



1. Project Data :	
OEDID:	C2781
Project ID:	P004035
Project Name:	Economic Rehabilitation Credit
Country:	Cambodia
Sector:	Economic Management
L/C Number:	C2781
Partners involved :	SIDA
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2. Project Objectives, Financing, Costs and Components :

This adjustment credit (ERC) for US\$40 million equivalent was approved in September 1995 and closed in June 1997, as scheduled. It was supplemented by a grant from Sweden for US\$5.5 million equivalent. A companion TA project helped its preparation and implementation. The ERC's objectives were (i) to support the economy's recovery and transition to a market economy through macroeconomic policy and the initiation of structural reforms; (ii) compensate for slow-disbursing donor assistance; and (iii) make available budgetary funds for agreed expenditures on social programs and other high-priority investment.

3. Achievement of Relevant Objectives :

This project achieved a good number of its objectives during the period of implementation (1995-Feb. 97), but these gains did not survive the mid-97 coup d'etat. Growth was high, albeit slightly below expectations. In 1995-96, GDP growth hovered in the 6.5-7.6 percent range, while inflation was contained in single digits and the market exchange rate remained stable. Structural transformation of the economy continued but stalled in 1997. During the period of implementation, the project effectively compensated for delays in disbursements of other donors' promised assistance. Similarly and for the same period, it helped increase social expenditures and other priority investment expenditures as a share of total.

4. Significant Achievements :

Macroeconomic discipline (with zero monetary financing of the budget deficit); establishment of an external debt management unit and Paris club rescheduling; VAT adoption; preparation of a master plan for an improved public investment management system; regular monitoring of FDI; assignment of MEF financial controllers to various line ministries; adoption of a regulatory framework for PEs; privatization of trading and petroleum distribution companies (or their assets); administrative reform and military demobilization.

5. Significant Shortcomings :

Revenue mobilization shortfalls (e.g., persistence of ad-hoc tax and import tariff exemptions; delay in VAT implementation) and management of public resources, particularly forestry (e.g., poor control of logging activities and granting of new concessions; unbalanced composition of expenditures such as a squeeze in current non-wage expenditures; budgetary transparency; overruns in military spending). Other: slowness in the re-establishment of the rule of law in some spheres of activity (slow adoption of new commercial code and of implementation guidelines of the Law on Investment); and non-implementation of a departure scheme for civil servants.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Marginally Satisfactory	OED's rating is due to the highly aid-dependent nature of the gains recorded in macroeconomic stabilization, and the

			slow overall progress in public resource mobilization and management and administrative reforms at the core of the ERC and the PFPs since 1994
Institutional Dev .:	Not Applicable	Modest	Activities supported by the ERC included preparatory steps for significant institutional development. Nonetheless, impact was modest, as governance remains poor and institutional capacity very low.
Sustainability :	Uncertain	Uncertain	The sharp deterioration in 1997-98 in economic performance shows how easily reversible ERC's achievements are. Future improvements in economic and social results depend critically on a return to political stability and resumption of the reform process and donors' support.
Bank Performance :	Satisfactory	Satisfactory	OED confirms the ICR rating on the strength of the ERC' relevance to both the country's needs and the CAS, timeliness, appropriate choice of instrument and conditionality, simple design, effective coordination and complementarity with the IMF.
Borrower Perf .:	Satisfactory	Satisfactory	In spite of slippages in privatization and civil service reform, and some recent backsliding in areas critical to revenue mobilization and poor application of logging policy, the strength of Borrower's accomplishments up to loan closing (mid-97) in macroeconomic discipline, private sector development and economic openness warrant the ICR's satisfactory rating.
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

1. A follow-up policy-based operation (single-tranched or multi-tranched, with specific or general conditionality) focused on implementation of prepared reforms is necessary to sustain fragile and preliminary gains of economic rehabilitation operations.
2. The existence of a parallel but separate TA credit provides the necessary complementarity to the implementation of the reforms of a quick-disbursing operation, helps the effective utilization of donor funds, and also can play an important role in reviving preparation of a reform program and a follow-up Bank operation following a suspension of quick-disbursing assistance.
3. In countries experiencing political instability and governance problems (as is the case at present for Cambodia), low-level Bank assistance should remain focused on strengthening institutional capacity, safety nets and maintaining and building long-term human capital until credibility of political institutions is re-established.

8. Audit Recommended? ☒ Yes ☐ No

Why? Given a disparity between ICR and OED ratings for the preceding operation (ERP) on Bank performance, OED's recommendation for an audit of the ERP, uncertain sustainability of the ERC, issues of specific vs. general conditionality (or lack of) in the case of rehabilitation operations, and the current postponement of a follow-up SAC, an OED cluster audit of both the ERP and ERC could contribute to sharpen the lessons from experience and help strengthen future Bank country assistance .

9. Comments on Quality of ICR :

The ICR provides frank and good verbal coverage of all key issues, and logical and sound arguments to back up the ratings and lessons of experience. Shortcomings are failures to include: (i) a table of key economic and social indicators; (ii) quantitative evidence as to the purported increase in social expenditures; (iii) an exhaustive status report and evaluation of all reforms envisaged in the Statement of Development Policy; (iv) solicit views regarding the ICR of the co-financier (SIDA).

