific Region average. Progress has been made in increased condom use among groups at high risk of contracting HIV/AIDS.

The improvement in health outcomes has been associated with a substantial increase in public spending and a greater pro-poor focus, due in part to commitments under the SAC (see figure

3.1 and appendix table A.2c). Total spending in real per-capita terms more than doubled from 1996–98 through 2004–06, while the share to health in the domestic budget increased by over 90 percent. Domestic financing rose from 25 percent of expenditures at the start of the CAE period to over 30 percent by 2004–06. However, despite the strong upward trend in spending, there have been persistent shortfalls and delays in the disbursement of funds at the facility level, leading to inefficiencies and cutbacks in activities.¹⁶ Furthermore, little of the increased spending has been allocated to civil service salaries, and, as in other sectors, civil service pay reform will be critical for sustaining and improving health service access and quality.

Access to public health services has improved, especially in more remote areas, as the number of health centers, and the number of centers offering complete services, has risen. Improvements in some indicators, including child immunization and professional prenatal care, have been more rapid in rural areas than in urban ones. Out-of-pocket costs declined by 28 percent between 2000 and 2005, mainly due to increased public funding. Health equity funds have been introduced to pay user fees for the poor. These

funds assisted nearly 100,000 cases in 2005, and are targeted to reach 400,000 in 2007. Though still experimental, health equity funds have led to a dramatic increase in use of health facilities by the beneficiaries, while (unlike with fee exemption schemes) providing incentives to health staff and funds for facility operations.

Despite substantial progress, indicators of disease and mortality are still high, as are disparities across socioeconomic levels. The availability of maternal health services and use of health facilities by women have increased substantially and the maternal mortality rate is well below the levels of the mid-1990s. Even so, the maternal mortality rate has not improved since 2000, and is still four times higher than the East Asia and Pacific Region average, clearly indicating the need to maintain a focus on maternal health. Moreover, while HIV/AIDS was initially concentrated among sex workers and uniformed personnel, new cases are emerging in the general population. Fertility and population growth have declined more slowly in recent years and remain high in comparison with East Asia and Pacific Region averages; a more rapid decline in fertility would reduce both maternal mortality and poverty. However, even with these

Table 4.4: Health Outcomes

Indicator	Baseline (1997–98)	Outcome (2004–05)
Infant mortality (per 1,000 live births)	89	66
Maternal mortality (per 1,000 live births) (1995 and 2005)	6.5	4.7
Percentage of live births with professional prenatal care	34.3%	69.3%
Life expectancy at birth for total population (years)	55	63
Child immunization rate for DPT3	46%	78%
Consistent condom use by sex workers (1997 and 2003)	42%	96%
Number of patients assisted by equity funds (2002 and 2005)	5,234	99,800
Out-of-pocket health spending (US\$ per capita, 2000 and 2005)	20.70	14.90
Percentage of domestic budget spent on health (1996–98 and 2004–06)	5.0%	9.7%

Source: Appendix table A.2c.

caveats, the improvements in health outcomes can be rated *satisfactory*.

Assessing attribution for outcomes in health is difficult, not only because many donors are involved in the sector, but also because health outcomes are not the result of public health programs alone. Nevertheless, it is clear that the Bank's program has made an important contribution to outcomes. The program was supportive of the government's strategy, operated through the Ministry of Health, and provided resources on a

scale that had a countrywide impact. The Bank has contributed to institutional development and has supported the Ministry of Health's efforts to improve donor coordination. Operations and analytical work have had an adequate focus on results monitoring and evaluation.

The outcome for the Bank's contributions in both the health and education sectors over the CAE period is judged *satisfactory*, and the Bank's significant contributions to institutional and human resource capacity building are also noted.

Chapter 5



A man employs two oxen to plough a rice field, Cambodia. Photo by Masaru Goto, courtesy of the World Bank Photo Library.

Agriculture, Rural Development, and Natural Resource Management

Background

The Cambodian agricultural sector is comprised largely of smallholder farms devoted to subsistence rice production. After the disastrous collectivization program of the Khmer Rouge, the government, during the 1980s, abolished collective farming, restored private ownership of land, and established free markets for agricultural trade. However, given the disruptions of the past, agricultural productivity remains well below other East Asia and Pacific Region countries (see table 5.1). Limited irrigation infrastructure, poor irrigation water management, and low use of purchased inputs are the main causes of low productivity.¹ The agricultural sector growth rate has been positive—4 percent per year during the CAE period—but production is subject to significant weather-related fluctuations.²

The main natural resource issues that Cambodia faces are: establishing sustainable and equitable utilization of forest resources; control and distribution of the water supply for agriculture, fisheries and other uses; establishing security of land tenure; and protection of significant biodiversity resources. With respect to Cambodia's valuable timber reserves, lack of security in previous decades had the effect of preserving the forests. However, with political stability restored, uncontrolled extraction of timber became rampant, with annual off-take estimated to be four to eight times the sustainable yield, while the government received only 20 percent of the estimated value of royalties on the timber harvested. It was widely recognized that this rate

of extraction, if continued, would totally exhaust Cambodia's forests within one or two decades.

Bank Assistance Strategy and Program

With 85 percent of the population living in the rural areas, and 90 percent of the poor, the Bank clearly saw the priority of focusing on agriculture and rural development. However, given lack of knowledge of the sector, the Bank was not well placed initially to move quickly into operational support, nor was the Bank the lead donor for agriculture. The Bank nevertheless began work with an agriculture sector memorandum to identify constraints and priority needs; the report was discussed with government and other donors and incorporated into the 1997

**Table 5.1: Productivity of Selected Crops in Southeast Asian Countries
(2001 tons/hectare)**

	Rice ^a		Maize	Cassava	Soybeans
Cambodia	2.07	(90%)	2.76	10.5	0.85
Vietnam	4.29	(62%)	2.96	12	1.24
Thailand	2.62	(57%)	3.73	17.5	1.42
Lao PDR	3.13	(80%)	2.55	4	0.9
China	6.15	(n/a)	4.7	16	1.62
Indonesia	4.39	(38%)	2.84	12.9	1.22
Malaysia	3.14	(12%)	3.05	10	n/a

Source: Food and Agriculture Organization of the United Nations, as quoted in Rural Sector Strategy Note, World Bank, June 20, 2005.

a. Figure in parentheses is rice share of total cultivated area.

CAS and the first lending operation. Also, the Bank worked with UNDP and FAO on a sustainable forestry policy. The 1997 CAS emphasized that “revenues from the exploitation of natural resources, most notably forestry, should flow transparently and fully into the national budget.” The fiscal 2000 CAS emphasized the need to develop rural infrastructure, and the fiscal 2005 CAS highlighted support for the government’s program of decentralization and the continued need to improve NRM.

Bank Operations

The first operation in the agricultural sector was the fiscal 1997 Agricultural Productivity Improvement Project, which closed in fiscal 2006, 42 months after the original closing date. The project focused on improving the capacity of the Ministry of Agriculture, Forestry, and Fisheries to deliver services to improve farmers’ productivity. The project contributed to some capacity building within the ministry, and adoption of improved practices in small-scale irrigation, pest management, and animal health, but did not succeed in developing a sustainable system for delivering the full range of services to farmers. Following a mid-term review, greater efforts were made to establish links to farmers but without success. The outcome was judged *moderately unsatisfactory*.

From fiscal 1999 through December 2006 the Bank committed funding for a project in Land Management, Learning and Innovation Loans in Forest Concession Management and biodiversity protection, a Flood Emergency Rehabilitation project (following the devastating floods of 2000), and small-scale rural development projects—Social Fund II, Northeast Village Development, Rural Investment and Local Governance (see table 5.2). The small-scale rural development projects supported the government’s initiatives in decentralization and enhanced the capacity of local governments to plan and oversee development activities. (Because these rural development projects and the Social Fund projects also funded rural infrastructure they are also listed in table 6.1) The NVDP operated through the Ministry of Rural Development to support projects at the village level, rather than directly participating in the government’s Seila program, which was supported by other donors, although the Bank provided some grant support to Seila in parallel with the NVDP.³ However, in line with the government’s decision to concentrate support at the commune level rather than the village level, following elections for commune councils in 2002, the Bank adopted the Seila approach in the fiscal 2003 Rural Investment and Local Governance project. The Bank is now aligned

Table 5.2: IDA Projects in Agriculture, Rural Development, and Natural Resource Management

Fiscal year	Name	Amount	Status	IEG outcome rating
1995	Social Fund I	20.0	Closed 6/30/00	<i>Satisfactory</i>
1997	Agricultural Productivity Improvement	27.0	Closed 12/31/05	<i>Moderately unsatisfactory</i>
1999	Social Fund II	35.0	Closed 3/31/05	<i>Moderately satisfactory</i>
1999	Northeast Village Development	5.0	Closed 6/30/04	<i>Satisfactory</i>
2000	Forest Concession Management	4.8	Closed 12/31/05	<i>Unsatisfactory</i>
2000	Biodiversity and Protected Areas Mgt.	1.9	Ongoing	
2001	Flood Emergency Rehabilitation	35.0	Closed 6/30/05	Satisfactory
2002	Land Management and Administration	24.3	Ongoing	
2003	Rural Investment and Local Governance	22.0	Ongoing	

with an approach to rural development that has strong government support.

In the Land Management and Administration Project the Bank is collaborating with several donors to support the government's land titling program, considered essential for establishing secure land tenure. Quality-at-entry was rated *satisfactory* and strategic relevance was rated *highly satisfactory* by the Quality Assurance Group. The project's objective is to issue one million titles during its implementation period. By January 31, 2007 (11 months before the expected closing date) 880,000 titles had been issued. While this is obviously a successful program, at the same time, land-grabbing under a variety of pretexts has become a major problem (see box 5.1).

In NRM the biodiversity project has focused on strengthening the capacity of the Ministry of Environment to develop and manage protected areas. Implementation has gone well and a second project is under preparation. The Forest Concession Management Project, based on the collaborative sector work mentioned above, was linked to the conditions for improved forest management in the SAC. While the Bank's effort to bring control to the forestry sector addressed a high-priority problem, the project faced

divergent views within the Bank.⁴ Also, the Bank and the Directorate of Forest Administration in the Ministry of Agriculture, Forestry, and Fisheries were caught between powerful political and financial interests: those wishing to maintain the virtually unsupervised concession system, and civil society organizations that viewed any phased or negotiated program of improvements in the concession system as an unacceptable compromise. In January 2005 the Bank's external Inspection Panel received a request for inspection from the Cambodian NGO Forum, representing indigenous communities said to have been adversely affected by the project, and specifically by the failure of the Bank to apply its own safeguard measures in the design and implementation of the project. Upon conclusion of a year-long investigation, the Inspection Panel's major conclusions were the following:

- i. The focus on concessions was at the expense of other aspects of forestry that could have been more responsive to the Bank's poverty objectives;
- ii. Deferring a social impact assessment did, in fact, contribute to detrimental effects of the project on vulnerable communities; and
- iii. The Bank should not have undertaken such a sensitive and controversial operation without

Box 5.1: Economic Land Concessions

Land titling issues are not uniform across Cambodia. In more settled lowland areas, there are fewer disputes over claims. However, in highland areas, waves of dislocations over the past 30 years have seriously disrupted traditional land-holding systems. It is here that economic land concessions are being granted and informal land-grabbing is taking place.

Intended originally for the development of agribusiness enterprises, the government began granting economic land concessions in 1992. To date, some 96 contracts have been negotiated with the Ministry of Agriculture, Forestry, and Fisheries, for concession in excess of 1,000 ha each. Thirty contracts have since been cancelled, 9 remain unsigned, and 57, covering some 943,000 ha, are

active. Seventy percent of these concessions are on land officially designated as forest land. While there is an official requirement that the Ministry of Agriculture, Forestry, and Fisheries must approve a use plan for all concessions, this is not rigorously enforced. Plans do not include a declaration of intent to maintain forests, and there is negligible follow-up once exploitation has begun.

Provincial governors have the authority to approve concessions of less than 1,000 ha each and there has been a rapid increase in the number and coverage of these smaller concessions in recent years. There is presently no reporting system to maintain accurate records on the scope of this type of concession countrywide.

broader support and participation from the donor community.

Bank management accepted the Panel's finding on the social impact assessment⁵ but dissented on the other findings. The suspension of logging on all concessions, pending government approval of management plans, and a ban on log exports did reduce substantially the rate of forest depletion. However, after two delays in the closing date, and a finding of misprocurement by the Bank, the project closed without any approved concession management plans or a forest crime monitoring and prevention capability. A new National Forest Management Plan is still pending and the government and Bank have not reached agreement on a way forward in the sector.

AAA

The plan in the fiscal 1997 CAS was to allocate more than one-third of the Bank's administrative resources to nonlending services. However, in that CAS period no work was budgeted in agriculture, and only a limited amount in forestry, to continue work with UNDP and FAO. The 2000 CAS proposed a number of nonlending services that would contribute to analysis and capacity building in the rural sector, mainly support for the NPRS. A 2005 rural sector strategy note assessed conditions and constraints in the sector

and provided a basis for dialogue between donors and government, but it did not reach conclusions or propose a course of action. A recent Bank analysis of the agrarian structure is a timely initiative inasmuch as elements within the government are advocating large-scale agricultural production units, despite widespread evidence that productivity is generally maximized under small-scale production. The Value Chain Analysis mentioned earlier identified the constraints to expanding the production of cotton, rice, and tobacco.⁶ The 2004 country economic memorandum made the highly significant point that, up until that time, only 8 percent of donor support had gone to agriculture and forestry. Overall, the Bank made effective use of AAA resources but the level of resources did not appear to be in line with the importance of the sector.

Outcomes and Bank Contribution

Positive results are being achieved in land titling, which indicates that where there is solid government commitment to an objective, the resources and expertise of the Bank can be used effectively to generate significant positive results. (However, this progress is being made in the face of widespread land-grabbing in other regions). Progress is also being made in safeguarding biologically valuable resources through the protected-areas program under the Ministry

of Environment, supported by the Biodiversity project. While the Bank studied Cambodia's agricultural sector in the fiscal 1997 agricultural sector memorandum, the fiscal 2005 rural sector strategy note, and the recent analysis of agrarian structure, analysis of several issues such as water resources availability and usage, markets for agricultural production, and the possibilities for shifting from dependence on rice cultivation to a more diversified production system has been deficient. The Bank has not defined a country-wide strategy for supporting rehabilitation and expansion of irrigation systems or supporting crop diversification and productivity improvements.⁷ Capacity-building efforts in the Ministry of Agriculture, Forestry, and Fisheries and the Ministry of Rural Development have had only

a limited impact; the organizational and technical issues that limit the provision of services, and therefore agricultural productivity gains, remain largely unresolved and the Bank has not developed an effective course of action to address them. In forestry the Bank and other donors collaborated on a thorough analysis of issues and options for the sector and developed a rational approach, which the government officially committed to implement, but the effort ground to a halt in the face of pressure from vested interests and became a flashpoint for public opinion. Balancing all of these quite diverse outcomes from Bank programs in agriculture, rural development, and NRM during the CAE period, the overall evaluation is *moderately unsatisfactory*.

Chapter 6



Slum area, Cambodia. Photo by Masaru Goto, courtesy of the World Bank Photo Library.

Infrastructure

Background

Decades of conflict and neglect took a heavy toll on Cambodia's infrastructure. Some emergency rehabilitation work had been carried out, but the country's physical infrastructure was in extremely poor condition when Bank support began in the mid-1990s. Roads were badly deteriorated, with some sections impassable in the rainy season. Land mines and unexploded ordinance hindered reconstruction efforts, especially in areas of recent conflict. Phnom Penh, which had been well served with power and water in the 1960s, experienced regular power and water shortages; only 25 percent of residents received piped water and only for 10 hours per day. Even where electricity was available, large-scale industrial and commercial enterprises often generated their own power because of low reliability and the high cost of electricity from the power grid. Despite these shortcomings, Phnom Penh was much better served than smaller towns and rural areas.

Bank Assistance Strategy and Program

Infrastructure rehabilitation was an objective of the 1997 CAS, with the focus on urban infrastructure (power in Phnom Penh and water supply in Phnom Penh and Sihanoukville) and the national highway system. While rural infrastructure was mentioned under the objective, "enhance rural development and natural resource management," aside from the Social Fund projects, there was no direct funding of rural infrastructure in this early period. In the 2000 CAS, emphasis began to shift to rural infrastructure and to developing the policy environment for private

investment in delivery of infrastructure services. The 2005 CAS saw infrastructure improvement as a key intermediate outcome supporting private sector development and meeting the Millennium Development Goals.

Bank Operations

Projects in infrastructure or with infrastructure components are shown in table 6.1. The first phase of Bank involvement in infrastructure included the Phnom Penh Power Rehabilitation project and the Urban Water Supply project (for Phnom Penh and Sihanoukville), both approved

prior to this CAE period, and the fiscal 1999 Road Rehabilitation project, which focused on national and urban roads.

The Bank's infrastructure focus subsequently shifted to supporting infrastructure rehabilitation and development outside the urban centers. The Provincial and Peri-Urban Water and Sanitation project extends water supply to low-income communities in the peri-urban areas of Phnom Penh and to the provinces. This project is also piloting a program in which private operators finance, build, and operate water systems with Bank financing of connections for low-income households. The Provincial and Rural Infrastructure project is funding rehabilitation and maintenance of secondary roads in four provinces.¹ The Rural Electrification and Transmission project includes a pilot rural electrification fund in addition to financing a transmission line from the Vietnamese border to Phnom Penh, which is strategically important for lowering energy costs. Other projects with infrastructure components include the Social Fund projects, which funded primarily rural schools but also bridges, culverts,

wells, and latrines in rural areas. The Northeast Village Development project (a Learning and Innovation Loan) tested participatory approaches at the village level for rehabilitating economic infrastructure. The Rural Investment and Local Governance project, building on the experience of the Northeast Village Development project, funds infrastructure at the commune level in 15 provinces. The Flood Emergency Rehabilitation project funded rehabilitation of flood control and irrigation works, rural roads, schools, and other rural infrastructure.

As table 6.1 shows, all completed projects have been rated moderately satisfactory to highly satisfactory and two have received awards, either for design or for performance of the project agency. In addition to meeting physical targets, these projects supported institutional development and the policy framework in the water and electricity subsectors. While it is not yet possible to make a full evaluation of the more recent, small-scale and widely scattered investments under the ongoing rural infrastructure projects, the Rural Investment and Local Governance

Table 6.1: IDA Projects in Infrastructure or with Infrastructure Components

Fiscal year	Name	Amount (US\$m)	Status	IEG rating
1995	Social Fund I	20.0	Closed 6/30/00	<i>Satisfactory</i>
1996	Phnom Penh Power Rehabilitation	40.0	Closed 6/30/00	<i>Satisfactory</i> ^a
1998	Urban Water Supply	31.0	Closed 3/31/04	<i>Highly satisfactory</i> ^b
1999	Social Fund II	35.0	Closed 3/31/05	<i>Moderately satisfactory</i>
1999	Road Rehabilitation	45.3	Closed 9/30/06	
1999	Northeast Village Development	5.0	Closed 6/30/04	<i>Satisfactory</i>
2001	Flood Emergency Rehabilitation	35.0	Closed 6/30/05	<i>Satisfactory</i>
2003	Provincial and Peri-Urban Water and Sanitation	19.9	Ongoing	
2003	Rural Investment and Local Governance	22.0	Ongoing	
2004	Rural Electrification and Transmission	40.0	Ongoing	
2004	Provincial and Rural Infrastructure	20.0	Ongoing	

a. The Phnom Penh Power Rehabilitation Project received an IEG Good Practice Award in 2006.

b. The ADB awarded the Phnom Penh Water and Sewer Authority its "Water Prize" in 2004, an award given to exemplary project agencies.

and Rural Investment projects have been rated *moderately satisfactory* or *satisfactory* in Implementation Status Reports.² The Provincial and Rural Infrastructure and Provincial Water Supply projects were also rated satisfactory until both were suspended by Bank management in mid-2006, following the Department of Institutional Integrity (INT) investigations.

Some infrastructure projects have experienced delays in preparation, effectiveness, and implementation. Bank Country Portfolio Performance Reviews have identified slow implementation as a key issue, with lack of counterpart funding as one of the main causes. Project closing dates have generally been extended by at least six months. One weakness in the Bank's assistance for infrastructure has been lack of attention to monitoring and evaluation. Past CASs have proposed indicators, sometimes numerous and conflicting (in the 2000 CAS), sometimes qualitative and vague (in the 2005 CAS). Because the Bank has now moved into the rural areas with numerous small-scale activities, monitoring and evaluating these efforts has become more challenging and deserves greater focus and resources.

AAA

The Bank has assisted the government in developing strategies and policies for infrastructure development through sector work and TA. In energy, a power sector strategy report, the 2002 report *Private Solutions for Infrastructure in Cambodia*, and nine Public-Private Infrastructure Advisory Facility grants assisted the government in strengthening sector policies and management and in developing an electricity law and electricity authority. An update of the energy sector strategy is currently under way as a joint exercise of the government, the Bank, ADB, JICA, and other donors. In the water sector, the Bank has provided policy advice and prepared an implementation strategy for urban water supply in 2006. In transport, the Bank has advised on maintenance budgeting and road management.

Outcomes and Bank Contribution

Significant progress has been made in rehabilitating/reconstructing urban and national infrastruc-

ture and improving service delivery, although from an extremely low base. It is estimated that vehicle operating costs were reduced by 45–78 percent under the Road Rehabilitation project, although government's lack of commitment to maintenance is a problem flagged in Country Portfolio Performance Reviews. The Phnom Penh water project resulted in a doubling of output and connections and a reduction of 70 percent in lost water.³ The power project enabled the national power company, Électricité du Cambodge (EDC) to triple output and double the number of users, to reduce system losses by 50 percent, and to improve administration, but finances remain weak, largely due to the high cost of imported fuel.

Another important outcome has been the increasing regulation (and accompanying quality control) of private suppliers in electricity and water supply. While the main public utilities have concentrated on improving and expanding service in Phnom Penh and provincial capitals, private operators, primarily small local enterprises, have begun to expand service outside the main urban centers. Over 100 licensed power producers supply power in smaller towns, accounting for approximately 30 percent of electricity consumers nationwide, and they generate 70 percent of total output, most of which is sold to EDC for distribution in Phnom Penh. The government has taken steps to strengthen private participation in infrastructure, enacting an electricity law and creating the autonomous Electricity Authority of Cambodia in 2001. The authority issues licenses for power operators, regulates tariffs, and provides assistance to smaller operators to improve their operational efficiency.

In water, 25 private operators have been licensed to supply water in towns not covered by the 15 public providers. The government has drafted, but not yet enacted, a Water Supply and Sanitation Regulatory Law, which would outline the principles and regulatory framework for private provision of water supply and sanitation services. The government has also contracted with private sector operators for other services.⁴ However, many of these early contracts were

negotiated directly, without competition and transparency, and may not have obtained the most advantageous outcomes for the country. In order to maximize the economic benefits from public-private partnerships, the government has developed a private participation in infrastructure policy with support from the Bank, Public-Private Infrastructure Advisory Facility, and United Nations Industrial Development Organization, and has adopted a Law on Concessions.

Despite this notable progress, the country still lags well behind neighbors, as shown in table 6.2. Furthermore, national averages mask wide disparities between different regions and between urban and rural areas. For example, some 75 percent of the primary road network has been paved, while only 2 percent of provincial roads are paved. Regional differences in access to water and electricity are shown in table 6.3.

Nevertheless, given the notable progress made over the CAE period, the overall outcome can be considered to be, on balance, *satisfactory*.

The Bank has contributed to these positive outcomes. Bank projects have improved quality and access to electricity, water supply, and transportation services in urban areas, thus improving human welfare and the environment for PSD. The Bank has also contributed to institutional strengthening of EDC and the Phnom Penh Water Supply Authority, and supported the introduction of a regulatory framework for private investment in the electricity and water supply sectors. The Bank has assisted the government in setting up a Rural Electrification Fund to provide financing for smaller private power operators. The Bank is now beginning to address the imbalances in infrastructure services between the major urban centers and the rest of the country.

Table 6.2: International Comparisons of Infrastructure Services
(2003 or latest available year)

	Cambodia	Lao PDR	Thailand	Vietnam
Power				
Households with electricity connection (%)	17	58	84	81
Residential electricity tariffs (US\$/ kilowatt hour)	0.08–0.14	0.04	0.06	0.05
Water and sanitation				
Access to improved water (%)	44	58	93	49
Access to improved sanitation (%)	22	30	98	25
Roads				
Percentage of paved roads	4	14	91	n.a.

Source: Asian Development Bank, Japan Bank for International Cooperation, and World Bank 2005, *Connecting East Asia: A New Framework for Infrastructure*, appendix A.

Table 6.3: Distribution of Land, Population, and Selected Infrastructure Characteristics by Region: 1998, 2004 (in percent)

	Land	Population		Households with piped water & tube/pipe wells		Households with electricity ^a	
		1998	1998	2004	1998	2004	1998
Phnom Penh	>1	9	8	51	74	80	92
Plains (excluding Phnom Penh)	14	43	41	25	42	9	11
Tonle Sap	38	31	33	11	21	10	13
Coastal	10	7	7	8	16	18	15
Plateau and mountain	38	10	11	17	28	8	7
Total	100	100	100	21	34	16	18

Source: 1998, Population Census; 2004, Inter-Censal Population Survey, National Institute of Statistics.

a. Includes households with access to city power and generators.

Chapter 7



People help to push a car across a river next to a bridge that was destroyed in 1970, Cambodia.

Photo by Masaru Goto, courtesy of the World Bank Photo Library.

Governance

Background

The traumatic disruptions that Cambodia suffered over many years, and the resulting loss of human resources and social cohesion, virtually destroyed governmental institutions and any public confidence in them. Rebuilding public trust in government requires time. However, widespread public perceptions exist that shortcomings in governance and corruption, both large and small scale, are commonplace and may in fact be increasing. While the links between corruption and development outcomes are not always easy to define and measure—and Cambodia is among those countries that have experienced high economic growth despite high corruption—it seems evident that there are heavy economic and social costs for Cambodia. This is particularly true for PSD, where despite high growth there has been little foreign investor interest except in the garment and tourism sectors. The extent of corruption and its impact on development outcomes have been documented in Bank reports and in surveys by Cambodian NGOs.¹

A 2005 survey found that the legal/judicial system was considered to be the most corrupt entity in the government,² followed by the police and the taxation and customs services. The judicial system, like the general civil service and the education system, was devastated by the Khmer Rouge. Rebuilding has been slow and capacity is still severely limited. In addition, the executive branch has restricted the independence of the judiciary.

Petty corruption can be partly attributed to extremely low civil service wages, averaging only US\$45 per month in 2006. If civil servants cannot support their families on their government salaries they will be forced to hold multiple jobs, to be absent, or to use their position for private gain. Other problems in the public service arise from the way in which the service was rebuilt following the Khmer Rouge era—largely through sharing government appointments among politi-

cal factions, rather than through a merit-based system.

The government has repeatedly stated that good governance is a high priority and has repeatedly confirmed its intention to issue regulations, pass laws, and implement reforms. The program for decentralization and deconcentration of government responsibilities to the provinces and communes is a central pillar of the government's plan for improved governance. As stated in chapter 5, the Seila program for rural development has been the testing ground for determining local-level capacity to design and carry out development projects and programs. Passage of the Law on Commune/Sangkat Administrative Management in 2001 and the commune council elections in 2002 represented concrete steps in the devolution of governmental authority. The government and donors view the decentralization carried out to date as a success. However, the government's plans have yet to be fully developed and the law on decentralization still awaits passage. The government is also clearly committed to improving governance and service delivery in health and education services and PFM.

Bank Assistance Strategy and Program

The Bank and other donors are fully aware of these governance problems. Donors have increased governance conditionality in their assistance programs and have set benchmarks for governance reforms at CG meetings since 2000. The 2006 CG set targets for approving the anticorruption law, completing other pending laws and regulations, improving pay in the civil service, improving PFM, developing a national forest program, developing a land management policy, and submitting the draft law on concessions to the National Assembly. In between CG meetings, donor representatives meet with the government on a quarterly basis to review progress against the CG benchmarks on these and other targets. To date, many of these benchmarks from past CGs have not been met.

The Bank has given increasing emphasis to governance issues in each succeeding CAS. The

Bank's support for governance reforms has included PFM, forestry, land management, PSD, and delivery of social services. These aspects of the Bank's program have been discussed in previous chapters. This chapter concentrates on Bank activities in the governance areas of civil service reform, legal and judicial reform (LJR), and anticorruption.

Civil service reform has been a focus of Bank efforts since the mid-1990s, with limited progress to date. The fiscal 1995 TA project included support for civil service reform—to include a census of the civil service and preparation of a plan for downsizing, which the government did not believe was necessary—but there was no follow-up action on the part of the government. The SAC called for development of a military demobilization plan, a functional review of ministries, and “an action plan to rationalize the size and functions of the civil service.” The demobilization program was begun but not completed, and the civil service activities were not implemented. A proposed Public Sector Reform project was dropped. Under the fiscal 2005 CAS, and in the series of Poverty Reduction and Growth Operations (PRGO) begun after the review period for the CAE, the Bank has taken a more focused and selective approach to civil service reform, concentrating on the merit-based pay initiative introduced under the PFM reform program.

Legal and judicial reform (LJR) was also seen as a priority by the Bank. Limited support for LJR was provided in the TA project but with little result. In fiscal 2003 a trust fund grant of US\$228,000 was proposed for a legal and judicial needs assessment, but there was a timing problem and agreement was not reached on the use of these funds. A multidonor SWAP operation for LJR also did not proceed. The Bank does not provide any support for specific elements of LJR at the present time. There is a TWG for LJR but it has experienced difficulty in obtaining commitments of donor resources. However, the Bank and other donors continue to focus on LJR issues through the Joint Monitoring Indicators agreed at each CG meeting.

Box 7.1: The Bank's Fiduciary Report and Investigation of Misprocurement in IDA Projects

In early 2003 INT investigated allegations of fraud and corruption in the fiscal 2002 Demobilization and Reintegration Project. The investigation led to a finding of misprocurement, suspension of the project, repayment by government of US\$2.8 million, and sanctioning of individuals and firms, including the consulting firm assisting the government with demobilization. The Bank then carried out a Fiduciary Review of a sample of contracts under four other IDA credits—a collaborative exercise involving the East Asia and Pacific Region, INT and the government. The findings were discussed in a workshop with government in September 2005 and were made available to the public. Sufficient evidence was found to justify a full INT investigation of two of these projects and complaints were subsequently received about five other projects which were also investigated.^a The final outcome was a finding of fraudulent practices in 49 contracts in seven projects. The Bank declared misprocurement on 43 contracts in five of these projects, cancelled US\$11.9 million of project funds and demanded repayment of US\$7.6 million. Three projects were suspended; the last of these suspensions was not lifted until February 2007, following agreement between the Bank and government on remedial action plans.

It is apparent that this investigation had a damaging impact on Bank-country relations. In discussions with IEG, the government, donors, and other stakeholders agreed that the Bank was justified

in pursuing these problems. However, concerns were voiced about the lack of information provided to either the government or the public on the findings of the investigation or the basis for some of the Bank's follow-up actions.^b The government argued that it was extremely difficult for the MEF to accept some of the INT conclusions and to convince implementing ministries of their validity, or to explain what specific remedial actions ministries should take, and why some project funds were cancelled. The government designated the Ministry of National Assembly-Senate Relations and Inspections to carry out follow-up investigations, and the ministry has received some technical assistance, but its capacity is very limited and little progress has apparently been made.

The Bank, in order to reduce fiduciary risks in future, has set up an internal anticorruption committee to assist Bank project staff in applying anticorruption measures in ongoing and future Cambodian operations, and has assigned a procurement specialist to the Phnom Penh office. The Bank and government have also agreed that the government will employ an independent procurement agent to handle virtually all procurement in IDA projects until the outcome of ongoing activities to strengthen the government's procurement system is judged satisfactory. While these actions, and the remedial action plans in individual projects, are positive steps, the question remains whether the process of investigation and the release of findings could have been handled more effectively.

a. An investigation differs greatly from a Detailed Implementation Review due to differences in methodologies, processes and objectives. An investigation is conducted as a result of a specific allegation involving fraudulent and/or corrupt practices in relation to a Bank-financed project. If the allegation is supported by the evidence, the firm and/or individuals are sanctioned. As a secondary objective, the Bank shares information with the member government concerned in order for the government to undertake its own criminal and/or administrative investigation. This referral is made within the framework of the Bank's disclosure policies and procedures, including those regarding protection of confidential witnesses. A DIR, previously referred to as a Fiduciary Review, is a proactive diagnostic tool used to assess the risk of fraud, corruption and mismanagement in Bank-financed projects. It is specifically designed to review projects in the absence of any prior allegations or evidence that wrongful activity may have taken place. A DIR is coordinated through the country office, and involves an intensive review of project documentation and contracts. The focus is on identifying indicators of fraud, collusion and corruption in the procurement and disbursement processes, in contract management, and in the implementation stage of projects. The results of a DIR can be followed up in a variety of ways, including through referral for possible further investigation by INT, or by relevant national authorities. Risk mitigation strategies are adapted and implemented by the Bank's operational staff as a result of the DIR process. Misprocurement can also be declared by the Bank based on the findings of a DIR.

b. At the Bank-Fund Annual Meetings in September 2006 the government said in its official statement, "The Royal Government of Cambodia welcomes the stronger focus of the Bank on results. However, we call on the Bank to reform its investigative procedures and modalities, which, we note with dismay, have in the recent past tended to violate the principles of fairness and ethics."

Until allegations of misprocurement were raised in the Demobilization and Reintegration project in 2002, the Bank did not have concrete evidence of any misuse of IDA funds, although concerns had been brought to the attention of the MEF from time to time. The ensuing investigation and its outcome have had a serious impact on Bank operations and Bank-country relations (see box 7.1).

AAA

The Bank has produced several reports with a focus on governance. These include the PER, IFAPER, a Country Financial Accountability Assessment carried out as part of the IFAPER, a country procurement assessment report (fiscal 2005), a "Note on Civil Service Pay and Employment Reform" (2000), "Cambodia: Governance and Corruption Diagnostic: Evidence from

Citizen, Enterprise and Public Official Surveys” (fiscal 2000), which provided the basis for the government’s Governance Action Plan in 2001 prepared with Bank assistance, a Legal/Judicial assessment (fiscal 2004), four Country Portfolio Performance Reviews (the last one jointly with ADB) and a Fiduciary Review. Other reports concerned with governance included the 2004 economic report, “*Cambodia at the Crossroads: Strengthening Accountability to Reduce Poverty*,” and the reports on constraints to PSD cited in chapter 3.³ The Bank has collaborated with other donors in several of these initiatives. However, the impact of this analytical work on governance reforms has been limited.

Outcomes and Bank Contribution

The government has taken some steps to address weak governance and corruption, but these have been primarily procedural, with little impact on the overall environment. Little has been done to implement the 2001 Governance Action Plan. While in 1999 the Ministry of National Assembly-Senate Relations and Inspections was created to investigate allegations of corruption and an anticorruption unit was established in the Council of Ministers, neither of these bodies is independent of the executive branch of government and both lack capacity and resources. The government began working on an anticorruption law in 1995 but the law has yet to be passed. Some important goals of the NSDP have still not been accomplished, such as “fast-track passage of a comprehensive anticorruption law, setting up an independent and effective body to fight corruption, and development and enforcement of a code of ethics for the public sector.” The anticorruption law has become one of the key monitoring benchmarks at successive CG meetings. At the 2006 meeting, the government agreed to finalize and approve the anticorruption law by June 2006, and to prepare an implementation plan for the new law by October 2006, but neither was done. Only a few corruption cases have been brought to court. There are no rules on conflict of interest, and ministers, parliamentarians, and other officials are not required to disclose assets. There are also no rules on funding of political parties.

In LJR, progress toward creation of an effective judicial system has been slow. In the 1994 “National Program to Rehabilitate and Develop Cambodia” the government set out a vision for LJR and an implementation plan was issued in 1995. A judicial reform council was established in 2000, later known as the Council for Legal and Judicial Reform, with a Permanent Coordinating Body for LJR under the council. In 2003 the government adopted a comprehensive strategy for LJR and circulated an implementation plan. In December 2003 a national workshop on implementation of the strategy was held. Then a Project Management Unit was set up under the Permanent Coordinating Body, which in 2004 refined the draft action plan into a program of short-term and medium-term priorities. Several critical laws on the status of judges and prosecutors, on the organization and functioning of the courts, and civil and criminal codes were to be adopted within three years under the plan. The government committed to producing a Commercial Code under the SAC but there was no progress at that time. At the 2006 CG the government promised to deliver additional legislation during 2006—the Penal Procedure Code, Penal Code, Civil Code, Law on the Status of Judges, a law on concessions (for private participation in infrastructure), and the Law on Court Organization and Functioning—and to establish a time frame for completing the remaining laws and regulations required for World Trade Organization accession. The civil procedure code, penal procedure code and civil code have been adopted. The Commercial Code is still under preparation at the Ministry of Commerce which is also drafting a law for the establishment of a commercial tribunal.

The government has also made little progress on civil service reform. The Bank has had difficulty developing an effective working relationship with the Council for Administrative Reform, which is responsible for civil service reform. A census of the civil service was carried out in 2000, which resulted in the elimination of 6,091 “ghost” workers. The Bank supported this census but the results have not been shared with the Bank. Five studies related to civil service staffing and

compensation are to be carried out under an Institutional Development Fund but only one has been completed and its findings have not been shared with the Bank. In 2000 the government announced a National Program for Administrative Reform for 2002–06. Under this program, average civil service wages have been raised by 10–15 percent per year but are still far below the poverty level for families of three or more. However, limited progress has been made with incentive pay schemes developed by donors. A Priority Mission Group system, developed by ADB, was adopted by the government in 2003. It presently covers some 2,000 civil servants but has a limited time frame. The merit-based pay initiative, developed under the PFMRP, began in 2005 and was funded by the multidonor trust fund. It provides for increasing the monthly salaries of selected senior staff from US\$200–300 to US\$500–700. Initially the scheme covered only 300 employees of the MEF, but it is being extended to other ministries; the intention is to expand coverage to 700–800 senior civil servants across the government. Obviously, for a civil service estimated at 165,000–170,000 employees, these programs are only a small start in addressing the general problem of inadequate compensation. And there has been resistance even to these limited programs from the Council for Administrative Reform. At the 2006 CG the government agreed to develop a new merit-based human resource management system and a medium-term strategy for pay and redeployment by June

2006, for implementation beginning by the end of 2006, but these targets were not met.

In the areas of public sector management and governance evaluated here, progress has been weak to negligible. This is reflected in various governance indicators. Cambodia compares poorly with other East Asia and Pacific Region countries in World Bank Institute governance indicators, and these indicators deteriorated between 1996 and 2005 in government effectiveness, rule of law, regulatory quality, control of corruption, and voice and accountability.⁴ While Cambodia's Country Policy and Institutional Assessment rating has improved over time and is now comparable to the IDA average at 3.2 in 2006, the Country Policy and Institutional Assessment governance indicators are significantly lower, at 2.5 in 2005 and 2006.⁵ Cambodia also ranks low in the Transparency International Corruption Perceptions Indices.⁶ The Bank is now approaching these broader governance issues through alliance with the entire donor community via the CG Joint Monitoring Indicators, rather than through specific Bank operations. While the Bank deserves credit for continuing to focus on governance issues, for adopting a more focused approach to these problems under the fiscal 2005 CAS, and for the limited progress achieved, for example, in the merit-based pay initiative, the outcome of the Bank's program over the entire CAE period is judged *unsatisfactory*.

Chapter 8



A student explains to her class how to prevent HIV/AIDS, Cambodia. Photo by Masaru Goto, courtesy of the World Bank Photo Library.

Conclusions, Lessons, and Recommendations

Overall Assessment

The Bank's assistance strategy was relevant, focusing initially on reconstruction, then on strengthening the basis for sustained growth and poverty reduction, in particular through improved access and quality of education and health, and, more recently, on governance. In addition, the focus on rural development and natural resource management was relevant, given the high incidence of rural poverty. In this regard, the increased focus on rural infrastructure in the latter part of the CAE period was also an appropriate shift.

Under the first pillar—macroeconomic stability, sustainable growth, and poverty reduction—outcomes have been mixed.

To support macroeconomic stability, the Bank has been providing TA on PFM since 1994. Progress was slow through 2004, but has improved significantly since then. However, the low ratio of public revenues to GDP, for which the IMF has taken the lead role with limited Bank involvement, has not improved during the CAE period, and this is an area that needs greater focus. Limited progress has been made in improving the environment for PSD, but Cambodia still lags behind most countries in East Asia and Pacific Region in competitiveness. On growth and poverty reduction, Cambodia has sustained a high rate of aggregate economic growth over the past decade, and the incidence of poverty declined from 47 percent in 1994

to 35 percent in 2004. Balancing sustained macroeconomic stability and the high rate of growth, the pro-poor reorientation of public spending and the significant reduction in poverty, and recent progress in PFM, against lack of progress in revenue mobilization and limited results in PSD, the overall outcome of Bank support for these reforms is judged *moderately satisfactory*.

Under the second pillar—delivery of social services—quantitative measures show notable progress in both the health and education sectors over the CAE period, including improved access to these services for the poor.

This progress is the result of government commitment and ownership of sector strategies and well-coordinated support from the Bank and other donors. The outcome

of the Bank’s program of support for the social sectors is *satisfactory*.

The results of Bank interventions in the third pillar—agricultural productivity improvements, rural development initiatives, and support for sustainable use of natural resources—have been mixed. The Bank’s initial lack of knowledge of the sector, limited capacity of government agencies, absence of a clear strategy, and, until the late 1990s, insecurity in some rural areas, inhibited Bank support. The Bank’s support of local governance and small-scale rural infrastructure were important contributions to the development of rural areas, but its efforts to address low agricultural productivity had limited impact. The Bank’s support for land titling and for protection of threatened, biologically diverse areas is producing positive results, while efforts, with other donors, to establish sustainable exploitation of forest concessions were unsuccessful. The Bank has carried out sector analysis in recent years, which has served as an agenda for TWGs, but has not led to a clear Bank strategy for future engagement in agriculture and forestry. The overall outcome for this area of Bank assistance is rated *moderately unsatisfactory*.

The Bank has made a significant contribution as one of the major lenders for infrastructure. The Bank’s initial involvement in urban power and water, and national road construction, led to marked improvements

in service delivery by the EDC and the Phnom Penh Water Supply Authority and in linking the major urban centers. The outcome of the Bank’s contribution was *satisfactory*. In recent years the Bank has appropriately shifted emphasis to rural infrastructure through several projects whose full impact has not yet been evaluated.

Finally, outcomes for the Bank’s program in the critical area of governance have, so far, been unsatisfactory. While some reforms have been made, primarily in PFM, in the merit-based pay initiative, and in the social sectors, underlying weaknesses in governance and control of corruption remain.

Balancing these diverse outcome ratings for the major areas of Bank strategic focus over three CAS periods, three areas are positive (rated *satisfactory* or *moderately satisfactory*) and two areas are negative (rated *moderately unsatisfactory* or *unsatisfactory*). Giving weight to Cambodia’s extremely difficult past history and the progress made in many areas, IEG judges the overall outcome of the Bank’s program in this CAE period *moderately satisfactory*. This rating of *moderately satisfactory*, in contrast with a rating of *satisfactory* in the previous CAE, should not be interpreted as an overall decline in the effectiveness of the Bank’s interventions, but rather that the Bank has taken on a much more challenging set of objectives in this CAE period than in the earlier period. A summary of IEG’s

Table 8.1: Overall Outcome Ratings

Objectives	Outcome ratings
Macroeconomic stability, sustainable economic growth, and poverty reduction	Moderately satisfactory
Improved delivery of social services	Satisfactory
Improved agricultural sector performance, rural development, and improved natural resource management	Moderately unsatisfactory
Infrastructure rehabilitation, reconstruction and expansion	Satisfactory
Improved public administration and governance, strengthened anticorruption efforts	Unsatisfactory
Overall	Moderately satisfactory

evaluation of Bank program outcome ratings is shown in table 8.1.

Institutional Development Impact

As stated earlier, an estimated 40 percent of donor assistance to Cambodia has been for TA, through free-standing projects and in components of investment projects. Much of this TA has involved the employment of long-term advisors to perform essential functions while training local counterparts. Many of these “conventional” TA programs, including the Bank’s initial TA project, have yielded disappointing results, leaving the government with a negative perception of donor-funded TA. Some advisers are poor trainers, some see counterparts as competitors for positions that they wish to retain, and the government often has no voice in the choice of consultants. However, in the case of TA for PFM, where the Bank is supporting, with other donors, a program of reforms that has strong government ownership, and in which the MEF has a voice in the selection of consultants as well as the pace of reforms, measurable progress is being made.

The Bank has also provided TA through projects and project preparation grants, which have had a significant positive impact on the performance of the Phnom Penh Water Supply Authority, EDC, and the Electricity Authority of Cambodia.¹ Bank analysis, TA, and lending have assisted the Ministries of Health and Education in implementing effective medium-term sector strategies. In agriculture, the Bank had little success in developing the capacity of the Ministry of Agriculture, Forestry, and Fisheries. And in overall civil service reform, the Bank’s program, particularly the training provided by the Economic and Public Sector Capacity Building project, has had little impact. Also, until the donor community is willing to invest the necessary resources to build capacity within government, instead of resorting to PIUs, which only sustain a “brain drain” out of government, and until the government adopts an adequate compensation system for all civil servants, institutional development will remain a long-term problem. The overall impact of the Bank’s program on institutional development is rated *modest*.

Risks to Development Outcome

There are several risks to the sustainability of the outcomes of the Bank’s and other donors’ programs and to future growth in Cambodia. The first is that civil service performance will not improve, and corruption will not be reduced, if government salaries are not raised significantly and made performance-based, and other measures are not taken to combat corruption. A second risk is that the leading industrial sector, garment manufacturing, could lose its competitive advantage. To date the sector has been able to compete effectively in the global market—despite Cambodia’s low labor productivity, high electricity and transport costs, and institutional bottlenecks—because of low wages, the country’s special trade relationships with the United States and European Union, and limits imposed on China’s garment exports to these markets. The removal of limits on China’s exports, scheduled for the end of 2008, could impact Cambodia’s position in these markets.² A third risk is the possibility of “donor fatigue”—that is, while Cambodia remains heavily aid dependent in the near term, donors that have supported Cambodia in the past could reduce their support because they become increasingly disillusioned with slow progress in governance reforms. However, there has been no evidence of such an effect to date. Offsetting this risk is the prospect that China’s support could substitute for any decline in aid from other donors. Fourth, while expected income from oil and gas could, like Chinese aid, offset any decline in resource inflows from traditional donors, there are risks that, without continued sound macroeconomic management, these royalties could have a destabilizing effect, such as a negative “Dutch Disease” impact on other productive sectors. Furthermore, if these resources are not managed in a transparent manner they could result in an upsurge in corruption and waste of public resources. Given all of the above concerns, overall risks are considered *significant*.

Contributions to Outcomes

IDA

Assessing the Bank’s contributions differs from assessing the outcomes of the assistance

program. Bank performance is an input to the process, and thus distinct from outcomes, which are influenced by a variety of factors. The assessment of Bank performance involves looking at issues such as the relevance of the strategy, consistency between the planned and actual assistance, program and project design, efficiency of lending, quality of nonlending assistance and linkages with lending, and effectiveness of partnerships.

In several areas the positive impact of the Bank's contribution is measurable. The Bank's focus on poverty reduction through lending and analytical work has helped concentrate government and donor attention on the problem and has contributed to the reduction in poverty. The Bank has made a major contribution to the progress achieved in the health and education sectors by supporting the development of government-owned strategies and action programs, a significant increase in the share of budget resources allocated to these sectors, emphasis on basic education and primary health care, and expansion of access for the poor. The Bank played a key role in strengthening institutions in the power and water sectors and in helping the government develop policies and a regulatory framework for the power sector. In village development and biodiversity, the Bank has been willing to experiment with innovative approaches through small pilot operations. The Bank's analytical work has been of good quality and was useful for supporting operations. The Bank's recent contributions have been significant in PFM.

In other areas, the Bank's contributions have been inadequate. For example, although the agricultural sector has experienced a high growth rate in the past three years, it is difficult to attribute this to any actions by the Bank, and the Bank still lacks a coherent strategy for agricultural development in Cambodia. In the forestry sector, demobilization, and various areas of governance, the Bank's well-intentioned interventions did not generate the anticipated outcomes.

Other Donors

Donor coordination has improved significantly over the past three years. In several sectors,

donors have pooled their resources in SWAP or SWAP-like arrangements. The Bank collaborates closely with the ADB in all areas of joint activity, dividing leadership roles between the two institutions. As mentioned earlier, the Bank, ADB, DFID, and the UNDP have produced a unified country strategy. Another example of close collaboration is DFID's funding for the Bank's poverty team in the country office. In addition to the CG, which meets on an annual basis, the local donor coordination system operates through 18 government-led Technical Working Groups, each with a designated lead donor and government counterparts. Lead responsibilities are divided among donors, and the Bank participates actively in several working groups where other donors occupy the lead role. At times, NGO representatives and other stakeholders participate in TWG meetings. The focus now should be to ensure that the efforts of TWGs do not become preoccupied with process at the expense of development actions.

The Bank has worked closely with the IMF throughout the period of Bank support to Cambodia. During the CAE period the IMF had one program, a Poverty Reduction and Growth Facility for 58.5 million Special Drawing Rights, approved in October 1999, which was closely coordinated with the Bank's 2000 SAC. The Poverty Reduction and Growth Facility program focused on improving tax collection, reforms in the financial sector, customs reforms, tariff rate reductions, governance, and environmental management reforms, all of which closely paralleled or were linked with Bank programs. The proceeds were fully drawn and the facility was closed in 2003. Cambodia has had no further drawings from the IMF.³ Despite the absence of a program, the IMF has maintained its policy dialogue and has continued to provide TA to Cambodia on financial sector issues, revenue administration, statistics, and public expenditure management, working closely with the Bank.

The Government

The government's commitment to the reforms supported by IDA was uneven across sectors and issues. On the positive side, for more than a decade the government has maintained a

stable macroeconomic environment, holding public expenditures in line with limited domestic resources and donor assistance, and resisting recourse to domestic borrowing. The government has also refrained from external commercial borrowing and, with most aid highly concessional, the ratio of external debt to GDP has been reduced to half of its 1998 level. In PFM the level of government commitment, at least in the MEF, is now high and this is reflected in significant recent progress. The government has also demonstrated strong commitment to improving the education and health systems and to supporting community-driven development projects. Land titling and expansion of infrastructure services to the rural areas are other programs that have evident government backing. Conversely, in governance, including LJR, civil service reform, and anticorruption efforts, government commitment has been poor. While the government supports the establishment of secure land titles for small farmers, it has not taken steps to stop the unregulated issuance of land concessions that lead to timber harvesting—despite the ban on logging in the former forest concessions and to establishment of large commercial landholdings—so that the landless population is increasing. Also, corruption in tax revenue collection and in the customs department is a major problem that is not being adequately addressed, and without significantly improved revenue performance, including the utilization of future oil and gas revenues, it will be difficult for Cambodia to reduce its aid dependence.

Exogenous Factors

An important exogenous factor for Cambodia is the weather. Cambodia is more dependent on rain-fed agriculture than other East Asia and Pacific Region countries, given the limited extent of irrigation systems, and its vulnerability to flooding, which has generated sharp year-to-year fluctuations in output. Other exogenous factors include the global market for garment manufacturing (discussed earlier) and the volume of future oil and gas production, and prices in the global petroleum market.

Summary Findings and Recommendations

An important lesson drawn from IEG analysis of

Bank assistance to postconflict countries is the need to establish a strong, early presence in the field. This would have been especially applicable to Cambodia, a country with no previous experience working with the Bank. The Bank maintained a minimal field presence throughout the 1990s and early 2000s.⁴ However, beginning in 2003 the Bank expanded and strengthened staffing in Phnom Penh, and located other staff with responsibility for Cambodian projects in neighboring countries. This has greatly improved the ability of the Bank to interact with the government on a continuous basis and has led to a substantial improvement in the Bank's collaboration with other field-based donors and NGOs.

The Bank's program has produced satisfactory outcomes in several areas during the CAE period—in education and health, poverty analysis leading to an increased poverty focus in government programs, small-scale rural infrastructure, and, recently, in public financial management.

Recommendation: The Bank should continue to focus on these areas in its operations program.

The Bank's efforts to improve governance in a number of areas, including LJR, broad civil service reform, forestry, and demobilization, were not successful. Largely as a result of poor ratings on governance, Cambodia's IDA allocation has been significantly reduced under the performance-based allocation system.

Recommendation: The Bank should continue to pursue reforms in governance, through policy dialogue, AAA, and Bank operations such as the Poverty Reduction and Growth Operations (PRGOs), and in concert with other donors through the CG Joint Monitoring Indicators and follow-up meetings. In the absence of reasonable progress, the Bank should reexamine the feasibility of proceeding with the planned series of PRGOs.

Although the Bank has carried out analytical work in the agricultural sector, several critical areas have received inadequate attention—water resources, agricultural markets, and the scope

for diversification. Also, the Bank has not defined a countrywide strategy for supporting rehabilitation and expansion of irrigation systems or supporting crop diversification and productivity improvements.

Recommendation: While the Bank is not the lead donor in the agricultural sector, it should work with other donors to carry out the needed diagnostic work and develop a strategy that identifies the main constraints and priorities for donor intervention.

A number of Bank operations had multiple objectives, such as the SAC, and multiple activities, such as the TA project. This dispersion has often led to delayed implementation and difficulties in supervision. Other operations also experienced significant delays in effectiveness and in implementation. Future Bank operations should focus carefully on limited objectives and specific implementation steps to achieve those objectives.

The Bank's investigation into possibilities of corruption in the IDA portfolio was carried out only after the allegations of fraud and corruption in the Demobilization and Reintegration Project were verified, but remedial measures have now been put in place. At the same time, the way in which the follow-up to these investigations was handled left a legacy of governmental ill-will toward the Bank and weakened the position of reformers within the government. The resulting disruptions to operations and policy dialogue have been an important factor limiting the impact of the Bank's efforts in Cambodia during the last years of the review period. In this regard the findings and recommendations of the Volker Commission are particularly relevant.

Recommendation: The Bank should continue to focus careful attention on the risks of corruption in its own portfolio.

Appendixes

Tables

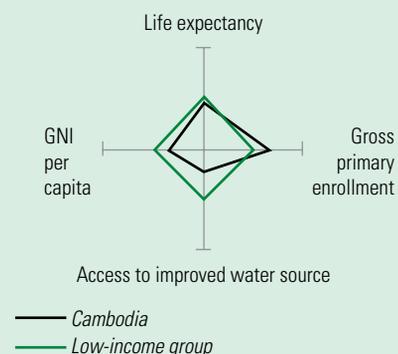
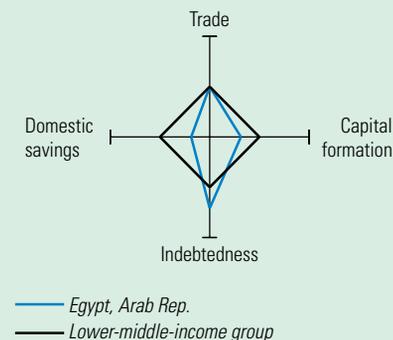
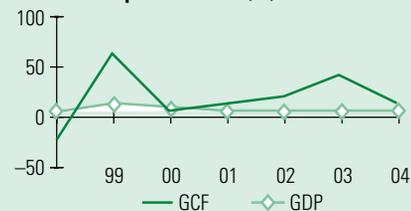
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Table A.1. Cambodia at a Glance

	Cambodia	East Asia & Pacific	Low-income
POVERTY and SOCIAL, 2004			
Population, mid-year (millions)	13.6	1,870	2,338
GNI per capita (Atlas method, US\$)	350	1,280	510
GNI (Atlas method, US\$ billions)	4.8	2,389	1,184
Average annual growth, 1998–04			
Population (%)	1.9	0.9	1.8
Labor force (%)	2.4	1.1	2.1
Most recent estimate (latest year available, 1998–04)			
Poverty (% of population below national poverty line)	36	—	—
Urban population (% of total population)	19	41	31
Life expectancy at birth (years)	54	70	58
Infant mortality (per 1,000 live births)	97	32	79
Child malnutrition (% of children under 5)	45	15	44
Access to an improved water source (% of population)	34	78	75
Literacy (% of population age 15+)	74	90	61
Gross primary enrollment (% of school-age population)	124	113	94
Male	130	113	101
Female	117	112	88

	1984	1994	2003	2004	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
GDP (US\$ billions)	—	2.8	4.3	4.9	
Gross capital formation/GDP	—	11.8	25.2	25.8	
Exports of goods and services/GDP	—	25.8	58.6	64.7	
Gross domestic savings/GDP	—	-1.1	16.0	14.7	
Gross national savings/GDP	—	5.4	22.7	18.7	
Current account balance/GDP	—	-5.6	-2.4	-5.4	
Interest payments/GDP	—	0.1	0.2	0.2	
Total debt/GDP	—	68.5	72.2	68.7	
Total debt service/exports	—	0.3	0.9	0.8	
Present value of debt/GDP	—	—	—	50.2	
Present value of debt/exports	—	—	—	71.6	
	1984–94	1994–04	2003	2004	
Average annual growth					
GDP	—	7.0	7.0	7.7	6.0
GDP per capita	—	4.1	5.2	6.1	4.3
Exports of goods and services	—	18.4	9.1	22.4	—

	1984	1994	2003	2004
STRUCTURE of the ECONOMY (% of GDP)				
Agriculture	—	47.6	35.1	32.9
Industry	—	14.4	27.8	29.2
Manufacturing	—	9.3	20.5	21.5
Services	—	38.0	37.1	37.9
Household final consumption expenditure	—	94.2	78.4	80.4
General gov't final consumption expenditure	—	6.9	5.6	4.9
Imports of goods and services	—	38.7	67.8	75.8

Development diamond^a**Economic ratios^a****Growth of capital and GDP (%)**

Note: 2004 data are preliminary estimates.

^a The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Table A.1. Cambodia at a Glance

	Cambodia		East Asia & Pacific	Low-income		
	1984-94	1994-04	2003	2004		
Average annual growth					Growth of exports and imports (%) 	
Agriculture	—	2.7	12.2	-2.0		
Industry	—	15.7	11.9	16.1		
Manufacturing	—	18.8	12.1	17.4		
Services	—	6.6	0.2	9.2		
Household final consumption expenditure	—	4.4	-0.6	7.2		
General gov't final consumption expenditure	—	5.8	5.3	-6.5		
Gross capital formation	—	14.9	41.7	14.1		
Imports of goods and services	—	13.8	9.8	21.1		
PRICES and GOVERNMENT FINANCE						Inflation (%)
Domestic prices (% change)						
Consumer prices	—	4.2	0.5	5.6		
Implicit GDP deflator	—	-4.4	1.1	5.3		
Government finance (% of GDP, includes current grants)						
Current revenue	—	8.3	10.1	11.2		
Current budget balance	—	-1.2	-0.6	1.5		
Overall surplus/deficit	—	-5.9	-7.6	-5.0		
TRADE (US\$ millions)					Export and import levels (US\$ mill.) 	
Total exports (<i>FOB</i>)	—	490	2,027	2,479		
Rubber	—	—	98	115		
Logs and sawn timber	—	—	23	18		
Manufactures	—	20	1,640	2,048		
Total imports (<i>CFI</i>)	—	737	2,560	3,228		
Food	—	—	80	140		
Fuel and energy	—	—	413	603		
Capital goods	—	—	750	963		
Export price index (2000=100)	—	—	—	—		
Import price index (2000=100)	—	—	—	—		
Terms of trade (2000=100)	—	—	—	—		
BALANCE of PAYMENTS (US\$ millions)					Current account balance to GDP (%) 	
Exports of goods and services	—	544	2,553	3,246		
Imports of goods and services	—	884	2,950	3,705		
Resource balance	—	-340	-397	-460		
Net income	—	-47	-183	-226		
Net current transfers	—	230	475	423		
Current account balance	—	-157	-105	-262		
Financing items (<i>net</i>)	—	—	171	341		
Changes in net reserves	—	—	-66	-79		
Memo:						
Reserves including gold (US\$ millions)	—	—	799	890		
Conversion rate (DEC, local/US\$)	—	2,545.3	3,980.0	4,019.0		

Table A.1. Cambodia at a Glance

	Cambodia	East Asia & Pacific	Low- income	
EXTERNAL DEBT and RESOURCE FLOWS (US\$ millions)				
	1984	1994	2003	2004
Total debt outstanding and disbursed	5	1,909	3,139	3,356
IBRD	0	0	0	0
IDA	0	39	400	467
Total debt service	0	2	25	26
IBRD	0	0	0	0
IDA	0	0	2	5
Composition of net resource flows				
Official grants	8	163	188	—
Official creditors	0	58	155	156
Private creditors	0	0	0	0
Foreign direct investment (<i>net inflows</i>)	0	82	87	137
Portfolio equity (<i>net inflows</i>)	0	0	-8	-8
World Bank program				
Commitments	0	17	76	40
Disbursements	0	38	63	48
Principal repayments	0	0	0	1
Net flows	0	38	63	46
Interest payments	0	0	2	4
Net transfers	0	38	60	42

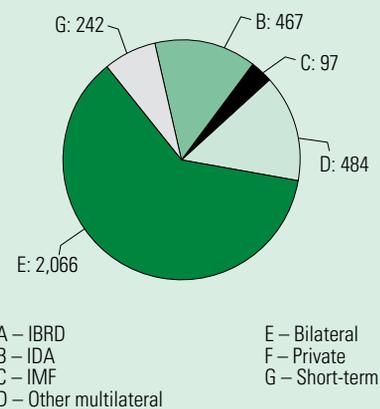
Composition of 2004 debt (US\$ mill.)

Table A.2a. Cambodia: Economic and Social Indicators

Series Name	Average													
	1998	1999	2000	2001	2002	2003	2004	2005	Cambodia	Bangladesh	Lao PDR	Thailand	Vietnam	East Asia
GDP growth (annual %)	5	13	8	8	6	9	10	13	9	5	6	3	7	7
GNI per capita, Atlas method (current US\$)	280	280	280	300	300	330	380	430	323	399	335	2168	445	1,109
GNI per capita, PPP (current international \$)	1,400	1,550	1,670	1,810	1,900	2,050	2,270	2,620	1,909	1,760	1,579	6,826	2,286	4,364
GDP per capita growth (annual %)	3	10	6	5	4	6	8	11	7	3	4	2	6	6
Agriculture, value added (% of GDP)	46	43	38	37	34	34	33	34	37	23	50	10	23	14
Exports of goods and services (% of GDP)	31	40	50	53	55	57	65	65	52	15	30	65	57	37
Imports of goods and services (annual % growth)	-2	38	24	10	15	14	20	18	17	7	19	7	16	11
Industry, value added (annual % growth)	6	21	31	11	17	12	16	12	16	7	11	4	10	8
Services, etc., value added (% of GDP)	36	37	39	40	40	39	40	39	39	51	25	48	39	41
Current account balance (% of GDP)	-6	-5	-4	-2	-3	-5	-4	-6	-4	0	-1	6	0	0
Total debt service (% of exports of goods, services and income)	1	2	2	1	1	1	1	1	1	7	8	18	6	11
External debt (% of GNI)	81	73	74	70	71	73	68	59	71	33	144	56	51	28
Gross domestic savings (% of GDP)	-1	4	5	10	11	11	10	11	8	18	32	32	27	38
IBRD loans and IDA credits (PPG DOD ^a , current US\$ million)	156	180	207	238	306	400	467	—	279	7,288	467	2,095	1,646	42,020
Gross national expenditure (% of GDP)	113	113	112	109	108	110	107	109	110	106	106	92	105	—
Cash surplus/deficit (% of GDP)	—	—	—	—	-3	-4	-2	0	-3	0	—	2	—	-2
Inflation, consumer prices (annual %)	15	4	-1	-1	3	1	4	6	4	5	37	3	4	—
Immunization for DPT3 (% of children ages 12–23 months)	48	—	49	—	—	—	41	78	62	84	50	97	93	83
Improved water source (% of population with access)	—	—	—	—	—	—	63	—	41	74	51	99	85	79
Life expectancy at birth, total (years)	55	—	56	—	—	—	—	—	60	63	55	70	70	70
Population ages 65 and above, male (million)	0.13	0.14	0.14	0.14	0.15	0.15	0.16	0.16	0.15	2	0	2	2	54
Population growth (annual %)	2	2	2	2	2	2	2	2	2	2	2	1	1	1
Population, total (million)	12	12	13	13	13	14	14	14	14	133	5	62	80	1,829
School enrollment, primary (% gross)	5	6	6	8	9	8	9	9	9	15	8	88	46	36
School enrollment, primary (% gross)	90	100	110	125	118	120	120	124	121	109	116	96	102	113
School enrollment, secondary (% gross)	17	16	17	18	22	26	29	—	24	49	40	79	69	66
Urban population (% of total)	16	16	17	17	18	19	19	20	19	24	19	31	25	38

Sources: World Development Indicators as of July 17, 2007, and tables A.2b and A.2c.

^a PPG DOD = public and publicly guaranteed debt outstanding and disbursed.

Table A.2b. Education Outcomes

Indicator	Baseline (1997–98)	Achievement (2005–06)	Comment
Enrollment rates:^a			
Primary (yrs. 1–6)	88.3%	124.0%	• Rapid enrollment increase after 1997, though slowing recently. Major implications for poverty reduction and labor market preparation.
a) gross	77.8%	91.3%	• Rapid increase at secondary level as primary completions and transition rates grew.
b) net	23.7%	55.3%	
Lower secondary (yrs. 7–9)	16.3%	31.3%	
a) gross			
b) net			
Ratio: Female to total net enrollment rates (NER):			• Significant reductions (75% in primary and 88% in lower secondary) in gap between female and total enrollment rates.
a) primary:	.93	.98	
b) lower secondary:	.76	.97	
Ratio: Remote area primary NER to total	.55	.92	• Enrollment rates grew faster in remote areas.
Ratio: Poorest 20% to richest 20% primary NER: ^b	.69 [97]	.74 [04]	• Enrollment rates grew faster for the poor.
Promotion rates (per grade average)^c			• Promotion rates (PRs) rose and dropout and repetition rates fell up to 2000/01 but stabilized since. PRs for girls now above average.
a) primary	65.0%	77.5%	
b) lower secondary	66.4%	74.4%	
Completion rates, primary level^d	44.8% [01]	79.5% [06]	Up from 14.6% in mid-1990s.
Primary school teachers:^e			
a) % with upper secondary education or higher	9.3	25.7	• Substantial increase in education levels of primary teachers.
b) % female	36.5	41.7	• High S/T ratio, but down from peak (56.8 in 2001/02).
c) student-teacher ratio	46.5	50.8	
Early childhood education enrollments	43,282	75,699	• Big increase, but still a small % of target group.
Incomplete primary schools (% of total)^f	49.4%	27.4%	• Important for access to full primary education.
Learning assessments:^g			• Establishment of regular national assessments a key institutional step. Initial findings that grade 3 students not performing at intended level.
Grade 3: % correct answers: Khmer language	NA	40.9%	
Math	NA	37.5%	
Literacy rates^h, adult total	62.8% [98]	74.4% [04]	• Relative gains for females and rural population, which should accelerate over time given recent enrollment expansion.
Ratio: Female to total lit	.88	.91	
Rural to total	.96	.98	

(continued on next page)

Table A.2b. Education Outcomes (continued)

Indicator	Baseline (1997–98)	Achievement (2005–06)	Comment
Public spending on education (annual avgs.)¹			
a) total as % of GDP	2.3% [’96–98]	2.6% [’04–06]	• Substantial increase, especially in domestic financing, basic education, and for the front line; and to reduce the burden on parents.
b) of which, domestically financed	86% [’96–98]	1.5% [’04–06]	• Domestic financing rose from 38% of education spending to 56%, and real per capita spending grew more than 50%. But uneven and unpredictable releases reduced efficiency.
c) total (\$ million)	\$75.6 [’96–98]	\$162.6 [’04–06]	
d) of which, domestically financed (\$ million)	\$28.5 [’96–98]	\$91.2 [’04–06]	
e) % of domestic budget spent on education	9.2% [’96–98]	15.8% [’04–06]	
f) per capita spending in 2000 prices in (US\$)	\$6.7 [’96–98]	\$10.2 [’04–06]	

a. Enrollment rates and gender ratios are from MoEYS. *EMIS 1997–98* and *2005–06* reports. As in many countries, these data, based on administrative reports, have generally been higher than those based on HHS data. However, HHS data show a similar improvement, and the differences between the sources have narrowed over time. An EMIS data quality assessment survey [cited in *Appraisal of Basic Education Component of Cambodia’s ESP*, for EFA FTI Secretariat, Phnom Penh, Oct 2006, p.14.] found differences between EMIS and HHS in total enrollment were only 0.7 percent in 2006.

b. *CSES 1997 and 2004*, figure 6.5, p.100 of *2006 Poverty Assessment*.

c. Source: *EMIS for 1997/98 and 2005/06*.

d. *Cambodia Education Sector Performance Analysis 2006*, EC Technical Advisory Team, November 2006, p. 33. UIS method (grade-6 completions of population aged 11). Rapid increase may reflect impact of influx of overaged students that entered after fees were abolished.

e. *EMIS 1997/98 and 2005/06*. To some extent, multiple shifting reduces impact of high student-teacher ratios.

f. Percent of primary schools with fewer than 6 grades. *EMIS 1997/8 and 2005/6*, table 4.2.

g. *Student Achievement and Education Policy: Results from the Grade Three Assessment*, Final Report, October 2006. Cambodia Education Sector Support Project, National Assessment Component.

h. Literacy rates and ratios from *1998 Census and 2004 Cambodia Intercensal Population Survey*, NIS (www.nis.gov.kh/SURVEYS/CIPSS2004/TABLE4.HTM). The impact of recent improvements in access to primary education can be seen only indirectly in the aggregate adult literacy figures in table 4.2, but literacy data from the *2004 CSES* disaggregated by age group show that the 15–24 age group has substantially higher literacy rates, and smaller gender and rural/urban gaps than the older age groups. See *Education: Subject Matter Report for the CSES 2004*, June 2005, NIS in cooperation with Statistics Sweden, table 2004.1.5.

i. Revised data based on *Integrated Fiduciary Assessment and Public Expenditure Review*, World Bank 2003, chapter 2, updated July 2007 by the Cambodia country office to include more recent years and to reflect revisions in GDP. Three-year averages used to smooth out annual fluctuations. GDP deflator for government spending used to calculate spending in constant prices.

Table A.2c. Health Outcomes

Indicator	Baseline (1997–98)	Achievement (2004–05)	Comment
Infant mortality (per 1,000 live births) ^a	89 [98]	66 [05]	Substantial (28%) drop: brings Cambodia well below the low-income country average, and narrows gap with regional average. Similar drop in under-5 mortality.
Life expectancy at birth (years) Total Population ^b	55.0 [98]	62.6 [04]	
Incidence of stunting in children under 5 yrs. ^c	45% [00]	37% [05]	Reduction exceeded poverty reduction strategy paper's target slightly.
Child immunization rate for DPT3, (%) ^d Ratio of rural to average:	46% [97] .98 [00]	78% [05] 1.00 [05]	66.7% are fully immunized against TB, polio, and measles, as well as DPT3; increase between 2000 and 2005 for rural children more rapid than for urban.
Maternal mortality: a) per 1,000 live births ^e b) per 1,000 women age 15–49 ^f	6.5 [95] 0.55 [00]	4.72 [05] 0.50 [05]	a) Improvement since 1995, and below the low-income average (6.84 in 2000), but no improvement from the 4.37 estimated in 2000, ^g and still far above East Asia and Pacific Region average of 1.17. ^h b) Improvement reflects, in part, decline in fertility.
Total fertility rate (per woman 15–49)	4.0 [00]	3.4 [05]	Improving, but still nearly 70% above the East Asia and Pacific Region average.
Population growth rates ⁱ	2.25 [98]	1.96 [05]	Nearly triple the East Asia and Pacific Region average of 0.7%
% of women using modern contraception ^k	18.5 [00]	27.2 [05]	Use of all methods rose from 24% to 40%
% live births with professional prenatal care ^l Ratio of rural to average:	34.3% [98] .90 [00]	69.3% [05] .98 [05]	Increase between 2000 and 2005 for rural mothers more rapid than for urban.
% live births delivered by trained medical staff	34.0% [98]	43.8% [05]	Same as above
HIV/AIDS prevalence, % of adults ^m	3.3% [97]	0.9% [07]	Prevalence is ambiguous as an indicator of progress.
Consistent condom use by sex workers ⁿ	42% [97]	96% [03]	Significant reduction in high risk behavior.
Consultations per capita: a) all patients ^o b) children under 5 ^p	0.3 [98] 0.54 [02]	0.5 [05] 0.92 [05]	Improved, but still below WHO guideline of 0.6 for rural areas and 1.0 for urban ^q Rapid increase for under-5 age group.
Number of patients assisted by equity funds ^r	5,234 [02]	99,801 [05]	
Out-of-pocket health spending (\$/capita) ^s	\$20.7 [00]	\$14.90 [05]	

(continued on next page)

Table A.2c. Health Outcomes (continued)

Indicator	Baseline (1997–98)	Achievement (2004–05)	Comment
Public spending on health (annual avgs.) ^t			Substantial increase, especially in domestic financing, which nearly doubled as a percent of GDP. But uneven and unpredictable releases reduced efficiency.
a) total as % of GDP	1.9% ['96–98]	2.9% ['04–06]	
b) of which, domestically financed	0.46% ['96–98]	0.90% ['04–06]	
c) total (\$ million)	\$61.7 ['96–98]	\$180.8 ['04–06]	
d) of which, domestically financed (\$ million)	\$15.5 ['96–98]	\$56.4 ['04–06]	
e) % of domestic budget spent on health	5.0% ['96–98]	9.7% ['04–06]	
f) per capita spending in 2000 prices in US \$	\$5.48 ['96–98]	\$11.37 ['04–06]	

a. Infant mortality: for 1998 from *National Health Survey*, and for 2005 from *2005 Cambodian Demographic and Health Survey* (DHS). The *2000 Cambodian DHS* showed generally higher infant and child mortality rates than the 1998 survey, and implies a larger and more rapid decline by 2005.

b. Life expectancy: 1998 from *Census: 2004 from Cambodia Intercensal Population Survey*.

c. *DHS 2005*, p. 169.

d. For children ages 12–23 months. Source *HNPStats* for 1998, 2000 and 2005 *DHS* for 2000 and 2005.

e. The MMR for 1995 is from a 1995 household survey, *Knowledge, Attitude and Practice Survey on Fertility and Contraception in Cambodia*, Ministry of Health, 1995, as cited in Asian Development Bank, *Report and Recommendation ... on a proposed loan to the Kingdom of Cambodia for the Basic Health Services Project (RFP-CAM 27410)*, May 1996, p. 3. MMR for 2005 is from *2005 DHS*, p. 120.

f. Maternal mortality rate per 1,000 women aged 15–49 from *DHS 2000* (p. 117) and *2005* (p. 120).

g. The lack of progress since 2000 is a concern, but in part reflects both large sampling errors typical of MMR estimation (+/- 1.34 on the 4.72 estimate for 2005, so it is statistically the same as the 2000 estimate) and the fact that the MMR is calculated ex-post, on the maternal deaths occurring in the 7 years before the survey. Consequently, the full impact of any interventions (for example, the large increases in prenatal care, etc., since 1997) will be seen only with a lag.

h. Low-income country and East Asia and the Pacific averages are for 2000, the most recently recorded data in the World Development Indicators/Development Data Platform.

i. *DHS 2005*, p. 10.

j. DDP database.

k. *2000* and *2005 DHS*.

l. 1998 from *National Health Survey* as cited in *DC&HD PPAR*, 2000 and 2005 from DHS. Same sources for percentage of births assisted by trained medical staff.

m. 1997 data from NCHADS, cited in *DC&HD PPAR*, p. 17; 2007 data from Ministry of Health Expert Panel press release, 28 June 2007. For the limitations of this indicator see Committing to Results: Improving the Effectiveness of HIV/AIDS Assistance, IEG 2005, p. 35.

n. *Cambodian Behavioral Survey 2003*, NCADS, June 2005, p. 77.

o. Data for 1998 and 2005 from Ministry of Health, National Health Statistics, p. 64; Data from Health Public Expenditure Tracking Survey (p. 100) indicate Basic Health Service consultations per capita at 0.56 in 2003 and 0.63 in 2004, and are somewhat higher than the Ministry of Health data for those years.

p. 2006 Joint Annual Performance Review, Ministry of Health Dept of Planning and Health Information, March, 2006, p. 8.

q. WHO guideline as cited in 2005 *CASCR*, p. 57.

r. Ministry of Health, *Joint Annual Performance Review 2006*, p. 52.

s. Sources: for 2000, *DHS 2000*, p. 37; for 2005, *DHS 2005*, p. 37. Based on out-of-pocket spending on transport and health care from all sources by household members who were ill in the 30 days prior to the survey.

t. Revised data based on Integrated Fiduciary Assessment and Public Expenditure Review, WB 2003, chapter 2; updated July 2007 by Cambodia country office to include more recent years and to reflect revisions in GDP. Three-year averages used to smooth out annual fluctuations. GDP deflator for government spending used to calculate spending in constant prices.

Table A.3a. External Assistance to Cambodia, Total Net Official Development Assistance Disbursement, 1999–2004
(in US\$ million)

Donor	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Arab Agencies							0.47	0.28	4.33	2.61	4.87	2.54
Arab Countries	2.21											
AsDF (Asian Dev.Fund)	16.36	45.42	32.06	10.74	29.33	26.16	50.83	48.35	79.05	74.13	78.75	85.67
Australia	14.31	25.83	28.24	23.95	21.91	16.74	25.69	15.75	21.61	19.88	25.01	28.39
Austria	0.81	0.19	0.23	0.06	0.37	0.36	0.42	0.08	-0.01	0.01	0.01	0.04
Belgium	2.57	4.99	5.58	2.9	2.18	3.31	3.12	2.79	3.14	5.33	5.7	11.81
Canada	3.15	4.23	2.12	5.31	3.4	1.19	2.56	7.98	4.94	8.97	8.48	8.48
Czech Republic									0.02	0.02	0.17	0.03
Denmark	1.3	2.03	0.9	2.4	0.68	2.48	1.97	4.87	6.64	6.33	10.46	9.22
European Community	11.39	33.02	52.58	32.93	32.9	27.49	26.14	24.19	27.78	15.38	11.79	20.25
Finland	0.02	0.4	0.57	1.35	2.3	2.13	3.65	2.75	2.7	3.88	4.2	4.27
France	28.41	53.43	52.1	27.09	21.43	22.1	21.52	21.44	24.64	25.76	25.64	30.12
G-7, Total	131.6	275.16	182.02	150.17	166.55	117.9	178.05	202.55	205.99	248.89	209.4	254.92
GEF							0.15	0.22	0.21	0.32	0.3	1.12
Germany	12.22	19.63	14.17	17.01	17.85	21.62	19.4	18.72	18.44	21.98	22.5	24.81
Global Fund (GFATM)										6.49	5.51	18.85
Hungary											0.15	0.06
IDA	38.23	24.62	45.6	30.41	19.18	26.78	36.57	39.55	47.25	63.78	47.39	35.5
IFAD				0.1		0.52	2.16	4.04	3.07	4.29	4.8	4.45
Ireland	1.57	2.2	1.71	1.32	1.04	1.1	1.24	0.87	0.43	0.69	1.22	1.07
Italy	0.31	2.16	2.01	1.76	0.1	0.46	0.87	0.04	1.79	0.07	0.66	1.92
Japan	64.52	152.04	71.34	61.63	81.4	50.87	99.21	120.21	98.58	125.88	86.37	100.62
Korea	0.01		0.22	1.78	0.3	0.25	0.66	1.13	22.71	10.76	23.88	17.77
Luxembourg	0.14	0.2		0.16	0.35	0.04	0.5		0.19	0.14	0.17	0.13

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Table A.3a. External Assistance to Cambodia, Total Net Official Development Assistance Disbursement, 1999–2004
(in US\$ million) (continued)

Donor	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Netherlands	11.02	11.77	8.39	11.52	9.31	6.29	7.38	8.16	9.27	7.2	8.7	8.04
New Zealand	0.18	0.75	1.07	1.3	1.45	1.45	1.13	1.44	1.76	2.23	2.99	3.83
Norway	4.99	4.5	5.84	8.82	7.23	6.34	6.15	5.62	3.12	2.5	3.31	3.65
Other Bilateral Donors			0.05	0.1		0.05	0.07	0.08	0.1	0	0.01	
Poland					0.02	0.01	0.02	0	0.01	0		
Portugal	0.18				0.05				0.08	0.1		
SAF+ESAF+PRGF (IMF)	20.04	42.5				9.55	5.49	13.47	10.76	-0.06	-10.37	-8.67
Slovak Republic											0.2	
Spain		0.12				0.02	0.03	0.06	0.07	0.12	0.06	0.65
Sweden	10.08	10.92	15.99	22.98	14.28	7.55	16.79	16.92	14.53	18.71	22.64	14.78
Switzerland	2.22	2.17	1.95	1.46	2.9	1.46	1.84	2.97	3.23	3.19	3.54	3.63
Turkey											0.03	
UNDP	17.81	19.06	18.12	17.54	9.83	7.88	3.11	3.87	3.12	4.18	6.26	4.52
UNFPA	0.59	1.37	2.28	3.92	6.74	3.29	3.23	3.05	3.6	3.79	2.78	1.96
UNHCR	3.59	1.75	0.38	0.41	0.1	0.11	2.59	0.76	1.13	0.45		0.72
UNICEF	10.92	10.74	8.79	3.91	3.56	3.51	3.61	3.56	3.51	3.34	4.07	4.84
United Kingdom	6.99	10.67	12.28	7.37	9.9	7.51	13.03	11.72	13.2	15.01	17.61	21.47
United States	16	33	28	30	32.47	14.11	21.46	22.44	44.4	51.22	48.14	67.5
UNTA	1.18	3.55	1.59	2.95	1.28	2.18	2.63	2.13	1.66	2.56	2.07	2.55
WFP	10.03	27.74	2.37	2.15	3.6	2.34	10.19	8.39	3.19	3.07	3.12	1.23
Non-DAC Bilateral Donors, Total	2.22		0.27	1.88	0.32	0.31	0.75	1.21	22.84	10.78	24.44	17.86
DAC EU Members, Total	75.62	118.71	113.93	95.92	79.84	74.97	89.92	88.42	95.11	105.33	119.57	128.33
DAC Countries, Total	180.99	341.23	252.49	228.39	230.6	167.1	247.96	264.83	272.75	319.2	297.41	344.43
Multilateral, Total	130.14	209.77	163.77	105.06	106.52	109.8	147.17	151.86	188.66	184.33	161.34	175.53
All Donors, Total	313.35	551	416.53	335.33	337.44	277.3	395.88	417.9	484.25	514.31	483.19	537.82

Source: Organisation for Economic Co-operation and Development, DAC data.

Table A.3b. Cambodia: World Bank IBRD/IDA Commitments, by Sector Board, FY1998–2006
(in US\$ million)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total	% of Total commitment
Economic Policy			30							30	7
Education			5					28		33	8
Energy and Mining							40			40	9
Health, Nutrition & Population						27				27	6
Private Sector Development								10		10	2
Public Sector Governance					5.5				14	19.5	5
Rural Sector		5	6.7	35	24.3	22				93	22
Social Development					18.4					18.4	4
Social Protection		25		10						35	8
Transport		45.31					20			65.31	15
Water Supply & Sanitation	30.96					19.9				50.86	12
Total	30.96	75.31	41.7	45	48.2	68.9	60	38	14	422.07	1

Source: World Bank database.

Table A.3c. Cambodia: List of IBRD/IDA Approved Projects, CY1993–2006

Fiscal Year	Project Name	Project ID #	Approval Date	Latest DO	Latest IP	Latest Risk Rating	Proj Stat	Date, Rev Closing	Sector Board	IBRD/IDA Amt	IEG Outcome	IEG Sustainability	IEG ID Impact
1999	KH-Road Rehab	P004030	03/23/1999	MS	S	S	#	Active	Transport	45			
2000	KH-Bio & Protec Areas M	P065798	02/08/2000	S	S	S	#	Active	Rural Sector	2			
2002	KH-Land Management and Administration	P070875	02/26/2002	U	U	U	#	Active	Rural Sector	24			
2002	KH-Eco. & PS Capacity Building Project	P071247	06/25/2002	U	U	U	#	Active	Public Sector Governance	6			
2003	KH-Health Sector Support Project	P070542	12/19/2002	S	S	S	#	Active	Health, Nutrition and Population	27			
2003	KH-Rural Investment & Local Governance	P071146	04/22/2003	S	S	S	#	Active	Rural Sector	22			
2003	KH-Prov & Peri-Urb Water	P073311	04/22/2003	MU	MU	MU	#	Active	Water Supply and Sanitation	20			
2004	KH-Rural Electrif. & Transmn	P064844	12/16/2003	S	MS	MS	#	Active	Energy and Mining	40			
2004	KH-Prvnl & Rural Infra	P071207	09/11/2003	U	U	U	#	Active	Transport	20			
2005	KH-Cambodia Education Sector Support	P070668	05/12/2005	S	S	S	#	Active	Education	28			
2005	KH-Trade Facilitation & Competitiveness	P089196	06/02/2005	MS	MU	MU	#	Active	Private Sector Development	10			
2006	KH-Public Fin. Mgmt. & Acctt.	P087945	06/27/2006	S	S	S	#	Active	Public Sector Governance	14			
1994	Emergency Rehab	P004036	10/26/1993	S	S	S	#	Closed	Private Sector Development	63	Moderately Satisfactory	Uncertain	Modest
1995	KH-Technical Assistance Project	P034755	12/06/1994	S	S	S	M	Closed	Economic Policy	17	Unsatisfactory	Unlikely	Modest
1995	KH-Social Fund (Project closed)	P037088	06/08/1995	HS	HS	HS	N	Closed	Social Protection	20	Satisfactory	Likely	Substantial

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Table A.3c. Cambodia: List of IBRD/IDA Approved Projects, CY1993–2006 (continued)

Fiscal Year	Project Name	Project ID #	Approval Date	Latest DO	Latest IP	Latest Risk Rating	Proj Stat	Date Rev Closing	Sector Board	IBRD/IDA Amt	IEG Outcome	IEG Sustainability	IEG ID Impact
1996	Phnom Penh Power Reh	P004032	09/28/1995	S	S	S	Closed	06/30/2000	Energy and Mining	40	Satisfactory	Likely	Substantial
1996	Economic Rehab. Cr.	P004035	09/28/1995	S	S	M	Closed	06/30/1997	Economic Policy	40	Moderately Satisfactory	Uncertain	Modest
1997	KH-Agricultural Productivity Improvement	P004033	02/28/1997	MS	MU	#	Closed	12/31/2005	Rural Sector	27			
1997	KH-Disease Control & Heal	P004034	12/24/1996	S	S	M	Closed	12/31/2002	Health, Nutrition and Population	30	Satisfactory	Likely	High
1998	KH-Urban Water Supply	P045629	02/17/1998	S	S	M	Closed	03/31/2004	Water Supply and Sanitation	31	Highly Satisfactory	Highly Likely	Substantial
1999	KH-Social Fund II	P050601	03/23/1999	S	S	M	Closed	03/31/2005	Social Protection	25	Moderately Satisfactory	Nonevaluable	Modest
1999	KH-Northeast Village	P058841	05/18/1999	S	S	M	Closed	06/30/2004	Rural Sector	5	Satisfactory	Unlikely	Modest
2000	KH-Education Quality Improvement	P059971	08/31/1999	S	S	S	Closed	03/31/2004	Education	5	Satisfactory	Nonevaluable	Substantial
2000	KH-Cambodia SAC	P058544	02/29/2000	S	S	S	Closed	12/31/2003	Economic Policy	30	Moderately Satisfactory	Nonevaluable	Modest
2000	KH-Forest Concession Mgt & Control Pilot	P060003	06/05/2000	U	U	#	Closed	12/31/2005	Rural Sector	5	Unsatisfactory	#	#
2001	KH-Emergency Suppl Cr for Social Fund II	P073310	06/19/2001	#	#	#	Closed	#	Social Protection	10			
2001	KH-Flood Emergency Rehabilitation Proj	P073394	03/13/2001	S	S	#	Closed	06/30/2005	Rural Sector	35	Satisfactory	Likely	Substantial
2002	KH-Demobilization and Reintegration	P071445	08/23/2001	U	HU	H	Closed	12/31/2004	Social Development	18	Unsatisfactory	Unlikely	Negligible

Source: World Bank database.

Table A.4. Cambodia: Analytical and Advisory Work, 1998–2006

Document Title	Year
Country Assistance Strategy	
Cambodia – Country Assistance Strategy	2005
Cambodia – Country Assistance Strategy	2000
Cambodia – Country Assistance Strategy	1997
Country Assessment	
Fiduciary Review	2005
Cambodia – Country Procurement Assessment Report	2004
Economic Report	
Cambodia – Halving Poverty by 2015 – Poverty Assessment 2006	2006
Cambodia at the Crossroads: Strengthening Accountability to Reduce Poverty	2004
Cambodia – Seizing the Global Opportunity : Investment Climate Assessment and Reform Strategy for Cambodia	2004
Towards a Private Sector-led Growth Strategy for Cambodia: A Value Chain Analytic	2003
Cambodia – Enhancing Service Delivery through Improved Resource Allocation and Institutional Reform: Integrated Fiduciary Assessment and Public Expenditure Review	2003
Cambodia – Integration and Competitiveness Study	2001
Note on Civil Service Pay and Employment Reform	2000
Cambodia: Governance and Corruption Diagnostic	2000
Cambodia – Poverty Assessment	1999
Cambodia – Public Expenditure Review: Enhancing the Effectiveness of Public Expenditures	1999
Poverty Reduction Strategy Paper	
Cambodia – National Strategic Development Plan (NSDP), 2006–10 and Joint Staff Advisory Note	2006
Cambodia – Poverty Reduction Strategy Paper (PRSP) annual progress report and joint assessment	2004
Cambodia – Poverty Reduction Strategy Paper (PRSP) and joint assessment	2003
Cambodia – Poverty Reduction Strategy Paper (PRSP) Preparation Status Report and joint assessment	2002
Cambodia – Interim poverty reduction strategy paper and assessment	2000
Sector Report	
Children’s Work In Cambodia: A Challenge for Growth and Poverty Reduction	2006
Cambodia – Women and Work in the Garment Industry	2006
Getting Girls into a School: Evidence from a Scholarship Program	2006
Implementation Strategy for Urban Water Supply Policy	2006
Justice for the Poor? An Exploratory Study of Collective Grievances over Land & Local Governance in Cambodia	2006
Managing Risk and Vulnerability in Cambodia: An Assessment and Strategy for Social Protection	2006
Gender Mainstreaming and Decentralization: An Assessment	2006
Cambodia – Public Expenditure Tracking Survey in Primary Education	2005

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Table A.4. Cambodia: Analytical and Advisory Work, 1998–2006 *(continued)*

Document Title	Year
Cambodia – Rural Sector Strategy Note: Toward A Strategy for Rural Growth, and Poverty Reduction	2005
Cambodia – Quality Basic Education for All	2005
A Fair Share for Women: Cambodia Gender Assessment	2004
Balancing the Books: Household Financing of Basic Education in Cambodia	2004
Economic Analysis of Electric Power Supply Options to Siem Reap, Cambodia	2004
A Fair Share of Women – Cambodia Gender Assessment	2004
Civil Service Reform: Strengthening World Bank and IMF Collaboration	2002
Health Financing Study	2002
Private Solutions for Infrastructure in Cambodia	2002
Cambodia – Power Sector Strategy	1999
Power Trade Strategy for the Greater Mekong Subregion	1999

Source: World Bank database.

Table A.5a. Portfolio Status Indicators: Cambodia and Comparisons, FY1998–2006

Country	# Projects	Net Comm Amt	% Proj At Risk	# Proj At Risk	Comm At Risk	% Commit at Risk
Bangladesh	220	21,196	41	19	3,811	18
Cambodia	107	2,373	22	21	457	19
Lao PDR	100	1,977	16	16	405	21
Thailand	69	7,356	9	13	799	11
Vietnam	234	24,066	20	9	1,790	7
LAC Average	2,605	203,899	449	17	33,827	17
Bank-wide	12,892	943,400	2,226	17	152,379	16

Source: World Bank database.

Table A.5b. Cambodia and Comparator Country IEG Ratings

Sector Board	Country	Total Evaluated		Outcome % Satisfactory		Inst Dev Impact % Substantial		Sustainability % Likely		Overall Bank Perf % Satisfactory		Overall Borr Perf % Satisfactory	
		Net Comm (\$million)	By Number	Net Comm (\$million)	By Number	Net Comm (\$million)	By Number	Net Comm (\$million)	By Number	Net Comm (\$million)	By Number	Net Comm (\$million)	By Number
Economic Policy	Cambodia	46.3	2	65.5	50.0	0	0.0	0.0	0.0	50.0	65.5	65.5	50.0
	Lao PDR	19.3	1	0.0	0.0	0	0.0			0.0	0.0	100.0	100.0
	Thailand	612.5	2	2.0	50.0	100	100.0	100.0	100.0	100.0	100.0	2.0	50.0
	Vietnam	399.3	3	100.0	100.0	34	66.7	75.4	50.0	100.0	100.0	100.0	100.0
	Bangladesh	425.9	3	100.0	100.0	47	33.3	100.0	100.0	100.0	100.0	94.0	66.7
	EAP	4,383.4	12	62.5	58.3	63	41.7	98.2	62.5	83.3	99.2	63.0	66.7
Bank-wide	20,866.3	138	57.1	66.9	33	35.1	67.5	71.2	79.0	84.1	58.0	67.9	
Education	Cambodia	4.9	1	100.0	100.0	100	100.0			100.0	100.0	100.0	100.0
	Lao PDR	16.2	1	100.0	100.0	0	0.0	0.0	0.0	100.0	100.0	100.0	100.0
	Thailand	208.8	3	100.0	100.0	100	100.0	100.0	100.0	66.7	75.5	100.0	100.0
	Vietnam	67.1	1	100.0	100.0	0	0.0	100.0	100.0	100.0	100.0	100.0	100.0
	Bangladesh	263.4	4	100.0	100.0	41	50.0	100.0	100.0	100.0	100.0	100.0	100.0
	EAP	3,207.5	48	91.4	91.5	72	65.1	83.4	70.7	81.3	85.8	87.0	85.4
Bank-wide	15,629.6	245	86.3	82.4	56	48.7	85.1	74.6	78.7	81.9	80.7	77.0	
Energy and Mining	Cambodia	35.1	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Lao PDR	69.5	2	100.0	100.0	50	50.0	49.5	50.0	100.0	100.0	50.5	50.0
	Thailand	605.2	9	100.0	100.0	44	44.4	100.0	100.0	100.0	100.0	100.0	100.0
	Vietnam	307.9	2	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Bangladesh	265.8	3	41.7	33.3	42	33.3	67.2	66.7	66.7	74.5	41.7	33.3
	EAP	6,172.0	48	80.5	76.1	61	57.8	67.5	68.2	91.7	92.3	88.3	83.3
Bank-wide	21,066.7	213	74.1	71.2	53	50.7	67.7	65.8	79.2	81.3	70.6	66.2	

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Table A.5b. Cambodia and Comparator Country IEG Ratings (continued)

Sector Board	Country	Total Evaluated		Outcome % Satisfactory		Inst Dev Impact % Substantial		Sustainability % Likely		Overall Bank Perf % Satisfactory		Overall Borr Perf % Satisfactory	
		Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number
Environment	Thailand	90.5	2	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Bangladesh	148.4	2	100.0	100.0	0	0.0	100.0	100.0	50.0	100.0	100.0	50.0
	EAP	807.1	12	63.1	58.3	43	33.3	93.0	75.0	75.0	67.5	67.5	75.0
	Bank-wide	3,987.6	146	67.2	74.8	44	52.9	76.3	74.0	72.6	67.2	69.0	69.9
Financial Sector	Thailand	759.8	3	1.3	33.3	1	33.3	100.0	100.0	66.7	53.9	47.4	66.7
	Vietnam	40.2	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Bangladesh	169.8	3	100.0	100.0	80	50.0	100.0	100.0	100.0	100.0	72.6	66.7
	EAP	6,505.4	17	81.1	52.9	3	25.0	92.3	64.3	58.8	87.3	88.5	70.6
Gender and Development	Bank-wide	19,486.3	128	88.5	72.8	60	55.4	90.6	77.9	78.0	90.0	91.5	76.4
	Bank-wide	3.1	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Global Information/Communications Technology	Lao PDR	27.0	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	EAP	776.4	6	100.0	100.0	41	33.3	100.0	100.0	83.3	98.5	100.0	100.0
	Bank-wide	1,488.1	25	100.0	100.0	58	62.5	100.0	100.0	96.0	99.2	99.3	96.0
	Cambodia	26.8	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Health, Nutrition and Population	Lao PDR	17.3	1	100.0	100.0	0	0.0	0.0	0.0	0.0	0.0	100.0	100.0
	Vietnam	44.6	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Bangladesh	462.3	3	40.8	33.3	0	0.0	100.0	100.0	66.7	51.9	51.9	66.7
	EAP	1,079.7	24	81.8	70.8	62	50.0	81.8	65.2	70.8	86.5	92.1	79.2
Bank-wide	11,201.8	192	75.1	67.2	53	46.1	76.1	65.9	67.5	67.3	68.2	67.5	

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Table A.5b. Cambodia and Comparator Country IEG Ratings (continued)

Sector Board	Country	Total Evaluated		Outcome % Satisfactory		Inst Dev Impact % Substantial		Sustainability % Likely		Overall Bank Perf % Satisfactory		Overall Borr Perf % Satisfactory	
		Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number
Poverty Reduction	Vietnam	106.7	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	EAP	106.7	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Bank-wide	1,630.9	15	82.7	86.7	35	50.0	90.6	91.7	93.3	97.6	89.8	86.7
Private Sector Development	Lao PDR	19.6	1	0.0	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Bangladesh	85.2	2	34.8	50.0	0	0.0	0.0	0.0	100.0	100.0	34.8	50.0
	EAP	122.7	8	61.5	50.0	21	12.5	30.8	25.0	62.5	74.8	61.5	50.0
	Bank-wide	6,445.2	137	81.8	64.2	61	37.2	85.1	67.5	72.8	82.4	79.9	58.8
Public Sector Governance	Thailand	400.0	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Bangladesh	306.7	1	100.0	100.0	0	0.0	0.0	0.0	100.0	100.0	100.0	100.0
	EAP	1,793.3	16	59.0	75.0	53	62.5	75.2	76.9	81.3	59.8	64.9	81.3
	Bank-wide	13,656.1	194	85.1	75.9	51	48.4	90.0	77.8	78.2	86.4	86.1	73.1
Rural Sector	Cambodia	46.4	3	89.9	66.7	89	50.0	88.8	50.0	66.7	89.9	89.9	66.7
	Lao PDR	35.6	4	49.7	50.0	0	0.0	44.2	25.0	50.0	49.7	49.7	50.0
	Vietnam	311.8	4	100.0	100.0	66	66.7	100.0	100.0	75.0	92.9	92.9	75.0
	Bangladesh	225.6	9	79.2	77.8	23	25.0	26.6	33.3	55.6	71.0	81.4	77.8
	EAP	7,141.9	75	94.9	82.2	77	55.1	91.0	72.3	74.3	91.3	93.6	79.5
	Bank-wide	19,557.4	387	81.7	74.1	57	46.6	74.0	62.9	68.7	75.2	76.0	67.4
Social Development	Cambodia	0.7	1	0.0	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	EAP	0.7	1	0.0	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Bank-wide	577.9	18	49.4	62.5	45	46.7	94.3	69.2	61.1	46.1	48.8	55.6

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Table A.5b. Cambodia and Comparator Country IEG Ratings (continued)

Sector Board	Country	Total Evaluated			Outcome % Satisfactory			Inst Dev Impact % Substantial			Sustainability % Likely			Overall Bank Perf % Satisfactory			Overall Borr Perf % Satisfactory		
		Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number	Net Comm (\$Million)	By Number
Social Protection	Cambodia	18.4	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Lao PDR	9.7	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Thailand	253.5	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	EAP	1,129.3	13	100.0	75.0	45	41.7	66.2	55.6	69.2	99.9	99.9	99.9	99.9	99.9	99.9	99.9	99.9	90.9
	Bank-wide	10,018.3	160	88.0	82.3	53	47.7	81.9	66.1	81.3	88.3	88.3	88.3	88.3	88.3	88.3	88.3	88.3	82.3
Transport	Lao PDR	101.4	3	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Thailand	232.4	2	100.0	100.0	32	50.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Vietnam	446.8	5	100.0	100.0	7	25.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	94.1	80.0	80.0
	Bangladesh	921.9	6	90.6	83.3	39	33.3	94.3	80.0	83.3	90.6	83.3	83.3	83.3	83.3	85.4	85.4	85.4	66.7
	EAP	7,208.5	51	95.5	96.1	76	73.5	94.8	91.3	98.0	96.3	98.0	98.0	98.0	96.4	96.4	96.4	94.1	94.1
Bank-wide	20,680.6	234	91.3	89.5	61	63.3	87.4	81.4	93.5	93.3	93.5	93.5	93.5	88.3	88.3	88.3	85.7	85.7	
Urban Development	Bangladesh	31.0	1	0.0	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	EAP	1,432.2	19	74.6	68.4	44	31.6	53.0	50.0	78.9	81.3	78.9	78.9	80.1	80.1	80.1	78.9	78.9	
	Bank-wide	7,239.2	135	84.4	75.2	44	38.8	71.4	63.6	75.4	81.4	75.4	75.4	84.9	84.9	84.9	73.1	73.1	
Water Supply and Sanitation	Cambodia	30.1	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Vietnam	60.3	1	100.0	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Bangladesh	46.7	1	0.0	0.0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	EAP	1,604.3	19	94.5	89.5	63	63.2	75.0	78.9	94.7	94.8	94.7	94.7	94.5	94.5	94.5	89.5	89.5	
Bank-wide	6,896.6	121	73.2	72.3	40	43.1	55.9	59.6	73.3	72.5	73.3	73.3	66.8	66.8	66.8	68.3	68.3		

Source: World Bank database.

Note: EAP = East Asia and Pacific Region.

Table A.6. Common Portfolio Problems

	Fiscal Year	1999	2000	2001	2002	2003	2004	2005	2006	Average %
Cambodia	% Safeguards	0	9	0	0	0	0	8	8	3
	% Slow Disb	11	0	8	14	19	0	8	0	8
	% Proc Prob	11	9	8	14	19	21	8	25	14
	% Mgt Prob	11.1	9.1	0.0	0.0	18.8	14.3	7.7	25.0	11
	% Field Managed	0.0	18.2	8.3	14.3	6.3	7.1	0.0	8.3	8
East Asia and Pacific Region	% Safeguards	3	4	5	2	4	4	1	1	3
	% Slow Disb	19	9	12	14	14	13	13	14	14
	% Proc Prob	12	9	7	11	11	10	3	6	9
	% Mgt Prob	10.6	5.8	4.6	8.1	4.8	5.1	4.8	6.9	6
	% Field Managed ^a	0.0	25.9	26.5	33.3	32.0	28.5	29.2	30.9	26
Bank-wide	% Safeguards	2	2	2	2	3	3	2	3	2
	% Slow Disb	25	13	14	14	13	12	11	11	14
	% Proc Prob	9	7	7	11	11	11	7	6	9
	% Mgt Prob	9.0	7.8	5.7	6.4	6.2	6.6	6.8	6.4	7
	% Field Managed	0.0	14.7	15.7	17.9	17.3	15.8	16.2	15.3	14

Source: World Bank database.

a. Not available prior to fiscal 2000.

Table A.7. Cambodia: Bank Budget, by Cost Category, FY1999–2006
(in US\$ thousands)

Fiscal year	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	Total
Bus Proc	Actuals								
Services	1,605	2,630	3,125	3,869	4,376	5,178	5,364	4,969	31,115
Client services	1,560	2,546	3,028	3,756	4,149	4,953	4,973	4,754	29,718
Country services	1,555	2,531	3,016	3,741	4,015	4,756	4,616	4,152	28,383
Project supervision	544	849	807	937	1,221	1,478	1,613	1,485	8,933
Supervision	544	792	799	880	1,067	1,236	1,270	1,136	7,723
Portfolio management	0	57	8	57	154	241	343	350	1,209
Lending	614	626	1,552	1,542	1,269	809	1,035	1,123	8,569
Lending	614	626	1,552	1,541	1,229	734	957	1,097	8,349
Prepare loans/grants	614	543	1,552	1,541	1,229	734	957	1,097	8,266
Lending development		83	0						83
Lending by country		0	0						0
LEN DEV- KH		0	0						0
Legal services for operations				1	40	75	78	26	220
Legal for operations				1	40	75	78	26	220
Country economic & sector work	280	473	441	786	852	1,788	1,432	1,156	7,209
Econ & sector work	156	240	227	621	730	1,200	1,004	954	5,132
Econ & sector work	156	88	77	440	634	1,113	831	744	4,083
Country monitoring		152	150	181	96	88	172	210	1,049
Technical assistance	20	168	92	126	113	514	318	151	1,502
Aid coordination	104	65	122	39	10	74	111	50	575
Country program support	13	544	209	463	657	661	508	379	3,433
Support Country Ops		280	71	149	328	348	339	373	1,889
Form/Monitor CAS		168		7	129	293	153	1	750

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Table A.7. Cambodia: Bank Budget, by Cost Category, FY 1999–2006
(in US\$ thousands) (continued)

Fiscal year	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	Total
Bus Proc	Actuals								
PPF Assistance	13	97	33	0					143
PRSP Preparation			105	307	199	20	16	5	652
Client Training	104	39	7	14	16	20	28	9	238
Deliver Client Trg	104	39	7	14	16	20	28	9	238
Sector and Global Se	1	13	11	4	134	193	292	269	918
Knowledge Management						18	77	-2	94
Professional Standard						14			14
Sector Strategy	1					21	2		24
Quality Assurance								23	23
External Partnership			11	4	126	42	76	72	331
Business Development		13						30	43
Council and Sector B					8	44	77	101	230
Research						55	61	45	160
Other Operational Su	3	2		11		4	42	299	360
Country Risk Assessm						4	2	7	12
Anti Corruption		2							2
Operational Legal Se	3			11			40	292	346
ACS Support to Produ			0				23	34	57
Support Services	45	84	98	113	226	225	391	215	1,397
Receive Training					55	53	5	14	126
Administrative Servi		7	42	13	3	47	155	35	302
Corporate Services	45	77	56	100	168	125	231	166	969

Source: World Bank database.

Table A.8. World Bank Senior Management for Cambodia, 1999–2007

Year	Vice President	Country Director	Resident Representative/ Country Manager
1999	Jean-Michel Severino	Ngozi N. Okonjo-Iweala	Bonaventure Mbida-Essama
2000	Jamil Kassum	Ngozi N. Okonjo-Iweala	Bonaventure Mbida-Essama
2001	Jamil Kassum	Ian C. Porter	Bonaventure Mbida-Essama
2002	Jamil Kassum	Ian C. Porter	Bonaventure Mbida-Essama
2003	Jamil Kassum	Ian C. Porter	Nisha Agrawal
2004	Jamil Kassum	Ian C. Porter	Nisha Agrawal
2005	Jamil Kassum	Ian C. Porter	Nisha Agrawal
2006	Jeffrey Gutman	Ian C. Porter	Nisha Agrawal
2007	James Adams	Ian C. Porter	Nisha Agrawal

Table A.9. Cambodia: Millennium Development Goals

	1990	1995	2000	2005
Goal 1: Eradicate extreme poverty and hunger				
Income share held by lowest 20%	—	6.9	—	6.8
Malnutrition prevalence, weight for age (% of children under 5)	—	47.4	45.2	36.0
Poverty gap at \$1 a day (PPP) (%)	—	9.7	—	—
Poverty headcount ratio at \$1 a day (PPP) (% of population)	—	34.1	—	—
Poverty headcount ratio at national poverty line (% of population)	—	47	—	35
Prevalence of undernourishment (% of population)	43	46	—	33
Goal 2: Achieve universal primary education				
Literacy rate, youth total (% of people ages 15–24)	73	—	—	83
Persistence to grade 5, total (% of cohort)	—	—	63	63
Primary completion rate, total (% of relevant age group)	—	15	45	80
School enrollment, primary (% net)	69	78	84	91
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliament (%)	—	6	8	10
Ratio of girls to boys in primary and secondary education (%)	—	—	80	87
Ratio of young literate females to males (% ages 15–24)	81	—	—	92
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	53.5	52.8	51.9	51.3
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12–23 months)	34	—	55	77
Mortality rate, infant (per 1,000 live births)	—	89	95	66
Mortality rate, under-5 (per 1,000)	—	115	124	83
Goal 5: Improve maternal health				
Births attended by skilled health staff (% of total)	—	34	32	44
Maternal mortality ratio (modeled estimate, per 100,000 live births)	—	—	450	—
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Contraceptive prevalence (% of women ages 15–49)	—	13	24	40
Incidence of tuberculosis (per 100,000 people)	582	555	530	506
Prevalence of HIV, female (% ages 15–24)	—	—	—	—
Prevalence of HIV, total (% of population ages 15–49)	—	3.3	—	0.9
Tuberculosis cases detected under Development Outcome Tracking System (%)	—	40	49	66
Goal 7: Ensure environmental sustainability				
CO ₂ emissions (metric tons per capita)	0.0	0.0	0.0	0.0
Forest area (% of land area)	73	—	65	59
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	—	—	—	—

(continued on next page)

Table A.9. Cambodia: Millennium Development Goals (continued)

	1990	1995	2000	2005
Improved sanitation facilities (% of population with access)	—	—	—	17
Improved water source (% of population with access)	—	—	—	41
Nationally protected areas (% of total land area)	—	—	—	23.5
Goal 8: Develop a global partnership for development				
Aid per capita (current US\$)	4	48	31	38
Debt service (public and publicly guaranteed and IMF only, % of exports of goods and services, excl. workers' remittances)	3.8	0.7	1.4	0.7
Fixed line and mobile phone subscribers (per 1,000 people)	0	2	13	40
Internet users (per 1,000 people)	0	0	0	3
Personal computers (per 1,000 people)	—	0	1	3
Total debt service (% of exports of goods, services and income)	4.0	0.7	1.6	0.7
Unemployment, youth female (% of female labor force ages 15–24)	—	—	12.0	—
Unemployment, youth male (% of male labor force ages 15–24)	—	—	12.4	—
Unemployment, youth total (% of total labor force ages 15–24)	—	—	12.2	—
Other				
Fertility rate, total (births per woman)	5.5	4.8	4.0	3.4
GNI per capita, Atlas method (current US\$)	—	280	280	430
GNI, Atlas method (current US\$) (billions)	—	3.2	3.6	6.1
Gross capital formation (% of GDP)	8.2	14.4	16.9	19.7
Life expectancy at birth, total (years)	54	55	—	63
Literacy rate, adult total (% of people ages 15 and above)	62	63	—	74
Population, total (millions)	9.0	10.9	12.6	13.8
Trade (% of GDP)	18.9	77.7	91.0	109.8

Sources: World Development Indicators database, July 2007, and tables A.2b and A.2c.

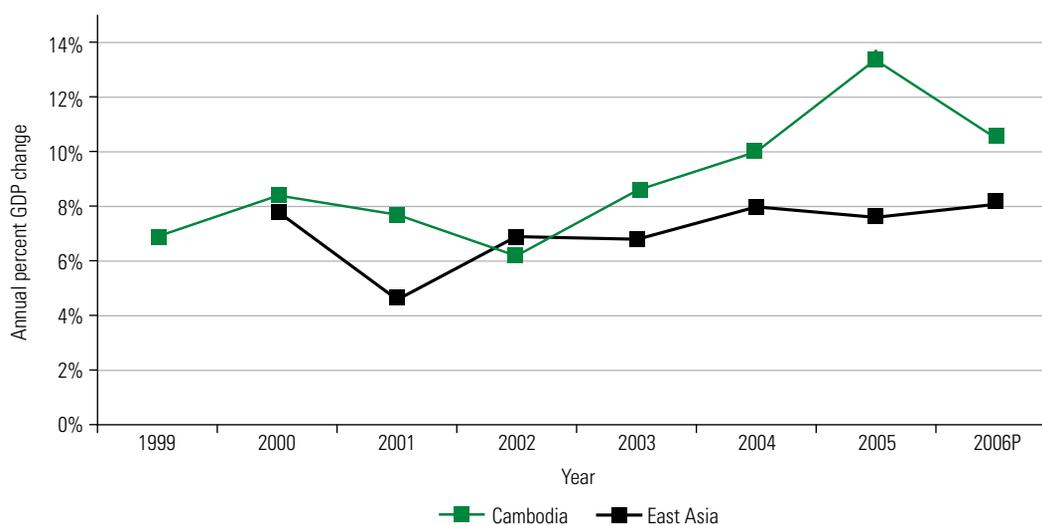
Note: Figures in italics refer to periods other than those specified.

Economic Growth and Private Sector Development between 1998 and 2006

Cambodia had a fragile foundation for private-sector led growth. Its legacy of conflict had resulted in destroyed institutions and low capacity for economic activities. The country's infrastructure was poor, reflecting not only its history of conflict but also its low population density and the low income of its population. What there was of a Cambodian private sector was based primarily on the informal sector, such as unregistered farmers and rural micro and small enterprises.¹ In 1993, a United Nations–negotiated peace settlement led to elections and a coalition government came to power. Since then, private sector development has been the government's strategic

focus.² The government's attempts to liberalize the economy brought initial successes between 1994 and 1996 in attracting foreign direct investment. Resulting foreign direct investment project commitments exceeded US\$ 2.2 billion, mainly in garments, construction, and the tourism sectors. Such progress, however, halted in 1997 when the coalition broke up and international donors withdrew aid. Japan brokered a peace plan and new elections were held in 1998, but political violence between the two main parties—the Cambodian People's Party (CPP) and the National United Front for an Independent, Neutral, Peaceful, and Co-operative Cambodia (FUNCINPEC)—continued until the next elections in 2003, when CCP gained the upper hand.

Figure B.1: Cambodia's Growth Has Been Higher Than the Regional Average Since 2003



Source: World Bank.

Table B.1: Cambodia's Key Economic Indicators

Cambodia (\$millions)	2000	2001	2002	2003	2004	2005
Tourism receipts	303	381	454	390	605	842
Garment exports (GSP before 2003)	1013	1188	1392	1601	1986	2206
GDP	3655	3970	4280	4585	5260	6287
% of GDP	36%	40%	43%	43%	49%	48%

Source: IMF and World Bank.

Note: GSP = Generalized System of Preferences.

Cambodia's current economy is narrowly based on three key sectors: agriculture, garment, and tourism, and increasingly in the latter two. The garment and tourism sectors represented 36 percent of GDP in 2000; they made up nearly half of country GDP in 2005. Cambodia has had higher growth rates than East Asia averages in the last four years (see figure B.1). This growth is mainly export-led growth based on the garment and tourism sectors (table B.1). These two sectors grew strongly during the past decade: garments grew more than 20 percent per year, whereas the number of tourists grew from 367,743 in 1999, to 1,322,308 in 2006, with positive effects on the hospitality industry. However, the agriculture sector experienced high volatility in its output.

Paddy rice, Cambodia's main staple food, experienced positive and negative growth, in turns, between 2001 and 2005. Such volatility has been attributed to the country's vulnerability to weather conditions, as well as the small scale and relative inefficiency of the entire production system.

Cambodia's business climate continues to be difficult for private sector investment (see table B.2, figure B.2, and figure B.3). Despite the high growth rates in the recent years, World Trade Organization accession, and the government's eagerness to increase the private sector's role, investment climate has not changed much in Cambodia. The Institutional Investor Country Credit Rating (IICCR) began rating Cambodia's

Table B.2: Cambodia's Governance and Business Environment Indicators Were Poor

Cambodia	2006	2005
Transparency International Index (n=158 and 163 respectively)		
Corruption Perceptions Index ranking	151	130
WB/IFC Doing Business Indicators (n=175)		
Ease of doing business ranking	143	142
Start a business ranking	159	155
Dealing with licenses ranking	159	163
Getting credit	174	174

Sources: WB/IFC Doing Business Indicators and Transparency International index.

Figure B.2: IICCR and WSJ/Heritage Ratings

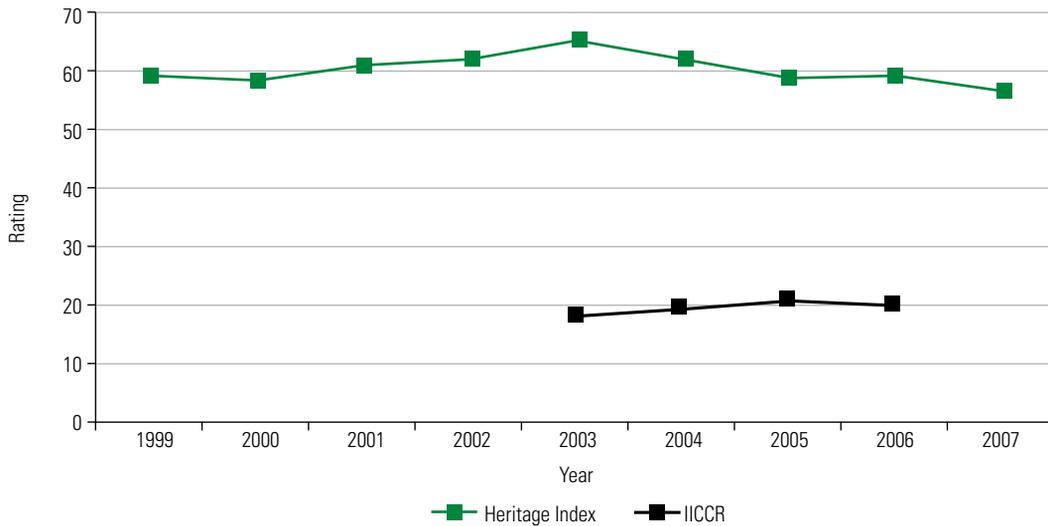
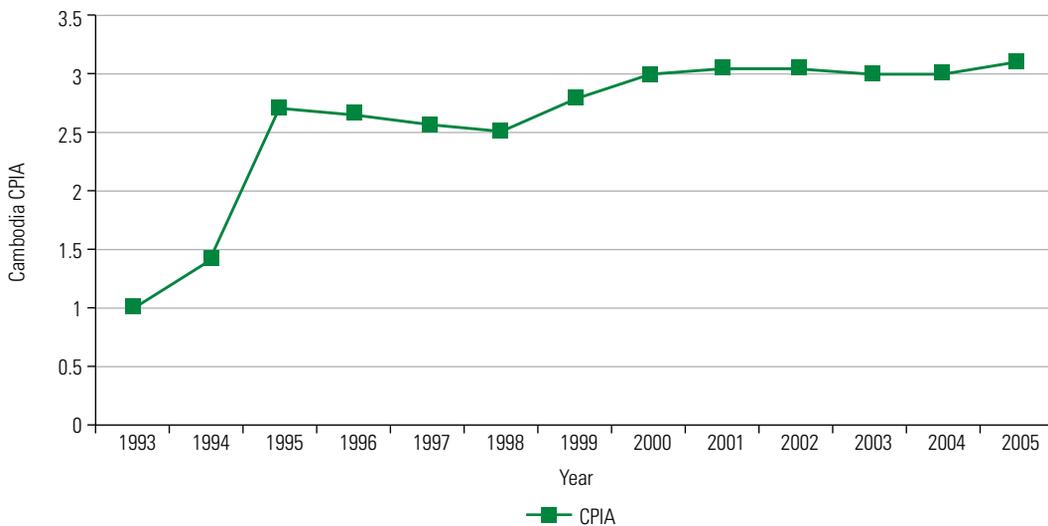


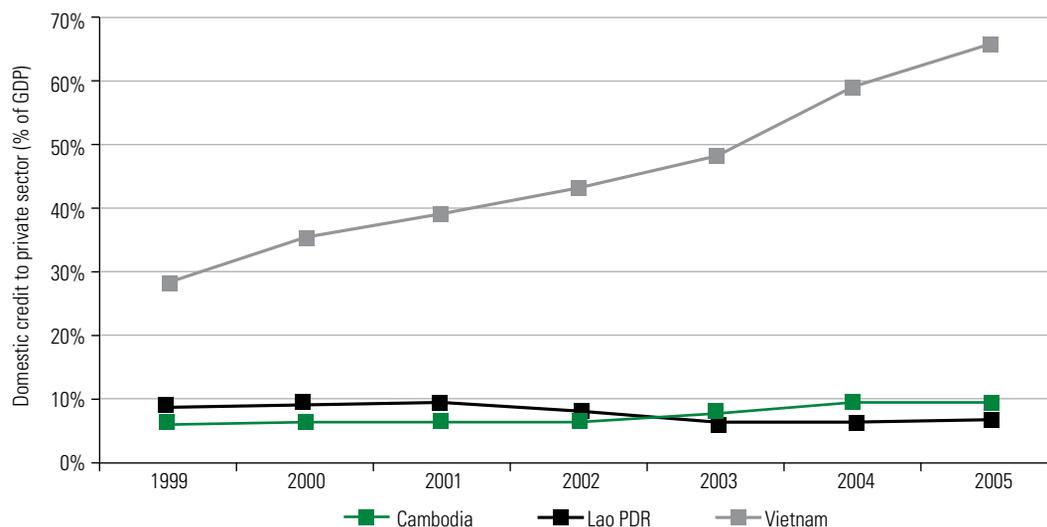
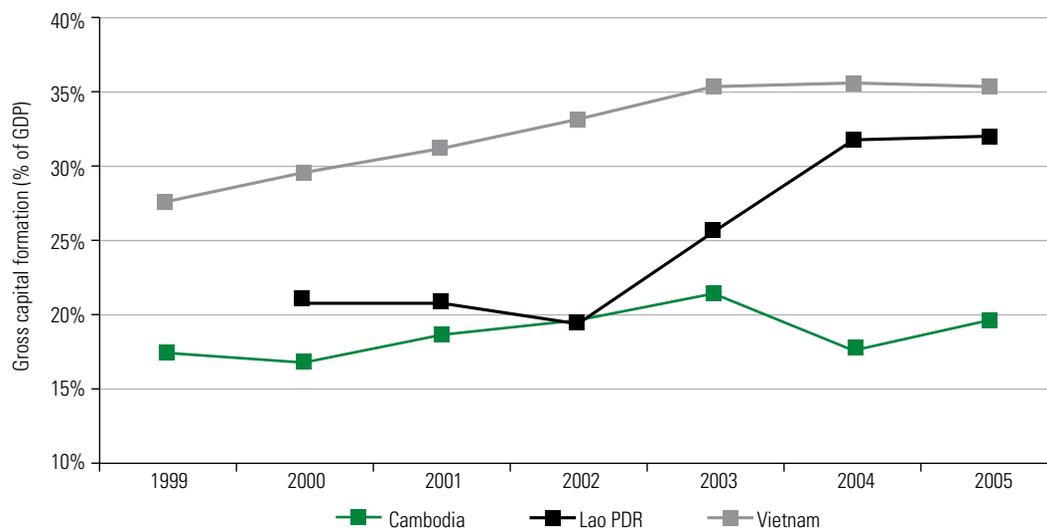
Figure B.3: World Bank’s CPIA Ratings



Source: IEG-IFC based on Transparency International, IICCR, Heritage Foundation, and World Bank data.
 Note: WSJ = Wall Street Journal; CPIA = Country Policy and Institutional Assessment.

sovereign credit risk in March 2003. The score improved marginally through 2005 but then started to decline from 2006. Its best IICCR score over the period was 21, which still scores the country as high risk. The Wall Street Journal/Heritage Foundation’s Index of Economic

Freedom Overall Synthesis Rating, which has longer coverage than the IICCR, did not improve between 1999 and 2007. Similarly, the World Bank’s Country Policy and Institutional Assessment scores have been stagnant during the past five years, after some initial improvement when

Figure B.4: Domestic Credit to Private Sector**Figure B.5: Gross Capital Formation**

Source: World Bank.

Cambodia moved away from its conflict situation. The Doing Business survey shows no improvement in Cambodia's ease of doing business during the past two years of the exercise, and it also shows Cambodia as lagging behind other comparator countries.

The private sector's shares of domestic credit and private capital formation in relation to GDP in Cambodia have not changed over the years, and financial intermediation remains low (see figures B.4 and B.5). When the domestic credit to private sector and the gross capital formation

shares are compared with Vietnam and Lao PDR (two other countries targeted by IFC’s Mekong Project Development Facility), Cambodia does not perform well, particularly in gross capital formation.

IFC Operations in Cambodia

One of the key objectives in the country assistance strategies (CAS) for Cambodia has been promotion of private sector development for poverty reduction. The 2005 CAS (prepared jointly with the World Bank), for example, specified the objective of achieving broad-based sustainable economic growth with equity, and with the private sector playing the leading role. The CAS’s strategic agenda was in three areas: (1) promote export-led growth, (2) diversify the sources of growth, and (3) improve private sector delivery of public services. In supporting these CAS priorities, IFC put heavy weight on advisory services supplemented by selective investments because of the country’s weak private sector and large informal sector, limited financial market, and challenging investment climate.

Advisory Services

IFC’s advisory services to Cambodia totaled about \$12 million between 1998 and 2006, financing some 75 projects, and equivalent to 40 percent of total IFC investment commitment to Cambodia over the same period. (See table B.3.) This was substantially greater than the average for advisory services to frontier countries over the same period, at 0.5 percent of total IFC investment commitments. Since its establishment in 1997, The Mekong Private Sector Develop-

ment Facility (MPDF), a multidonor initiative for the Mekong region (Cambodia, Lao PDR, and Vietnam) led by IFC, has been the major vehicle for IFC’s advisory operations in Cambodia. Nearly half of advisory service projects in the country (45 percent by amount) were from MPDF. IFC’s other departments, many jointly with MPDF (which has had field representation since 2000), provided various advisory services to Cambodia. The Grassroots Business Initiatives (GBI), which seeks to strengthen and scale up innovative social enterprises at the grassroots level, was the second most active provider of IFC advisory operations, with 15 percent of projects (23 percent by amount). The Global Financial Market Department provided assistance to financial markets institutions. The Environment and Social Department held seminars to promote sustainable banking. The Foreign Investment Advisory Services undertook 10 projects to advise government to promote foreign direct investment and regulatory reforms.

There are three types of recipients of IFC’s advisory services: individual firms, intermediaries (which provide services to groups of firms), and government. In Cambodia, 85 percent of advisory services were provided to the private sector, either directly to firms or through intermediaries, and only 15 percent were directed to the government. Almost half of the projects by number (68 percent by volume) went to intermediaries, followed by firms and then government. Assistance to intermediaries was, in general, also larger in amount than that for firms and the government. Average size was about \$260,000,

Table B.3: Distribution of Advisory Service Projects in Cambodia by Clients and Departments

Clients	Distribution of Projects (by number of projects)
Government (15%)	FIAS 55%, Advisory Services Dept 27%, MPDF 9%, others 9%
Intermediaries (49%)	MPDF 70%, Advisory Services Dept 8%, GBI 8%, others 13%
Firms (36%)	GBI 49%, MPDF 33%, Global Financial Market 7%, others 11%

Source: IEG-IFC.

Note: FIAS = Foreign Investment Advisory Service; MPDF = Mekong Private Sector Development Facility; GBI = Grassroots Business Initiative.

while the average for firm-level assistance was about half of intermediaries assistance. IFC assisted intermediaries such as business associations and supported the government—Private Sector Forum. About 70 percent of the assistance to intermediaries was from MPDF.

Most of the firms assisted were micro and small enterprises, including nongovernmental organizations working toward commercializing operations. The Grassroots Business Initiatives provided nearly half of the firm-level assistance, followed by MPDF (although this line of business was reduced in line with the recommendations made by the IEG-managed evaluation of MPDF in 2002) and industry and environment departments.

More than half of the assistance to the government was from the Foreign Investment Advisory Service (FIAS), followed by the Advisory Services Department and MPDF. Advice focused on legal reform and promotion of foreign direct investment.

In terms of the five business lines comprising IFC's advisory services, Value Addition to Firms, Access to Finance, and Business Enabling Environment had almost equal shares, while there were few projects in Environmental and Social Sustainability, and no advisory assistance dedicated solely to Infrastructure. (See table B.4.)

In line with the CAS objectives, IFC's advisory services emphasized: (1) support mechanisms for improving businesses environment and voices

Table B.4. Example of Advisory Services in Cambodia by Recipients and Line of Business

		Advisory Services Lines of Business				
		Business Enabling Environment	Access to Finance	Value added to firms	Environment and social	Infrastructure
Recipients:	Government	<ul style="list-style-type: none"> Advise on investment policy, Legal reform, incentives 	<ul style="list-style-type: none"> Leasing registration, privatization of Foreign Trade Bank 			
	Intermediaries	<ul style="list-style-type: none"> Business associations Alternative dispute resolution 	<ul style="list-style-type: none"> Microfinance association, Institute of Banking, Bank Training Center 	<ul style="list-style-type: none"> "Business Edge" training Hotel association, Garment sector CSR Craft network 	<ul style="list-style-type: none"> Seminar on sustainable financing, Garment CSR management training Corporate Citizenship Award 	
	Firms		<ul style="list-style-type: none"> Capacity building for MFIs, Bank advisory, Corporate governance, AML-CTF 	<ul style="list-style-type: none"> NGO commercialization 		
Distribution by number of projects		32%	29%	33%	5%	0%

Source: IEG-IFC.

from the private sector; (2) support for deepening of the financial market; and (3) encouraging sustainable garment and tourism industries.

IFC has been supporting the government-Private Sector Forum since 2002 as the principal mechanism for direct government-private sector discussions to build trust, improve business environment, and encourage regulatory reforms. So far, the forum has considered more than one thousand issues, many of which ended with recommendations being made to the government. According to an external evaluation commissioned by the IFC management, the forum was instrumental in achieving consultation on business-related laws and regulations, reforms in the financial sector, and trade facilitation, as well as harnessing open discussion on governance and corruption among the parties. Despite the improved dialogue between government and the private sector, government's responses in reforming its regulations and improving the private sector development climate has been slow.

IFC has also been active in assisting various business associations. The original idea of helping a business association was to improve its service delivery to its members, as well as to make it a vehicle to represent businesses' perspective to government and regulatory bodies. However, compared with other advisory services, IFC had difficulties in scaling up its activities to business associations. IFC found that many business associations had weak management or governance structure. They were run part-time by busy private business owners who could not make substantial time commitments to them. IFC subsequently reshaped its approach to business associations by focusing on sector-specific entities, with close scrutiny on institutional capacity.

IFC assisted Cambodia's financial market through advisory services in the form of advice to the government on privatization of the Foreign Trade Bank, training sessions for individual financial institutions, as well as support for a bank training center. Microfinance has been a main focus of

IFC's activities in the financial market, and IFC provided support not just at the firm level, but also at the subsector level (through assistance to the microfinance association).

Advisory work to Cambodia's microfinance sector contributed toward making it a well-managed part of the financial market. IFC's assistance in microfinance association helped the microfinance institutions to improve operations and help them to become registered as financial institutions. Although Cambodia's financial sector is shallow, it has been growing steadily, especially in microfinance. In the past years, the number of banks have increased from 14 in 2002, to 19 in 2006, and registered microfinance institutions increased from 9 in September 2004, to 16 at the end of 2005.³ At the same time, the number of registered nongovernmental organizations decreased from 31 to 23, in line with the central bank's encouragement to transform NGOs into formal, licensed microfinance intermediaries.

IFC's assistance in the garment sector ranged from training for managers to corporate social responsibility. It helped Cambodian firms to deal with facing increased global competition after expiration of the Multi-Fiber Agreement. IFC's contribution was to mediate between businesses and other stakeholders (including the International Labour Organization, which advocates for workers rights), to present business cases on improving labor practices in the Cambodian garment business. IFC's reputation as a business-like entity helped it to gain credibility with garment industry buyers. This helped to establish cooperation between businesses and the International Labour Organization. The organization then produced periodic reports on labor practices in the sector, and established a partnership with GAP, Inc. to sponsor management training for better labor practices in the garment-producing shops. Cambodia is now regarded as a "sweatshop-free" country and this has been attractive to international buyers who pay attention to labor standards.

However, the business training program ("Business Edge") in Cambodia faced weak

demand and competition from other donor-subsidized small and medium enterprise (SME) management programs. MPDF subsequently discontinued this line of business in 2006.

Investment Activities

IFC's direct investments in Cambodia during the same period were about \$30 million (net commitment), supporting five companies in the financial markets, transport, infrastructure, tourism, and food processing industries. IFC's existing investment portfolio is closely related to the advisory operations. Three out of five clients with IFC investments had direct advisory support from IFC, while the other two were supported through various kinds of sectorwide assistance. IFC supported relatively small projects (only two projects had commitment amounts exceeding \$5 million), reflecting the size of private sector activities in the country.

Although only two out of seven investment projects reached early operating maturity as of 2006, IEG reviewed all seven projects based on early and leading indicators of outcomes. Based on early results, the overall portfolio was performing in line with expectations or better in achieving development outcomes.

Three (out of seven) of IFC's investment projects were with ACLEDA Bank, which was started as a microfinance NGO in 1993. MPDF started to help the bank by improving accounting practices and organizational structures before IFC made its first equity investment in 2000. IFC increased its equity in ACLEDA through a rights issue in 2003, when ACLEDA obtained a commercial bank license. This followed substantial IFC advisory assistance in identifying quality advisors, sponsoring comprehensive training for staff and managers, and improving information systems. After this capacity-building effort, IFC provided ACLEDA its first loan in 2004 for on-lending to SMEs, and a second loan in 2006 after successful use of the first loan.

ACLEDA Bank has continued to be a successful commercial bank in Cambodia. Its portfolio has grown from just \$10 million in 1998, to \$158.5

million as of June 2007. Moody's has begun rating the bank and its rating is the highest in Cambodia—higher than all the banks in Indonesia, and equal or better than all the banks in Thailand. ACLEDA successfully expanded its network of branches to the rural areas, with 164 branches and offices in all 24 Cambodia's provinces or towns. The bank also supports women's economic activities; 61 percent of accounts are held by women. The bank is also a leader in terms of sustainability finance.

IFC provided a loan for the private concession to modernize and expand airport operations in Phnom Penh and Siem Riep in 2004. The new airports helped the tourism industry by increasing air traffic and passenger flows. Each airport handled 1.3 million passengers in 2006. This was the first private sector participation in a large transportation concession in Cambodia, and its success demonstrated the potential of private sector involvement in infrastructure projects. The operator requested additional funding for the second phase of the project, to expand capacity to cope with the higher-than-expected growth in traffic, as well as additional runways in the Sihanoukville Airport. In contrast, IFC's investment to assist commercialization of an NGO-sponsored project faced difficulties in achieving its business targets. IFC provided advisory service assistance at the time of its commercialization and remains involved in helping the company to improve its viability.

Challenges

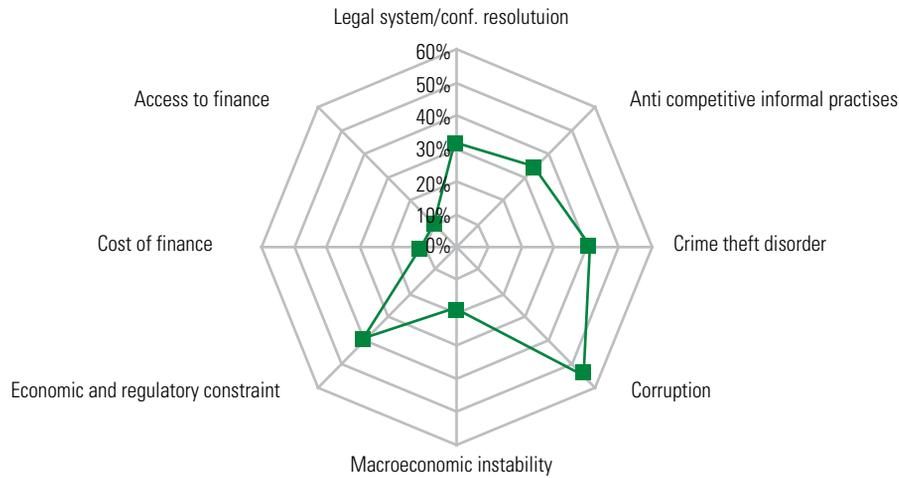
IFC's operations in Cambodia through both advisory services and investments, overall, have achieved positive outcomes. IFC activities in working through intermediaries to enhance firms' access to finance and improve business-enabling environment generated some positive results. The airport project supported by IFC contributed to the growth in tourism in the country. IFC has some limited success in enhancing the capacity of local small firms to grow into sustainable businesses using a combination of advisory services and investment. However, the primary constraints to realizing additional private investment (following IFC's demonstration of

success) in Cambodia are still in the business environment. (See figure B.6.)

According to World Bank investment climate survey findings, the most important factor hindering Cambodian private sector development is corruption, followed by crime/theft, disorder,

and economic and regulatory constraints. The cost of corruption has been high. In this survey, private sector firms estimated that the magnitude of the informal (bribe) payments is more than 5 percent of annual sales revenue. Although two elements of financial constraints (access to finance and cost of finance) were viewed as less

Figure B.6: General Constraints to Private Sector Enterprise Operations and Growth in Cambodia
 (% respondents identifying the issue as a major or severe problem)



Sources: World Bank/IFC Doing Business Indicators and Transparency index.

Box B.1: IFC Management Comment

IEG–IFC’s positive assessment of IFC’s overall operations in Cambodia confirms the relevance and effectiveness of IFC’s strategic focus on supporting private sector development in frontier countries, through advisory services and investments. As one of the early movers into Cambodia following decades of conflict, IFC provided targeted advisory services and pioneered investments in financial markets and infrastructure sectors. Management shares the view that the main constraints to realizing additional private investment in Cambodia are still in the business environment. It also recognizes the challenges involved in scaling up IFC’s impact in the business-enabling environment at the aggregate level. In this context, deepening the cooperation with the World Bank and the government on

improving the business environment will continue to be an important area of strategic focus. To widen its impact, IFC is addressing business environment constraints at the provincial level, where most businesses engage with government. Management is deepening the role of advisory services as an important instrument for supporting private sector development in Cambodia and as a mechanism for unlocking opportunities for investments in financial markets, infrastructure, and agribusiness, among others. At the same time, management is strengthening the focus on pursuing investment opportunities in Cambodia and other frontier markets, as reflected in the establishment of a frontier investment unit in the East Asia and Pacific Department.

problematic, the survey response rates on these issues were low.

Going forward, the key challenge for IFC is to scale up its impacts in business-enabling environment to the aggregate level. Better business environments and governance can open up IFC

investment opportunities in infrastructure (such as telecommunications, power, and transport), oil production, agriculture, and light manufacturing. IFC needs to maintain emphasis on its advisory services as the main instrument of its operations in Cambodia.

APPENDIX C: INDIVIDUALS AND ORGANIZATIONS INTERVIEWED

A. Government of Cambodia

Ministry of Economy and Finance

H. E. Keat Chhon	Senior Minister
Aun Porn Moniroth	Secretary of State
Vongsey Vissoth	Deputy Secretary General
Sok Saravuth	Manager, PFM Reform Committee
Dr. Pen Siman	Director General, Customs and Excise Department
H.E. Hang Chuon Naron	Secretary General
Pen Thirong	First Deputy Director, Dept. of Investment & Cooperation
Seng Sreng	Director, Economic and Finance Institute
Chhay Vuth	Director, Department of Public Procurement
Huot Vathna	Deputy Director, Department of Public Procurement

National Bank of Cambodia

H.E. Chea Chanto	Governor
Michael Dabadie	Advisor

National Audit Authority

Uth Chhorn	Auditor General
Luk Nhep	Secretary General

Ministry of Industry, Mines, and Energy

Ith Praing	Secretary of State
Tun Lean	Director General, General Department of Energy

Ministry of Land Management, Urban Planning, and Construction

Im Chhun Lim	Senior Minister
Sareth Boramy	Deputy Director, General Department of Land Management & Urban Planning; LMAP Deputy Director.

Ministry of Planning, National Institute of Statistics

H. E. Chhay Than	Senior Minister
Ou Orhat	Secretary General
Tuon Tavarak	Director General
Chea Chantum	Director, Social Planning Department
Dr. Hildegard Lingnau	Advisor
Keo Chettra	Deputy Director, General Statistics Department

Nor Vandy	Deputy Chief, National Accounts Statistics Bureau
Andrew Pinney	Statistics Advisor

Ministry of Public Works and Transportation

Tram Iv Trek	Secretary of State
Kang Phirith	Road Rehabilitation Project Manager

Ministry of Health

H.E. Mam Bun Heng	State Secretary
H.E. Eng Hout	State Secretary
Dr. Char Meng Chour	Deputy Director General for Health
Dr. Lo Veasna Kry	Director of Planning
Dr. Uy Vengkry	Executive Administrator, HSSP
Dr. Youk Sambath	Deputy Director General for Administration and Finances
Lay Huorn	Director
Dr. Mao Tan Eang	Center for TB and Leprosy Control
Dr. Ou Vun	World Bank Operations Unit Chief
Dr. Doung Socheat	Anti-Malaria/Dengue Program
Director	Referral Hospital, Kampong Thom
Director	Srayov Health Center, Kampong Thom
Director	Achar Leak Health Center, Kampong Thom

Ministry of Rural Development

Chan Darong	Director General for Technical Affairs
Touch Samnang	Deputy Director, Community Development Department and PRIP Project Manager.
Tunn Chandra	Rural Roads Department, Director, PRIP-Ministry of Rural Development, Chief Planning Statistics Office.
Kim Vuthana	Former Project Director, NEVDP

Cambodia Development Council

Sok Chenda Sophea	Secretary General
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Ministry of Interior

Im Chhun Lim	Senior Minister
Leng Vy	Deputy Director General
Chamron Ngang	Deputy Director General

Ministry of Agriculture, Forestry, and Fisheries

Chan Tong Yves	Secretary of State
Chea Sam Ang	Deputy Director, Forest Administration
Hang Sun Tra	Forest Industry and Trade Development Department

Ministry of Water Resources and Meteorology

Veng Sakong	Secretary of State
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Ministry of Education, Youth, and Sports

H.E. Im Sethy	Secretary of State
H.E. Mak Vann	Secretary of State (acting minister)

Dr. Nath Bunroeun	Under Secretary of State
Ou Eng	Deputy DG of Education and CESSP Project Manager
Lynn Dudley	Chief Technical Advisor, CESSP Project Coordination Office
Jeffery Marshall	Technical Advisor, National Assessment Program
Ung Sereydy	Deputy Director, Provincial Education Office, Siem Reap

Ministry of Women's Affairs

H.E. Khim Cham Roeun	Secretary of State
H.E. Keth Sam Ath	Director General, Gender Equality and Economic Development

Council for Administrative Reform

Svay Sovannrith	Director of Remuneration and Redeployment Policy
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Council for Legal and Judicial Reform

Suy Mong Leang	Director of PMU
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Electric Authority of Cambodia

Ty Norin	Chairman
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Electricite du Cambodge

Yim Nolson	Deputy Managing Director
Chan Sodavath	Executive Director, Corporate Planning and Projects
Sok Sovann	Deputy Director, Corporate Planning and Projects Department
Peng Leang	Chief of Office, PMO 2

Phnom Penh Water Supply Authority

Ek Sonn Chan	General Director
Samreth Sovithia	Director Planning and Technical Department

Siem Reap Province

Sou Phirin	Governor
Sok Leakhena	Deputy Governor
Ros Sar	Director, Department of Rural Development
Nhim Hak	Senior Provincial Program Advisor,
Sok Sunlin	Director, Public Works and Transport Department
Kang Chantra	Deputy Director, Public Works and Transport Department
Kong Choourn	Chief, Kampong Kdei Commune Council (with other commune council members)
Thin Kim Ho	First Commune Council Member, Samrong Commune
Oum Chat	Chief, Siem Reap Commune (with other commune council members)
Heng Lak	Chief, Dom Dek Commune Council (with other commune council members)
Kem Sim	Village Chief, Dong Hong (with other villagers, project beneficiaries)
Men Vonn	Village Chief, Banteay Srey (with other villagers, project beneficiaries)

Kampong Chan Province

Seng Khuy	Chief, Angkor Ban Commune Council (with other commune council members)
Chea Maly	Chief, Peam Chi Kang Commune Council (with other commune council members)
Ke Peng Eay	Chief, Village No. 9 (Angkor Ban Commune)
Tuy Bunleang	Chief, Sambo Meas Village
Eang Peng Heang	Clean Water Group
Meas Chheang Ly	Managing Director, Simcam

B. Donors***ADB***

Arjun Goswami	Country Director, Cambodia Resident Mission
Purnima Rajapakse	Deputy Head of Mission, Cambodia Resident Mission
Nida Ouk	Programs Officer, Infrastructure
Vannady Hem	Programs Officer, Economics and Finance
Sopheha Mar	Social Sector Officer
Raikhan Sabirova	Social Sector Specialist
Alain Goffeau	Operations
Paul Van Im	Agriculture/National Resource Management Specialist

DfID

Clare Moran	Country Manager
Helen Appleton	Social Development Adviser & First Secretary, Development
Elizabeth Smith	Health Advisor

UNDP

Douglas Gardner	United Nations Resident Coordinator
Anne-Isabelle Degryse-Blateau	Program Director and Deputy Resident Representative
Hong Sokheang	UNDP Poverty Reduction Cluster Team Leader
Lay Khim	Assistant Resident Representative and Environment and Energy Cluster Team Leader
Wisal Hin	Trade and Private Sector Analyst, Poverty Reduction Cluster
Ann Lund	United Nations Coordination Specialist

AFD

Yves Terracol	Director
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AusAid

Peter Lindenmayer	Representative
Roger Bednall	Program Manager

FAO

Kimiko Uno	Country Representative
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IMF

Jeremy Carter	Resident Representative
Tom Rumbaugh	IMF

Robert Hagemann	IMF, Asia and Pacific Department
Michael Khun	IMF
John G. Nelmes	Resident Representative
<i>JICA (Phnom Penh)</i>	
Momoko Hotta	Assistant Resident Representative (Education, Judicial Reform)
Eiichiro Hayashi	Aid Coordination Advisor (PFM, overall coordination)
Akira Yamashita	Project Coordination Advisor (Infrastructure & Environment, Social Consideration)
Tomohiro Ono	Assistant Resident Representative (Infrastructure, Urban Living Conditions)
<i>JICA (Tokyo)</i>	
Chisa Hara	Team Director, Human Department
Yukihiro Koizumi	Chief, Mekong Region, Southeast Asia Team IV, Regional Department I (Southeast Asia)
<i>SIDA</i>	
Erik Illes	First Secretary, Embassy of Sweden
Sok Narom	Program Officer
<i>USAID</i>	
Erin Soto	Representative
Reed J. Aeschliman	Director, Office of General Development
<i>UNFPA</i>	
Alice Levisay	Deputy Representative
<i>WHO</i>	
Maryam Bigdeli	Health Economist
<i>GTZ</i>	
Dr. Chhom Rada	Deputy Program Coordinator, Health Sector Reform
Dr. Yath Yathy	Health Systems Advisor
Suzanne Mueller	Acting Resident Representative
Julian Hanson	Poverty Mapping and Land Management
Dr. Angelika Fleddermann	Team Leader, Rural Development Program
C. Private Sector	
<i>Federation of Cambodian Rice Millers Associations</i>	
Oknha Phou Puy	President
Kent Helmers	Resident expatriate specialist
<i>Garment Manufactures Association in Cambodia</i>	
Dr. Ken Loo	Secretary General

Cambodia Hotel Managers Association

Lina Chancel	General Manager
James K. Sok	Office Manager

Other

Bretton G. Sciaroni	Sciaroni and Associates
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D. NGOs and Civil Society***Water Supply and Sanitation Program***

Jan Willem Rosenboom	Country Team Leader
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NE Village Development Project

Kim Vuthana	Former Project Director
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The NGO Forum

Chhith Sam Ath	Executive Director
Ek Siden	Development Issues Programme Coordinator

Cambodian Center for Human Rights

Kem Sokha	President
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Medicam

Dr. Sin Somuny	
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Save the Children, Norway

Kong Sakem	Education Program Officer
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Cambodia Development Resource Institute

Larry Strange	Executive Director
Brett Ballard	Research Director
Chan Sophal	Senior Research Manager
Netra Eng	Research Manager
Ingrid Fitzgerald	Gender Specialist
Dr. David Craig	Researcher
Kim Sean Somatra	Research Associate
Toshiyasu Kato	Former Consultant

World Education

Kurt Bredenberg	Party Chief
Liesbeth Roolvink	Technical Advisor

Royal University of Phnom Penh

Dr. Luise Ahrens	
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Social Fund Projects

Sophornn Khaim	Former Officer, Social Fund of the Kingdom of Cambodia; currently Community Development Specialist, The Louis Berger Group, Inc.
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PACT Cambodia

Kurt A. MacLeod

Asia Regional Director, Country Representative for Cambodia

SME Cambodia

Rini Seiha

Star Kampuchea

Tieng Sophorn

Program Coordinator

Economic Institute of Cambodia

Kim Natacha

E. World Bank / IFC

Ian Porter	Country Director
Nisha Agrawal	Country Manager
Ngozi Okonjo-Iweala	Former Country Director
Lynne D. Sherbourne-Benz	Country Program Coordinator
William B. Magrath	Lead Natural Resource Economist
Tom C. Tsui	Former Country Anchor
Steven Schonberger	Lead Operations Officer
Timothy Conway	Poverty Specialist
Emmanuel Y. Jimenez	Sector Director
Indermit Gil	Sector Manager
Magdi Amin	Senior Private Development Specialist
Barbara Nunberg	Sector Manager
Ahsan Ali	Senior Procurement Specialist
Denis Robitaille	Manager (Procurement)
Rebecca Sekse	Senior Financial Specialist
Jason Steele	Information Specialist
Margarita Nunez	Senior Highway Engineer
Dzung Minh Nguyen	Senior Auditor, IAD
Philip Adoteye	Manager IAD
Bernard Donge	IAD
Terry Matthews	Senior Institutional Integrity Officer, INT
Michael Richards	Lead Institutional Integrity Officer, INT
Juan G. Ronderos	Senior Institutional Integrity Officer, INT
Chorching Goh	Senior Economist
Bonaventure Mbida-Essama	Former Country Manager
Alain Labeau	Lead Specialist
Glenn S. Morgan	Lead Environmental Specialist
Wael Zakout	Lead Operations Officer
Maryam Salim	Senior Human Development Specialist
Jennifer Thomson	Senior Financial Management Specialist
Luiz Tavares	Senior Water and Sanitation Specialist
Jitendra Bajpai	Sector Director, Transport
Enrique Crousillat	Lead Energy Specialist
Homi Kharas	Chief Economist and Sector Director, PREM
Kazi Matin	Lead Economist

Martha Ainsworth	Lead Economist
Albert Zeufack	Senior Economist
Fadia Saadah	Sector Manager
Christopher J. Thomas	Sector Manager
Peter Jipp	Senior Natural Resources Management Specialist
Omporn Regel	Senior Operations Officer
Makiko Harrison	Senior Economist
Rama Lakshminarayanan	Former Manager of Health Project
Zhi Liu	Lead Infrastructure Specialist
Jitu Shah	Country Sector Coordinator, Environment
Gillian Brown	Senior Gender Specialist
Thang-Long Ton	Economist
Luis Bienveniste	Country Sector Coordinator
Toomas Palu	Senior Health Specialist
Robert Taliercio	Senior Country Economist
Chea Huot	Economist
Jan Willem Rosenboom	Team Leader, Water Supply and Sanitation Program
Mia Hyun	Poverty Specialist
Simeth Beng	Operations Officer
Charis Wuerffel	Consultant, Scholarship Program
Vanna Nil	Social Development Specialist
Sok Sokunthea	Procurement Specialist
Chamroeun Mudita	Rural Development Officer
Seilava Ros	Adviser to Executive Director for Cambodia
Clay Wescott	Consultant
Louise F. Scura	Lead Natural Resource Economist
Guy Darlan	Lead Specialist
Yasuo Konishi	Consultant
James Knowles	Consultant
Agnes Albert Loth	Senior Financial Officer
Zafar Ahmed	Consultant
Christopher Chamberlain	Former TTL for Social Fund, Health projects
Lorraine Hawkins	Former TTL for HSSP
James Brew	IFC Regional Representative
Karla Quizon	Program Manager, IFC
Hor Soneath	Business Development Officer, IFC

This methodological note describes the key elements of IEG-WB's country assistance evaluation (CAE) methodology.¹

CAEs rate the outcomes of Bank assistance programs, not the clients' overall development progress

A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a subset of the client's development objectives. If a Bank assistance program is large in relation to the client's total development effort, the program outcome will be similar to the client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a client's development by donors, stakeholders, and the government itself. In CAEs, IEGWB rates only the outcome of the Bank's program, not the client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the client's overall development progress. CAEs have identified Bank assistance programs which had:

- satisfactory outcomes matched by good client development;
- unsatisfactory outcomes in clients that achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in clients that did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank performance are not the same

By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and vice versa. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the joint impact of four agents: (a) the client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (for example, natural disasters, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent could overwhelm the positive contributions from the other three and lead to an unsatisfactory outcome.

IEGWB measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality, and follow-up of diagnostic work and other AAA activities, the consistency of the Bank's lending with its nonlending work and with its safeguard policies, and the Bank's partnership activities.

Rating Assistance Program Outcome

In rating the outcome (expected development impact) of an assistance program, IEGWB considers the extent to which major strategic objectives were relevant and were achieved, without any shortcomings. In other words, did the Bank do

the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals—such as improved targeting of social services or promotion of integrated rural development—and specify how they are expected to contribute toward achieving the higher-order objective. IEGWB’s task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator’s task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

For each of the main objectives, the CAE evaluates the relevance of the objective, the relevance of the Bank’s strategy toward meeting the objective, including the balance between lending and nonlending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank’s program achieved a particular Bank objective or planned outcome and had a substantive impact on the country’s development. The second step is a bottom-up review of the Bank’s products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together, these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, the government, and exogenous factors.

Evaluators also assess the degree of client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evalua-

tor to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

IEGWB utilizes six rating categories for outcome, ranging from *highly satisfactory* to *highly unsatisfactory*.

Highly satisfactory: The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best-practice development impact on one or more of them. No major shortcomings were identified.

Satisfactory: The assistance program achieved acceptable progress toward all major relevant objectives. No best-practice achievements or major shortcomings were identified.

Moderately satisfactory: The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.

Moderately unsatisfactory: The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.

Unsatisfactory: The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.

Highly unsatisfactory: The assistance program did not make acceptable progress toward any of

its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

The institutional development impact can be rated as: *high, substantial, modest, or negligible*. Institutional development impact measures the extent to which the program bolstered the client's ability to make more efficient, equitable, and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building NGO capacity; and,
- the level of social and environmental capital.

Sustainability can be rated as *highly likely, likely, unlikely, highly unlikely*, or, if available information is insufficient, *nonevaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and,
- resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

APPENDIX E: COMMENTS FROM THE CAMBODIAN GOVERNMENT



ព្រះរាជាណាចក្រកម្ពុជា
ជាតិ សាសនា ព្រះមហាក្សត្រ
KINGDOM OF CAMBODIA
Nation Religion King

ក្រសួងសេដ្ឋកិច្ច និង ហិរញ្ញវត្ថុ
MINISTRY OF ECONOMY AND FINANCE

N^o 5962 MEF/DIC

Phnom Penh, November 06 , 2007

Mr. Jaime Jaramillo-Vallejo
Acting Manager
Country Evaluation and Regional Relations
Independent Evaluation Group
The World Bank
Washington, D.C. 20433, USA

Subject : Cambodia – Country Assistance Evaluation of the Independent Evaluation Group

Mr. Jaime Jaramillo-Vallejo

Thank you for your letter of September 21, 2007 seeking the Royal Government of Cambodia (RGC) comments on the draft Independent Evaluation Group (IEG) report entitled “Cambodia - Country Assistance Evaluation”.

We welcome this in-depth review of the World Bank assistance to Cambodia during the period 1999-2006 and appreciate the opportunity to comment on the report. Our comments are provided in the attachment. We make these comments expecting that the report will importantly contribute to the formulation of the next CAS which should be fully aligned with the Government’s National Strategic Development Plan and support the ownership of the RGC in pursuing its development agenda.

We would also like to draw your attention to our letter addressed to Mr. Ali Khadr, Senior Manager of Country Evaluation and Regional Relations of IEG, dated December 29, 2006 wherein the RGC had stipulated a number of conditions when providing the no objection to the IEG’s mission which carried out the evaluation of the CAS from January 15 to 26, 2007. We would like the Bank to comply with the applicable conditions 2, 3 and 4 contained in our letter. In particular, we would like your assurance that the mission’s report shall be publicly disclosed; when it is agreed by the RGC’s concerned agencies, only after the General Elections of the National Assembly Members in 2008.

Please accept the assurance of our high consideration.

Sincerely Yours



Keat Chhin
Minister
Minister of Economy and Finance

-
- cc: - Mr. James Russell Hagan, Executive Director for Cambodia, The World Bank
 - World Bank Office in Phnom Penh
 - Council for Legal and Judicial Reform
 - Ministry of National Assembly-Senate relations and Inspection
 - The Related Executing Agencies

**Cambodia: Country Assistance Evaluation
Independent Evaluation Group (IEG), World Bank
Comments**

1. Country Assistance Strategy (CAS)

- a. Overall, we concur with the report's overall findings particularly the relevance of Bank's assistance strategy, initially focusing on reconstruction, then on strengthening the base for sustained growth and poverty reduction, and especially through improved access and quality of education and health, and infrastructure.
- b. We believe, however, that it is critical that the report provide clear lessons and insights that facilitate the design of future assistance programs- that is, using a medium term perspective to suggest future directions, while also clearly identifying key capacity, institutional and incentive constraints in key reform areas. We would like to see more elaboration along these lines.
- c. Going forward, we also believe that the report should further analyze the Bank's contribution to Cambodia's development drawing out lessons on how best it could support the country based on NSDP and the Bank's core areas of comparative advantage. The following points could be considered:
 - The focus on productive sectors vis-à-vis social development – where should the Bank lead, should it contribute or support?
 - The Bank's role in supporting key economic drivers – infrastructure, agriculture and financial sector. We believe the Bank should consider shifting its focus from 'strengthening' to 'investing' in the growth base where governance and capacity are being built and nurtured. Though the Bank's support of institutional capacity and governance is important, we are concerned that stand alone programs in these areas are not working and producing desired outcomes.
 - The focus on national ownership and capacity – revising the TA practices and finding ways to gain commitment from and build the operational capacity of stakeholders, including options on incentives, institutional and capacity development

2. Economic Sector: Growth and Poverty Reduction

- a. The RGC achievements in macroeconomic management and poverty reduction over the review period have been remarkable considering the three decades of conflict which destroyed the social and economic institutions and physical infrastructure in the country. The Government recorded growth rates at over 9% per annum since 1998 and more recently 10% in 2004, 13.5% in 2005 and 10.8 % in 2006. This year, as of July, we have already achieved 9.10%. The poverty incidence has fallen from 47% to 35% between 1994 and 2004. We are happy that the Report recognises these achievements and concludes that the Bank's Strategic Goal in this area has been met. The RGC would like to strongly suggest that the Bank should not steer away from this strategic goal and alter its assistance program as other studies suggest that sustained growth will have substantial impact on poverty reduction. The Governments Rectangular Strategy and the National Strategic Development Plan for 2006 to 2010 which clearly sets out the development priority areas will continue to be the driving instruments for reducing poverty of the Cambodian people and improve their quality of life. It is therefore very critical that any future CAS is aligned

with the Government's Strategy and Plans and the focus on growth and poverty reduction remain the central goal of Bank assistance despite other areas where underachievement has been recorded.

- b. It is clear that the outcomes have been mixed in economic sector including macroeconomic stability, poverty incidence, PFM and PSD. The economy has performed very well averaging 9.5% over CAE period while PFM has only improved recently (since (2004), PSD remained slow and poverty incidence remained a rural phenomenon. But, it is difficult to draw out insights from the report help an understanding of why growth has been impressive amid the risks highlighted in the report. How should stakeholders think about risks related to Cambodia's narrow growth base, competitiveness issue, and the impact of the slow pace of reform in PFM and PSD? We believe that understanding this would help well inform the subsequent strategy on structural issues to be addressed for growth diversification and sustainability. We also believe the report would benefit from further elaboration on the recent success in PFM and the slow progress in PSD – what are the lessons learnt and to be replicated.
- c. Looking forward, the report should make further analysis of key growth drivers to understand the opportunities & challenges ahead, considering medium term prospects including the implication of oil & gas discovery:
 - Growth occurs but is very vulnerable to shocks and limited in terms of the growth base which is very narrow. In addition to PSD and PFM, what can Government and the Bank do to spur growth beyond tourism and garment industry? We believe other labor intensive industries, agriculture/agro-business and extracting industry (oil, gas and other minerals) are the potential areas that deserve Bank's attention and support.
 - Infrastructure has been doing well but is entering a tough period of moving into developing rural linkages which needs to deal with different set of challenges.
 - Financial sector – to review an emerging economy without saying a word about the sector would present a big gap in understanding the dynamism or functioning of the economy. Though Bank has not involved in the sector for one or another reason, it could not be an excuse for not taking the issue on board. What's important is to kick off discussion on future role and approach of the Bank, and whether the current scaled up activities of IFC presents any indication of a spearhead that could prompt the Bank's engagement very soon.

3. Agriculture, Rural Development and National Resources Management

- a. The achievement in Agriculture, Rural Development and Natural Resource Management has been mixed. We note that achievement was hampered by lack of knowledge in the Bank about the sector and the problems of insecurity and limited access to the rural areas. The operational support in agriculture was very limited and while it may be fair to rate lower achievement, this should not necessarily imply that the Government's achievement in the rural sector has been below par. The Government has accorded very high development priority to this sector and are seeing early positive outcomes because of allocation of greater resources. It is unfortunate that the Bank did not continue with any assistance in Agriculture following the Agricultural Productivity Improvement Project in FY 1997. Building of capacity requires sustained involvement and assistance and without any follow up, the little gain achieved under the project could not be expanded. The failure to implement the safeguard policies of the Bank in the Forest Concession Management

Project has led to the rating of unsatisfactory. In our opinion the IEG rating of moderately unsatisfactory for this area of strategic goal is unjustified as it gives undue weight to the single Forest Concession Management Project while downplaying the achievement of the other projects during the period.

4. Infrastructure Rehabilitation, Reconstruction and Expansion

- a. The strategic goal of the Bank's support to infrastructure has been rated satisfactory and we are happy that the Report recognises the remarkable achievement of the Government in this area. Infrastructure's importance for growth, poverty and the Millennium Development Goals has been recognised at several major donor meetings, including the International Conference on Financing for Development (Monterrey, 2002) and the World Summit on Sustainable Development (Johannesburg, 2002). The Development Assistance Committee of OECD through its Network on Poverty Reduction has concluded that increased infrastructure financing and management of infrastructure investments are essential for economic and social development which promotes pro-poor growth. We believe that assistance for infrastructure development must be an integral part of the Bank's future assistance strategy if the central strategic goal of economic growth and poverty reduction is to be realised. While the private sector will play an important part in providing infrastructure services, it will not be sufficient to meet the huge requirements in this sector.
- b. We would also like to correct a factual error in paragraph 6.8 on page 42 of the report with reference to the draft Law on Concessions. The Law on Concessions has already been passed, endorsed and promulgated. Please amend the report to reflect this.

5. Delivery of Social Services : Health and Education

- a. The Report commends the achievement in the delivery of social services and the strong positive results in the education and health sectors. In education, almost all the indicators including enrolment rates, gender balance and access for poor and in remote regions have improved markedly. Health indicators followed the same trend with improvements in all areas. These outcomes were a result of the Government's deliberate policies and sector strategic plans and underpinned by a significant public spending in these two sectors. The successes underpin the importance of ownership of the plans by the Government and home grown solutions to the special needs of the society. Institutional development has been substantial, a result of sustained investment in the sector and carefully and well thought out strategic plans. The major lesson learnt here is that successes in the outcomes can be achieved in the Cambodia context if there is sustained investment over a longer period of time and with a gradual build up of institutional capacity.
- b. We also find the results have been in line with the growth pattern and have something to do with growth implications. This in part explains the general impact of growth on poverty reduction through health and education, which must be a good policy transmission mechanism to be further explored for future investments to reduce poverty. We recognise that in addition to the Government's commitment and ownership of sector strategies, the strong and well coordinated support from development partners has contributed to the good outcomes in the two sectors. This sound arrangement should continue to be used in the next CAS.

6. Public Administration and Governance

- a. The governance pillar of the Bank's strategy is rated as highly unsatisfactory which in our view does not reflect the complex and difficult challenges that the country faces. The report recognises the traumatic disruptions which Cambodia has suffered over many years resulting in loss of human resources and destruction of government institutions. It should therefore be understandable that it will take time to rebuild the administrative and legal institutions including the judiciary. The Government has identified governance as a key area of development priority and as a cross cutting issue in its Rectangular Strategy and is exerting its efforts in improving governance in all areas despite the disadvantages posed by the lack of skilled human resources to move the reforms faster. The Government is committed to the improvement in governance and as lessons show, successful outcomes can be realised if there is sustained efforts over a longer period of time. It is easy to name and shame a country but it is tough to give solution given the complexity of the problem. In the area of public finance management, the Government has already demonstrated significant reforms. The Standard Operating Procedures, the Procurement Manual and the Financial Management Manual have all been issued under a sub decree and have become operational. The civil service reforms require a very careful and calibrated plan and not the off the shelf type of downsizing approach with the capacity building and training of the staff a priority. We are building a cadre from a very low base and hence the difficulties encountered in moving faster. The decentralization and de concentration of government responsibilities is the central pillar of the Government's plans for improved governance. The implementation of the RGC's Governance Action Plan is also in the good progress. The report, in our view, should give equal weight to the positive progress and the Government's steadfast commitment to improved governance in the rating rather than focusing in areas where there have been apparent failures.
- b. The report seems to advocate that the Government's commitment and ownership combined with strong and well coordinated support from partners is the prerequisite for success. This has been the case for health and education, and recently for the Public Financial Management Reform. In this sense, we would like to see the report to provide recommendations on how to go forward in strengthening the governance and anti-corruption efforts with a good and government's own strategy and with full fledged support from development partners in that light.
- c. The Report highlights the Bank's Fiduciary Report and Investigation of Misprocurement in IDA Projects. It is unfortunate that the Bank was unable to provide the necessary information for the Government to carry out its own investigations into the allegations due to its policy on the disclosure of such information. The shortcomings were project related issues, safeguards against which are now being incorporated into project designs. The Government has shown it willingness and resolve to curb corruptions in all projects and are concerned that there is unjustified creation of perceptions and second guessing the Government's commitment to anti corruption measures. We would also like to correct a factual error in paragraph 7.11 on page 49 of the report where it is stated that no corruption cases have been brought before the courts. Please note that a case of corruption in the Bank assisted Provincial Rural Infrastructure Project was brought against the Project Director has been brought before the courts after due investigations by the concerned agency of the Government. We would like to reiterate that all allegations of corruption and fraud will be investigated by the concerned empowered agency of the Government and due diligence carried out to ensure fairness and proper justice in the process. We also feel it is a shared responsibility and could be better addressed through Bank's internal governance reform and we agree with the report's recommendation to develop an improved disclosure strategy that ensures acceptance of findings and fairness in dealing with client countries. We

believe that legislation and creation of institutions alone will not curb corruption unless there are trained and experienced personnel to implement the laws, rules and regulations which must be a prerequisite. In determining the progress in these areas, due attention should be given to the lack of capacity issue.

7. Comments of the Council for Legal and Judicial Reform (CLJR)

- a. The Bank Program Outcome Ratings regarding the Legal and Judicial Reform in Cambodia, which is selectively based on the number of laws adopted, have unfortunately missed out the holistic picture of the Legal and Judicial Reform Strategy of the RGC. We would like you to note that the Legal and Judicial Sector Reform Strategy goal of Cambodia is “The establishment of a credible and stable legal and judicial sector upholding the principles of the rights of the individual, the rule of law and the separation of powers in a liberal democracy fostering the private sector led economic growth”. The goal includes seven strategic objectives, which are the protection of personal rights and freedoms, the modernization of the legislative framework, the access of legal and judicial information, the enhancement of the quality of legal processes and related services, the strengthening of judicial services, i.e. the judicial power and prosecutorial services, the introduction and the re-enforcement of the alternative dispute resolution methods, and the strengthening of the legal and judicial sector institutions to fulfill their mandates.

- b. Significant number of concrete actions were taken leading to the achievement of the aforementioned objectives, such as the introduction of the personal rights and freedoms in the curriculum of the elementary and secondary schools, the crime prevention project at the commune level in Kandal province, the implementation of the law against the domestic violence and the protection of the victims, the adoption of three fundamental laws out of four (Civil Procedure Code, Penal Procedure Code and Civil Code), the finalization of the draft Commercial Code by the Ministry of Commerce, the discussion on the draft Statue of judge and prosecutor at the Inter-Ministerial Meeting (IMM), other laws related to the judiciary are ready to be submitted to the IMM, the adoption of laws facilitating the foreign investment and the economic development (investment law, custom law, bankruptcy law, secured transactions law, etc). Many initiatives are ongoing to make the Cambodian court transparent and effective, such as the adoption of the Code of Ethics for judges and prosecutors, the publication of the decisions of the Supreme Court and the selected final decisions of the lower courts. Disciplinary action has been taken by the Disciplinary Council of the Supreme Council of the Magistracy against more than a hundred out of two hundred twenty five judges and prosecutors, adoption of the four year term for judges and prosecutors and the establishment of the National Committee to develop a trilingual lexicon of the legal terms are all actions that already been taken. In collaboration with a famous French Ecole des Magistrats de Bordeaux, the Royal Academy for Judicial Professions training of 168 competent judges and prosecutors and 606 court clerks has been conducted. In addition 574 trained lawyers were the products of the Center for Training of Lawyers. Legal Aid services have improved with the Bar Association of Cambodia receiving 200 millions Riels annually from the RGC and Avocats sans Frontières has assisted the Bar in stationing two legal aid lawyers in each province. The RGC has allocated a budget to the Ministry of Justice for the construction of three provincial court houses (Kompong Thom, Banteay Mean Chey and Kratie) and one court room in the Battambang Court. A model court was built in Kandal province. There is a great opportunity for Cambodia to take the ECCC as a model court.

- c. To complete the judiciary system, a school of Notary, a school of Bailiffs and the Commercial Tribunal are in process of being created. More specialized chambers will be established in the near future, such as administrative chamber, juvenile chamber, etc. The establishment of the Alternative Dispute Resolution Mechanism, the Maison de la Justice in four districts of two provinces, Kampong Speu and Kompong Chhnang, are ongoing. Women and Women's organization have been empowered at the commune level including the indigenous people and their organizations. Program of training to build the capacity of the legal and judicial sector institutions are ongoing (MOJ, MOI, PMU, General Department of Official Gazette, etc.). Overall, one should conclude that significant progress has been achieved in this sector given the extent and complexity of the reforms as well considering the Government's parent level of human resources capacity.
- d. We would also like to point out that FY03 Trust Fund grant of US\$228,000 as referenced in paragraph 7.8 on page 47 was not carried out because the grant was available too late (one year and half later) to be used for the assessment of some activities of the legal and judicial reform. The request of the CLJR to use the fund for the implementation of the actions identified as priorities by the Plan of Action was denied by the Bank.
- e. In the same paragraph, the report states that several donors have withdrawn from the field which is not only incorrect but also gives a wrong perception. The fact is, that from four donors in 1997, at the present time there are more than four donors involved in the sector namely France, JICA, AUSAID, DANIDA, USAID, UNDP, UNICEF and CIDA.

8. Analytical Work on Poverty Reduction

- a. We would like to offer an observation on the overall positive evaluation of the Bank's analytical work on poverty reduction (see pages 18 to 20 and Appendix Table A4). A lot of analytical work continues to be driven and done by the World Bank (and its Consultants) with very little or minimal coordination with other actors (RGC and other EDPs) which is critical from both the point of view of robustness of the studies and capacity building in the country. To give an example: In early 2006 three different poverty documents were produced in parallel: the World Bank drafted the Poverty Assessment 2006 (published in February 2006), the UN drafted the Poverty Profile of Cambodia (published in February 2006) and MOP drafted the NSPD (published in June 2006). A more coordinated approach would have avoided duplication and it would have been more reasonable for the World Bank (and other EDPs support) to support the RGC study which not only would have increased ownership but also help build capacity in MOP (instead of carrying out own World Bank or UN tasks that do not strengthen but distract RGC capacities). This would also have resulted in more efficient utilization of development partners funds. We agree with the observations made in Box 2. Measuring Results: Data Quality and Comparability are Keys. We would like to stress that donor coordination (respectively harmonization, alignment and results management) remains a big challenge and (this is pointed out in great detail in CRDB/CDC: The Cambodia Aid Effectiveness Report 2007) and must be given highest priority to ensure management for results is key focus area.
- b. We welcome the recommendation for the World Bank "to continue to focus on poverty reduction" (p. xii and p. 59) and encourage the World Bank continue with the specific objectives to strengthen Government's focus on poverty reduction through a consolidated national plan with increased country ownership and to provide a basis for joint action and monitoring through high quality poverty analysis.

- c. We also welcomes the recommendation “The Bank’s lending operations should be more streamlined than in the past, focusing on a few key objectives and specific implementation steps to achieve those objective” (p. xii)

9. Private Sector Development

- a. The achievement described in respect of private sector development in Chapter 3 Section B is in our view understated and do not clearly summarize the efforts made by the government, especially MOC and other concerned agencies to improve the environment for private sector development. The rating should take into consideration recent development in trade facilitation and reform environment for private investment as a milestone to assess the performance. The conclusion that “**key measures of reform has been resisted by the government**” is misleading and creates a wrong perception as the Government has not resisted any key reform suggested by the Bank and always has shown willingness to any reforms that will bring good result to the development in this objective. The report should clearly identify which key measure has been resisted by the government and revise the rating to show a fair basis for the assessment. Such unsubstantiated statements not only frighten off foreign investors but creates a lot of uncertainty in the minds of the readers.
- b. **Page 14, Private Sector Development – paragraph 3.7:** Once again, we suggest a fair rating on garment sector environment. We dispute the assessment that still put this environment as “**restrictive regulatory and corruption**”. In fact, we all agreed that, this environment has been greatly improved. The result of Government-Private Sector Forum has solved most of the constraints regarding this sector. In the last forum, there were no complains of any significance from the private sector. We would also like the report mentions the reform implemented by MOC in streamlining the documentary procedure and time to obtain this document in order to facilitate export of garments and the efforts of Customs to put in place ASYCUDA and other facilitating initiatives jointly supported by the Bank and the Government. It is partly true that “**low wage offsets low productivity**”, actually there are some other factors such as skill of workers, human resource management and other elements that cause low productivity. However the wage system in garment sector has been greatly improved. Basic salary in this sector plus bonus on manufactured products and overtime-paid is a great incentive for the workers to work hard. We would recommend the report to look into the ILO program “Better Factory Cambodia” which will assist in a more balanced and fair assessment on labor situation in Garment sector.
- c. **Page 15, paragraph 3.9:** We would like to point out that he Project is yet to be restructured and it is unfair to state that the progress has been slow when the implementation progress has been rated satisfactory by the Bank. The recommendation by the World Bank consultant to create a joint public-private agency for the “Single Window” was justifiably rejected by the Government and this should not lead to any conclusion that performance was less than satisfactory.
- d. **Page 16, paragraph 3.12:** We fail to understand Cambodia being rated as “**High Risk**” country for credit risk. We suggest further explanation and clarification on these risks so that particular constraints can be highlighted and solutions suggested for improving the situation. We suggest that the statement “**the delay on the enactment of critical laws**”, be deleted since the Law on Customs and Law on Concessions have already been passed and the Commercial Code is in its final stage of drafting process.

10. Corrections on Water Supply Statistics

- a. On Page 39, Paragraph 6.1, Line 9 “ only half of the “residents received piped water and only for 12 hours per day” should be corrected to “ only a quarter of the “residents have received water and only for 10 hours per day”.
- b. On Page 41, Paragraph 6.8, Line 6 “The Phnom Penh water project resulted in doubling of output and connections and a reduction of 80 percent in lost water” should be corrected to “The Phnom Penh water project resulted in a tripling of output, increased by 5 times of connections and reduction in water lost from 70% to only 8%”
 - Production of quantity water product has increased from 75,000 m³/day in 1997 to 235,000 m³/day in 2006; this represents an increase of 3 times.
 - Connections have increased from 28,000 connections in 1997 to 150,000 by end of year 2006; this represents an increase of 5 times.
 - Rate of water loss has decreased from 70% in 1997 to 8% by the end of year 2006.

11. Corruption Cases Paragraph 7.11 on page 49.

- a. The statement that “The Government has not taken effective steps to address corruption at any level” is incorrect and does not take into consideration actions taken by the Ministry of National Assembly- Senate Relations and Investigations (MONASARI). Government has taken many institutional actions in line with its strategy to fight corruption such as, Establishment of the Ministry of National Assembly-Senate Relations and Inspection, the National Audit Authority (NAA), Anti-Corruption Unit, etc. Even though the Anti-Corruption Law has not been enacted yet, the above institutions have been taking actions successfully in fighting corruption. We again point out that the Government has already sent one project director to the court and a number of other officials have been charged with violating the law, Sub-Decree, and government regulations. The guilty officials have faced the appropriate actions. MONASRI has introduced many mechanisms for fighting corruption such as auditing, inspecting and investigating, monitoring the implementation of rules and laws, disseminating laws, drafting legal documents and sharing these with other Government ministries and agencies.

November 19, 2007

H.E. Keat Chhon
Senior Minister and
Minister of Economy and Finance
Ministry of Economy and Finance
Phnom Penh, Cambodia

Your Excellency:

Re: Cambodia: Country Assistance Evaluation

Thank you for your comments on the draft of the World Bank's Country Assistance Evaluation (CAE) for Cambodia. We have given careful consideration to your concerns and have amended the report where appropriate. In line with established practice, your comments will be attached to the final report to be submitted to the Committee on Development Effectiveness (CODE). Our responses to your comments are set out below.

We have added appropriate language in several places in the report to emphasize the point that the CAE is rating the outcomes of the Bank's assistance program rather than the country's performance. With respect to your general comment about the World Bank's country assistance strategy we appreciate that the CAE does not lay out a comprehensive growth and poverty reduction strategy for Cambodia over the medium term. In reviewing the World Bank's contributions to Cambodia's development over the past eight years IEG has indicated some of the lessons of experience, e.g., continued high priority for human resource development, improving the climate for private sector investment, more focus on agricultural productivity improvement, and prudent management of future oil sector revenues. These lessons are intended as guidance for Bank management in designing their strategy for future assistance to Cambodia, but are not a substitute for a comprehensive development strategy for the country which should be the product of consultations between the Government and its development partners.

Economic Growth and Poverty Reduction

We have added a statement to clarify that in IEG's view strong economic growth is the most important driver of poverty reduction and that the Bank should continue to support the Government's NSDP. We agree with your comment that discussion of the financial sector is missing in the CAE, and that it is unusual for the World Bank not to provide support for financial sector development. However, in Cambodia the World Bank Group, aside from direct investments by IFC, did not participate in support for the financial sector alongside the ADB and the IMF. We have added a comment in Chapter 3 that the Government would welcome more World Bank involvement in the sector.

Agriculture, Rural Development and Natural Resource Management

In dealing with agriculture and rural development we have distinguished between the country outcomes which have been positive in terms of recent sector growth and the Government's emphasis on decentralized development, and the outcomes of the Bank's programs. We agree that the Government has accorded high priority to rural development, which is apparent in resource allocation to health and education as well as rural infrastructure projects and the overall move toward decentralization. We accept that some Bank programs produced positive results, such as the social funds, village development, and support for land titling, and we recognize that the Bank is not the "lead donor" for agriculture, but we nevertheless feel that the Bank should have done more in direct support of agricultural productivity improvement. We also conclude that the outcome of the World Bank's project in forestry, and the failure to find a resolution to these issues since that project closed, are such serious deficiencies that the overall rating for the Bank's performance in the sector cannot be judged satisfactory.

Infrastructure Rehabilitation, Reconstruction and Expansion

We emphasize in the CAE that the Bank should continue to support infrastructure investments, but with an emphasis on rural infrastructure. We have corrected the reference to the Law on Concessions. We have also clarified the statistics on improvements in water supply to include both the accomplishments during the implementation period of the project and the further achievements by the PPWSA since project completion.

Public Administration and Governance

We have modified language in the report to respond to several points which the Government has raised under this heading. We have given further emphasis to the high priority which the Government accords to decentralization and deconcentration. We have stated the reasons for the Government's dissatisfaction with the Bank's disclosure of information following the INT investigations, and have included reference to the recent Volker Commission report which has suggested ways to better handle this disclosure issue in the future. Based on the information which the Government has provided on the processing of corruption cases we have corrected the statement that "no corruption cases have been brought to court." We have made corrections in the section on legal/judicial reform to include the laws which have been passed recently, and to indicate that other donors are participating in reforms in this sector through the Legal and Judicial Reform TWG. We have also included the Government's explanation for failure to reach agreement on the FY03 Trust Fund grant. Finally, we have changed the evaluation of the outcome of the World Bank's program from highly unsatisfactory to unsatisfactory.

Analytical Work on Poverty Reduction

Your letter states that "A lot of analytical work continues to be driven and done by the World Bank . . . with very little . . . coordination with other actors . . ." and that "A more coordinated approach would have avoided duplication... and help build capacity and ownership". IEG agrees that more collaboration in poverty analysis would be desirable, and that coordination in this area, while much improved, remains an important challenge. However, IEG finds that in this case the World Bank did what was realistically possible during the short period between availability of the 2004 CSES data and the time when inputs from the poverty assessment were needed for the NSDP. This time constraint was recognized and discussed with the Government in May 2005 during the review of the Concept Note for the Poverty Assessment. IEG also finds that though the three documents mentioned in your letter draw on some of the same building blocks, they are substantially different in purpose and content, rather than being duplicative. We hope that discussions between the Government and the World Bank on the future assistance strategy will clarify understandings in this area.

Private Sector Development

We have revised the section dealing with private sector development to give more credit to the positive steps which the Government has taken, including the passage of customs and concessions laws and progress on the commercial code, as well as improvements in the regulatory environment. We have restated the difference of view between the Government and Bank on the Single Window. We would like to clarify that the rating of "high risk" for Cambodia is provided by the Institutional Investor publication and not by IEG or the World Bank. However, recognizing that the implementation rating of the Trade Facilitation project has been downgraded from satisfactory to moderately unsatisfactory, and the project is being substantially restructured, IEG concludes that the outcome of the World Bank's program to date (not including IFC which has been responsible for the Government-Private Sector Forum) is moderately unsatisfactory.

I hope that these responses clarify some of the issues that you have raised and I thank you again for your detailed and useful comments. We hope that the final version of the CAE will prove useful to you and your colleagues in discussing with the Bank how it can continue to play an effective role in Cambodia.

Thank you and best regards.

Sincerely,



Jaime Jaramillo-Vallejo

Acting Manager

Country Evaluation and Regional Relations
Independent Evaluation Group

September 25, 2008

H.E. Keat Chhon
Senior Minister
Minister of Economy and Finance
Phnom Penh, Cambodia

Your Excellency:

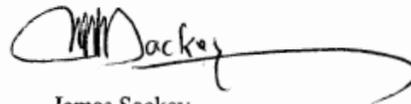
Re: Cambodia - Country Assistance Evaluation

The above-mentioned report has been discussed by the World Bank's Board of Executive Directors last December 10, 2007. As you are aware, it was agreed that IEG would consult with you before proceeding to disclose the report to the general public.

In this respect, since the General Elections of the National Assembly Members have now been concluded, I would like to get your consent to proceed to disclose the report.

We thank you in advance for your attention to this report.

Yours sincerely,

A handwritten signature in black ink, appearing to read "James Sackey", with a long, sweeping horizontal line extending to the right.

James Sackey
Acting Manager
Country Evaluation and Regional Relations
Independent Evaluation Group



ព្រះរាជាណាចក្រកម្ពុជា
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MINISTRY OF ECONOMY AND FINANCE

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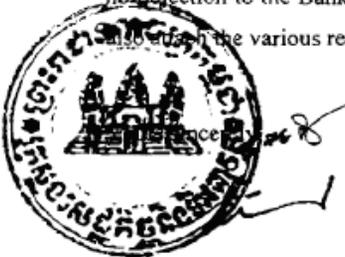
Date: *15 October*, 2008

Mr. James Sackey
Acting Manager
Country Evaluation and Regional Relation
Independent Evaluation Group
The World Bank

Subject: Cambodia – Country Assistance Evaluation

Dear Mr. James Sackey,

This refer to your letter dated September 25, 2008 regarding the above mentioned report, we have no objection to the Bank disclosing the report to the general public. We understand that you will refer to the various responses from the Royal Government of Cambodia to the final report.



Keat Chhon
Deputy Prime Minister
Minister of Economy and Finance

Chapter 1

1. World Bank, Operations Evaluation Department, Cambodia: Country Assistance Evaluation, Report No. 21354, November 16, 2000.

2. The 1991–93 United Nations Transitional Authority in Cambodia.

Chapter 2

1. These included the ADB-supported Socio-Economic Development Plans (I: 1996–2000, and II: 2001–05), the 1998 Platform for the Second Term, the United Nations Millennium Development Goals, the World Bank and IMF-supported 2003–05 National Poverty Reduction Strategy, and the 2004 Rectangular Strategy.

2. The portfolio also included 24 government-executed trust funds for US\$29.7 million and 9 Bank-executed trust funds totaling US\$4 million.

3. There were no further IDA commitments in the first half of FY07.

4. A series of adjustment operations following this SAC was contemplated at the time, and work on a planned series of PRS operations began in 2004, but the first of these operations was only approved in July 2007.

5. The FY99 PER received an award from the Quality Assurance Group for “Excellence in ESW.”

6. Aid flows over the entire period 1994–2005 totaled US\$5.1 billion.

7. The then Chief Economist of the World Bank, who visited Cambodia before efforts were made to improve coordination, referred to the situation as “the most dysfunctional case of donor coordination he had ever seen.”

8. See CED, *Cambodia Aid Effectiveness Report, 2007*, and Government-Donor Coordination Committee, “Overview of TWGs Progress March 2006–January 2007” February 2007.

Chapter 3

1. The Bank has not been engaged in supporting the development of the financial sector, except for IFC’s involvement with commercial banking, leaving leadership to the IMF and ADB. The latter produced Cambodia’s *Vision and Plan for Financial Sector Development for 2001–2010*. The government indicated that it would welcome greater Bank involvement in the sector.

2. See IMF Independent Evaluation Office, “Evaluation of Technical Assistance Provided by the IMF – Volume 2, Technical Assistance in Cambodia FY1998–2003,” January 31, 2005. See also UNDP, Evaluation Report of the Technical Cooperation Assistance Program on Strengthening Economic and Financial Management Project, 2004.

3. ADB, Australia, EU, France, Germany, IMF, Japan, Sweden, UK, UNDP, and World Bank.

4. See External Advisory Panel on PFMRF, Final Report 2007, Phnom Penh, April 20, 2007.

5. Progress was made in the introduction of program budgeting, incorporation of some donor funding for public investment in the budget, shifting from cash payments to use of the banking system, payment of civil service salaries by electronic transfer, reducing payment arrears, establishing an internal audit function in 19 ministries, conducting expenditure-tracking surveys in health and education (with Bank support), and introducing a merit-based pay initiative in the Ministry of Economy and Finance, to be extended to the Ministries of Commerce and Health.

6. The IMF reported that between 1994 and 2003 total revenues increased by only half of the targeted increase under IMF programs, despite the introduction of the value-added tax in 1999. See IMF, *Cambodia: Ex-Post Assessment of Longer-Term Engagement*, Report No. 04/324, October 2004. A survey of 1,200 businesses by the Economic Institute of Cambodia estimated that

the government may be losing up to US\$400 million in tax revenue per year due to corruption.

7. Annual visitor arrivals increased from 177,000 in 1994 to 1.4 million in 2005.

8. Foreign direct investment averaged almost 6 percent of GDP in 1994–98. During the CAE period the ratio declined steadily from 6.6 percent in 1999 to 1.8 percent in 2003, before recovering to 6–6.5 percent in 2005–06.

9. The government has stated, “Of particular importance is reduction in high transaction costs, which make serious long-term investors shy away from making commitments in Cambodia.” NSDP, p. 12.

10. Cambodia was the first developing country to reach full accession to the WTO.

11. The NGO Economic Institute of Cambodia, in its *Cambodia Competitiveness Report 2005–2006*, which surveyed 100 business leaders, found that corruption was listed as the most serious constraint to doing business in Cambodia, with inefficient government bureaucracy listed second.

12. The SAC supported the reintroduction of a preshipment inspection scheme for imports, and included conditionality on revisions to the Law on Investment, to reduce excessive tax concessions for new investment.

13. In the Bank’s view “The decision to reject the Bank’s recommendation for the Single Window implies a significant change in project design and timing, increases the already high level of risk associated with the project, and a lower likelihood of achieving its development objectives.”

14. Forum working groups on trade facilitation and the investment climate are led by the Bank.

15. These include the Law on Audit, Law on Patents, Inventions and Industrial Design, Law on Trademarks, the amended Law on Investment, Law on Copyright, the amended Law on Taxation, Law on Commercial Enterprises, Law on Commercial Arbitration, and Law on Financial Management.

16. Undoubtedly this strong growth has had a highly positive impact on employment, but comprehensive unemployment data are not available. Cambodia’s Socioeconomic Surveys show an unemployment rate of 4 percent or less, but this is undoubtedly understated, and does not reflect substantial underemployment. See NSDP, p. 21.

17. While not meeting a target for income per capita might seem significant, the SAC target appears

completely unrealistic, requiring an annual GDP growth rate of 10 percent. The average real GDP growth during the SAC period was a highly respectable 7 percent.

18. See 2005 CASCR, p. 63.

19. See World Bank, *The Poverty Reduction Strategy Initiative: Findings from Ten Country Case Studies of World Bank and IMF Support*, 2005.

20. Fiscal 2005 CAS, p. 82.

21. The comparators cited here include the nontransition countries with recent CAEs and with poverty data analyzed in the 2006 Annual Review of Development Effectiveness. Some other countries had more rapid rates of poverty reduction. See World Bank, *Annual Review of Development Effectiveness 2006*, appendix D.

22. World Bank, *Cambodia: Sharing Growth*, June 2007.

23. The IDA/IMF Joint Staff Assessment found the NSDP to be “a significant step forward in terms of government ownership, diagnostics and results framework.” Joint Staff Assessment Note, June 21, 2006, p. 3. The government has expressed the view that much analytical work in this area has been done by the Bank without adequate coordination with the government and other donors, and that a more coordinated approach could have avoided duplication and helped build analytic capacity. While IEG agrees that more collaboration in poverty analysis would be desirable to build capacity in the future, and that coordination in this area remains an important challenge, it finds that the Bank did what was realistically possible given time constraints, which were recognized and discussed with the government in May 2005 during the review of the Concept Note for the *Poverty Assessment*.

24. DFID’s independent midterm assessment of this trust fund rated it as having achieved most of its important outputs. See Urashima and Kong, *Cambodia: Poverty Reduction Support Programme – Mid Term Review*, DFID, May 2006.

25. See appendix table A.4 for a complete listing of these reports.

Chapter 4

1. The current plan covers 2006–10. Lack of in-country presence before 2003 limited Bank involvement in the early formulation of the ESP.

2. School construction accounted for 59 percent, 49 percent, and 27 percent, respectively, of project

expenditures in the Social Fund I, Social Fund II, and the Flood Emergency Rehabilitation projects.

3. See Marshall, *EQIP School Grants Program Evaluation, Final Report*, April 2004. Two additional Bank-executed pilots that fed into the design of the CESSP were funded by two Japan Social Development Fund grants with Save the Children, Norway, as implementing agency. Evaluation found that these pilots, operating in very remote, low-income areas, increased access for the poor and disadvantaged students, improved teaching, reduced drop-outs, and led to better school management and greater community involvement. See Implementation Completion Memoranda and associated evaluations for JSDF TFs 026779-KH (October 2002) and 052059 (May 2006).

4. The CESSP was appraised jointly, and shares a PMU, with an ADB education project.

5. See appendix table A4 for full reference to the reports listed in this paragraph.

6. See appendix table A2b and *Education: Subject Matter Report for the CSES 2004*, June 2005, NIS in cooperation with Statistics Sweden, Table 2004.1.5.

7. *Student Achievement and Education Policy: Results from the Grade Three Assessment, Final Report*, CESSP, Phnom Penh, October 2006.

8. *Cambodia Education Sector Performance Analysis 2006*, EC Technical Advisory Team, November 2006, p. 57.

9. *Cambodia Disease Control and Health Development Project*, PPAR, IEG, April 2004, p. 10.

10. PPAR, p. 26, 30, and 48, and DHS 2005.

11. The HSSP includes an IDA credit for US\$17.2 million, an IDA grant of US\$9.8 million, and cofinancing from DFID—a US\$1.84 million grant. Parallel financing includes US\$20 million from ADB, a Japanese grant of US\$2.2 million, and two DFID grants totaling US\$20.16 million. In addition, since 2004 UNFPA has provided all of its financing to the Ministry of Health through the HSSP partnership.

12. For evidence on contracting see WDR 2004, pp. 109–110, and Loevinsohn and Harding, “Buying Results: Contracting for Primary Health Care Delivery” in *Spending Wisely: Buying Health Services for the Poor*, World Bank and WHO, 2005, pp. 139–173.

13. This turnover reflected a temporary uncertainty in the Bank about whether to remain engaged in the health sector. In the 2005 CAS the Bank decided to retain a significant role in health and was assigned the lead role among the four CAS partners. Other factors

possibly causing a slow start include standard supervision budgets for a complex, sectorwide program and initial capacity constraints combined with a year-long hiatus in forming a government after the 2003 elections.

14. Generally the government and donors have agreed on the program of analytical work and review outputs jointly.

15. Health Public Expenditure Tracking Survey, draft, January 2007. This report is being managed by the Bank with financial support from a Netherlands Partnership Trust Fund and with technical and financial support from WHO. See also appendix 4 for references for other reports mentioned.

16. Health Public Expenditure Tracking Survey, p. 4. Budget disbursement mechanisms have been modified to increase the timeliness and reliability of budget releases, but results have been limited because funds go to provincial offices, not to the facility level.

Chapter 5

1. Only about 15 percent of cultivated land had dependable supplemental water supply at the beginning of the CAE period.

2. Average rice yields increased from around 1.5 tons/ha. in the mid-1990s to 2 tons/ha. Because rice accounts for an estimated 85 percent of crop production, in 2000–05 this change alone was a major factor in sector growth. During the CAE period there were three years of negative growth and two years with growth exceeding 10 percent.

3. *Seila* means “foundation stone” in the Khmer language. The Seila program (1996–2006) evolved out of a UNDP-supported program for reintegration of refugees—Cambodia Area Rehabilitation and Integration. It started in five provinces but became a nationwide program. It became both the framework for donor support to rural development and the pilot program for testing local capacity for planning and overseeing small-scale projects. The Seila program began working at the village level but, following the adoption of the Commune Law in 2001 and elections for Commune Councils in 2002, the government shifted the locus of local administration to the communes, comprised of clusters of villages.

4. See IEG, Project Performance Assessment Report for the Forest Concession Management and Control Project, June 27, 2007, p. 31.

5. The Bank has since introduced “framework” impact assessments as part of project processing in

cases such as the Forestry Project where a full assessment depended on the outcome of subsequent work.

6. The value chain study of agricultural products was useful in beginning the process of understanding the structure of markets and costs. However, a desk review of the report points to the need for better quality control and verification of field survey data on cost, prices, and production parameters before the results can be used beyond the level of broad indications.

7. However, the government itself has acknowledged that “A comprehensive strategy for the agricultural sector as a whole is still to be developed.” NSDP, p. 44.

Chapter 6

1. The Provincial Water and Provincial and Rural Infrastructure projects were among those investigated by INT. Misprocurement was found in both projects and both were suspended until February 2007. The water project is being restructured but the government has decided to cancel the Bank’s further involvement in the innovative small town water component (output-based with private participation) which will be funded instead through Chinese aid.

2. The Rural Investment and Local Governance Project was also rated satisfactory on quality-at-entry by the Quality Assurance Group.

3. During the implementation period of the project, 1998–2003, water connections increased from 50,000 to 105,000 and lost water was reduced from 56 percent to 17 percent. The Phnom Penh Water Authority continues to improve its performance, and by 2006 had increased connections to 150,000, and reduced water losses to 8 percent.

4. For example, in waste management in Phnom Penh and development and operation of the Phnom Penh and Siem Reap airports.

Chapter 7

1. See World Bank, *Cambodia Governance and Corruption Diagnostic: Evidence from Citizen, Enterprise and Public Official Surveys*, May 10, 2000. See also Cambodia Center for Social Development, *National Integrity Systems Country Study Report, 2006*. Another Center for Social Development Report, “Corruption and Cambodian Households,” states that citizen perceptions of corruption in 2005 have worsened relative to the findings of the 2000 World

Bank study. See also *Cambodia Competitiveness Report 2005–2006, op.cit.*

2. A U.S. government report concluded that “Endemic corruption, lack of judicial independence from the executive branch, and lack of legal training in the judiciary significantly weaken the enforcement of Cambodian law.” United States General Accounting Office, *Cambodia: Governance Reform Progressing, but Key Efforts Are Lagging*, June 2002, p. 8.

3. The 2004 Investment Climate Assessment included a survey of 800 private firms, which revealed that corruption was among the greatest obstacles to investment in Cambodia. Some 82 percent of firms reported paying bribes and the average payment exceeded 5 percent of gross revenues.

4. See Kaufmann, D., A. Kraay, and M. Mastruzzi, *Governance Matters VI: Governance Indicators for 1996–2006*, World Bank Institute, 2007

5. The governance indicators are rule-based governance, quality of public administration, and transparency and accountability in the public sector.

6. Cambodia ranks in the bottom tenth of countries in the CPI percentile, and the country’s CPI score has declined (on a scale of 0–10, from 2.3 in 2005 to 2.0 in 2007).

Chapter 8

1. The apparent reasons for the significant progress in institutional and human capacity development in these sectors are strong leadership, continuity of professional staff, clearly defined and monitorable functions, and autonomy—both the EDC and PPWSA are independent entities whereas the Sihanoukville water authority, which was less successful under the urban water project, is a department of the government.

2. Collapse of the local garment industry following the end of the Multifiber Agreement in 2005 was also predicted, but growth has remained strong. The Garment Manufacturers’ Association of Cambodia is optimistic about the future of the industry.

3. A proposed Poverty Reduction and Growth Facility arrangement remains stalled because of outstanding bilateral debt obligations to the United States and Russia. Arrears on these debts, dating from the 1970s and 1980s, total US\$800 million. An agreement, in principal, has been reached on rescheduling with the United States but the agreement has not been finalized. Agreement is still needed on reschedul-

ing the Russian debt. In January 2006 the IMF granted Cambodia full debt relief of all outstanding IMF obligations, equivalent to about US\$82 million, under the multilateral debt relief initiative, “reflecting good policy implementation and a commitment to reduce poverty.”

4. Prior to 1999 the Bank did not maintain a separate office in Cambodia but employed a retired United Nations official as a liaison officer. The Bank assigned a country manager in 1999 (initially hired as a consultant) but maintained a one-person office until 2001. The country director did not move to the field (to Bangkok) until 2001. The Bank began to expand the staff of the Resident Mission in 2003, to about 35 persons at present.

Appendix B

1. Cambodia, Financial sector diagnostic, IFC-MPDF 2006.
2. Cambodia NPRS and Rectangular strategy.
3. *NBC Economic Watch 2006*. Many rural credit operators continued on an informal basis, as the number of unregistered operators numbered about 60 as of December 2005.

Appendix D

1. In this note, “assistance program” refers to products and services generated in support of the economic development of a client country over a specified period of time, and “client” refers to the country that receives the benefits of that program.

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