

**INDEPENDENT EVALUATION GROUP**  
**CAMBODIA: COUNTRY ASSISTANCE EVALUATION**  
**APPROACH PAPER**

**Country Background**

1. Cambodia, with its population of 13.6 million, has experienced extended conflict over the last few decades, which has taken its toll on the country. An estimated 2-3 million were killed during the period since 1970. Mines covered about 30 percent of agricultural land and have maimed more than 40,000 people. About 2/3 of draught animals were lost and physical infrastructure was badly damaged. Most of the educated middle class died or migrated during this period; the loss of this human capital in turn wiped out most economic, judicial, infrastructure and social service delivery institutions.

2. In 1998, Cambodia was one of the poorest countries in the world with a per capita income of US\$280. Its social indicators were substantially below those of other low income countries (LICs); infant mortality was estimated at 103 per thousand live births, versus the LIC average of 69; life expectancy was 54 years versus a LIC average of 63 years, and only 13 percent of the population had access to clean water, versus a LIC average of 74 percent. From 1998 to 2004, Cambodia received more than US\$2.9 billion in aid, or an annual average of US\$31.8/capita; the annual average for LICUS countries during that period was US\$18.4/capita.

3. *Recent economic developments* have been positive. Annual GDP growth has been above 6 percent since 1999, and has averaged more than ten percent annually over the last three years. Inflation has remained under 6 percent. The exchange rate is broadly stable, with the external debt at 51% of GDP in 2005 from a peak of 69 percent in 1999. Average per capita income in 2005 was estimated at US\$380.

4. Despite the strong growth, much of it has been narrowly based on the garment and tourist industries (and the related construction). Growth in agriculture (on which the majority of the population, especially the poor depend) varies greatly from one year to the next and has averaged below the growth rate of the economy as a whole.

5. Overall poverty rates have decreased from an estimated 47 percent in 1993/94 to 35 percent in 2004.<sup>1</sup> However, poverty is most pronounced in rural areas where 90 percent of the poor live. Basic social indicators have improved, but still remain low. One

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<sup>1</sup> World Bank, "Cambodia: Halving Poverty by 2015?; Poverty Assessment 2006." Note that there has been considerable uncertainty about poverty data in Cambodia, particularly regarding several poverty surveys with varying methodologies and questions, making it very difficult to compare data across time periods. However, there appears to be agreement among Bank analysts, independent analysts and different donor sources that, despite these methodological issues, poverty has indeed fallen during the 1993/94 to 2004 time period.

area of progress has been net primary school enrollment, which has jumped from 78 percent of primary school age children in 1997 to over 91 percent in 2004.<sup>2</sup>

6. The Government worked to rehabilitate its devastated infrastructure. While improvements have been made, infrastructure in Cambodia continues to lag significantly behind its neighbors, Laos, Thailand and Vietnam. For example, as of 2003, only 17% of Cambodian households had access to electricity compared to more than 50% for its neighbors, and the cost of electricity, where available, was significantly higher. Less than half the population had access to improved water supply and only about one-fifth to improved sanitation facilities.

### **The Bank Program**

7. The Bank's first operation in Cambodia was approved in FY94. After violence erupted again, the Bank and other aid agencies decreased their presence until after the 1998 elections. The Bank re-opened its mission in 1999. From FY99 to FY06, the Bank committed US\$391.14 million to Cambodia for 20 projects. The Bank also has an active AAA program.

8. This evaluation will cover the Bank's Assistance to Cambodia from July 1, 1998 to December 31, 2006; a previous IEG evaluation covered Bank operations from FY94 through FY98. The earlier CAE found IDA's assistance strategy appropriate for the country's post-conflict situation, and rated the outcome satisfactory. IDA's assistance had helped move the economy to macroeconomic stability with manageable inflation and improved growth. However, capacity building efforts had limited success, and key reforms in forestry, demobilization, and the civil service had not been achieved. Sustainability was deemed uncertain due to the unstable political environment, precarious macroeconomic balance, and ongoing governance issues. The CAE recommended that future IDA assistance focus on poverty alleviation, agriculture and rural development, governance reforms, improved fiscal management, and an improved environment for PSD.

9. During the review period, Bank operations were carried out through three Country Assistance Strategies (CAS), approved in 1997, 2000, and 2005, respectively. Each of the CASs had four to five objectives, with numerous sub-objectives. The FY97 CAS noted that, due to continued legacy from conflict, the country had numerous needs. Among the areas the Government and Bank chose to focus on were maintaining macroeconomic stability and improving fiscal management, while restarting growth. In addition, given that 85 percent of the population was based in rural areas, enhancing rural development while improving natural resource management was considered a key objective. Further, rehabilitating the country's physical infrastructure was essential to both economic growth and improving the lives of the population. The fourth objective identified in the CAS was improving the human resource base and reducing poverty.

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<sup>2</sup> Cambodia's Human Development Index (HDI) ranking has improved marginally during this period. As of 1997, Cambodia ranked 137th out of 174 countries; it now ranks 130th of 177 countries.

10. As the macroeconomic situation began to stabilize, the government began to turn its attention more to growth, governance and the continued rehabilitation of basic infrastructure and services. The CAS of February 7, 2000 identified its main objective as assisting Cambodia to “build the foundations for sustainable development and poverty reduction for the medium to long term.” Specific objectives included: (i) enhancing governance (supporting good governance through legal and judicial reform, public sector reform including civil service restructuring and military demobilization); (ii) building infrastructure, particularly roads, water supply and electricity in rural and provincial areas to increase access to service and productive activities; (iii) rebuilding human capital by increasing access to and the quality of healthcare services and investing in education and skills development; and (iv) facilitating private sector development.

11. By the 2005 CAS, the Bank identified the following objectives: (i) promote private sector development for poverty reduction; (ii) improve natural resource management; (iii) improve public financial management; (iv) support decentralization and promote citizen’s partnerships for better governance; and (v) support the strategy and investment needed to attain the MDGs.

12. Although the primary foci of the CASs shifted over time, the main objectives of the Bank strategies can be broadly grouped as: (i) economic management and policy reform, public sector reform, and enhancing governance; (ii) promotion of private sector development for poverty reduction; (iii) agricultural and rural development, and managing natural resources sustainably; and (iv) rehabilitating and rebuilding human capital and support services.

### **Focus and Methodology**

13. As noted above, this CAE will review the Bank’s assistance from July 1, 1998 through December 31, 2006. The evaluation will include reviews of project and program documentation, ESW, and other relevant Bank documents, including information from the Department of Institutional Integrity (INT) and the Inspection Panel. The team will also review strategy, evaluation and ESW reports of other donors, including the IMF, ADB, and other bilateral donors and NGOs. The team will conduct interviews with the staff of the Bank and other key donors, representatives of the government, NGOs and civil society. The evaluation will integrate the findings of other IEG studies<sup>3</sup> as well as specific Project Performance Assessment Reviews on the Cambodia portfolio.<sup>4</sup>

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<sup>3</sup> IEG studies will include “Engaging with Fragile States: World Bank Support to Low-Income Countries under Stress (LICUS)”;

“The Poverty Reduction Strategy Initiative; An Independent Evaluation of World Bank Support Through 2003”;

“The Effectiveness of World Bank Support for Community-Based and – Driven Development;”

“Evaluation of World Bank Support for Primary Education;” and

“Committing to Results: Improving the Effectiveness of HIV/AIDS Assistance.”

<sup>4</sup> PPARs are planned for the following projects: Structural Adjustment Credit (Cr. 3323); Technical Assistance Credit (Cr. 2664) and Demobilization and Reintegration Project (Cr. 3564) Northeast Development Project (Cr 3216); Flood Emergency Rehabilitation Project (Cr 3472); Agriculture Productivity Improvement (Cr N011); and the Forest Concession Management and Control Pilot Project (Cr 3365). PPARs have already been completed for the “Disease Control and Health Development Project

14. The CAE will evaluate the relevance of the main objectives and the relevance of the Bank's strategy in meeting the objectives, including whether the evolution of priorities reflected the country situation, and whether the Bank was appropriately selective --- as well as if there are key issues of omission. The CAE will also review the balance of instruments, the efficacy with which the strategy was implemented, and the outcomes. These factors will be used to assess whether the Bank's programs achieved the Bank's objectives or planned outcomes, and whether the programs had a substantive impact on the country's development<sup>5</sup>. In doing so, the CAE will also consider the impact of other donors, the Government and exogenous factors on results, so that issues of attribution will be carefully assessed.

15. Evaluation questions will include:

16. **General economic reform, public sector reform, and governance:** The three CASs evolved to cover a number of issues at different times, including fiscal stability, public financial management, and governance. Among the issues to be considered are:

- What contribution did the Bank program make to improved fiscal performance? What contribution has the WB made to support the IMF's efforts to improve revenue performance?
- To what extent has the Bank program provided appropriate support for underlying structural reforms that will allow the country to maintain its fiscal stability, even if donor funds begin to wane?
- To what extent has the Bank assisted the government in developing an effective strategy and program to address governance issues? Did the strategy and program adequately reflect the political economy of the country?
- To what extent have there been improvements in government effectiveness and efficiency, especially in the areas where there was Bank intervention, including civil service pay and employment, anti-corruption laws, legal and judicial reform, forestry concessions and regulatory reform?
- Has the Bank used appropriate instruments (lending and non-lending) to help address governance issues (including carrying out and applying Bank fiduciary assessments)? Was the choice of PRSC operations appropriate in this governance environment?
- Given the awareness of corruption problems across the economy, were appropriate safeguards in place when designing and supervising Bank projects?

17. **Promotion of private sector development for poverty reduction** Evaluations questions will include:

- Has the Bank program contributed to economic growth and provided appropriate support to expand the narrow economic base, particularly the

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(Cr N005); Phnom Penh Power Rehabilitation Project (Cr 2782); Emergency Rehabilitation Project (Cr 2550) and Economic Rehabilitation Credit (Cr 2781).

<sup>5</sup> There could be cases where the success in countries and the success of bank programs moved to different directions. This would be carefully set out.

narrow export base, and the lack of overall competitiveness of the Cambodian economy?

- Have economic links between agriculture and other rural and non-rural sources of employment been developed? What have been the trends in employment and the labor market?
- Has the Bank provided appropriate support to infrastructure and other forms of capital investment that will be needed to ensure that growth will be sustained over the long-term? In particular, given the extent of the challenges facing Cambodia, both in terms of infrastructure rehabilitation needs and government capacity, was the Bank's infrastructure strategy appropriate in terms of: (a) areas of intervention (in relation to the Bank's comparative advantage); (b) sequencing; (c) the selection of instruments; and (d) coordination with other donors? To what extent has the Bank's earlier interventions in major infrastructure been sustained and/or been replicated?

18. ***Agricultural and rural development, and managing natural resources sustainably.*** Cambodia's economy depends heavily on agriculture, fisheries and other natural resources. Over 20 percent of the income of poor households is sourced from common areas, mainly fisheries and forestry, which serve as a "safety net." Efforts to formalize community access rights have been hampered by limited community management capacity and lack of adequate enforcement against large-scale commercial interests. Environmentally unsound forest concessions have been cancelled, but illegal logging still occurs. Other environment challenges include untreated wastewater, unsustainable irrigation, degradation of fisheries, and poor protection of biodiversity and protected areas.

- Did the Bank provide appropriate advice and support to the government to help it develop agricultural and rural development strategies?
- Have technical and socio-economic constraints to increased productivity of agriculture been adequately analyzed and incorporated in these strategies?
- Has the Bank assistance been effective in developing the capacity and commitment of government to regulate and provide services to the rural sector in a transparent manner?
- Has Bank assistance been effective in reducing the destruction of forest and other natural resources, and introduce mechanisms to capture a reasonable portion of the resource value for the overall population and economy?
- Has the Bank helped introduce regulations, services, infrastructure, and access to information which would encourage farmers and fishermen to think about protecting their resources?
- What is the record on Bank enforcement in Cambodia of its environmental safeguards?

19. ***Rehabilitating and rebuilding human capital and support services.***

- What has the Bank role been in orienting Cambodia in its overall development strategy and policy framework towards poverty reduction and improved living standards for all its people (including women)? Has the Bank been successful

in building ownership both in the Government and among a broader range of civil society stakeholders?

- To what extent have Bank-funded lending operations in health, education and social protection supported these strategies and achieved their objectives? Have they led to improved, sustainable systems and outcomes?
- The Government and donors have focused on increasing access to services, rather than developing financial sustainability of these services (independent of donor aid and government subsidies). Was the focus and sequencing of this strategy appropriate for the conditions of the country? Has the Bank helped guide the Government in selecting the appropriate mix of public/private provision of services?
- How effective has the Bank's rehabilitation of basic infrastructure (local roads, water, rural electricity, etc) been in improving service delivery, particularly to the poor?

20. In addition to reviewing the Bank program objectives, the CAE will examine the process and implementation aspects of the Bank's role in Cambodia. These include:

21. **Partnerships and capacity building.** From 1993-2005, Cambodia received about US\$5 billion, or about 13 percent of GDP, although only about half was channeled through the budget.<sup>6</sup> IDA was the third largest aid provider, providing about 9.6 percent of total official aid (Japan was the largest aid provider, with about 23 percent; the Asian Development Fund provided about 13 percent.) With this large amount of aid pouring in, combined with limited government capacity, donor coordination was a key issue affecting development effectiveness. Also, the limited government capacity, as well as governance concerns, led many donors to turn to Non-Government Organizations (NGOs) to channel aid. As of 2005, over 1000 NGOs were operating in Cambodia.<sup>7</sup>

- How effective has the Bank been in improving coordination among Cambodia's myriad donors, including multilaterals, bilaterals, the new global health funds, and NGOs? Has the PRSP process helped? Have sector-wide approach mechanisms been effective in improving donor coherence? How do these mechanisms work in a weak governance structure? Has donor coordination allowed for the Bank to be more selective in its work?
- Did the Bank adequately and appropriately involve and inform other stakeholders about its work?

22. **Capacity building.** How successful were the Bank's efforts at capacity and institution building? Have they strengthened capacity and built sustainable institutions

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<sup>6</sup> IMF Country Report No. 04/324, "Cambodia: Ex Post Assessment of Longer-Term Program Engagement," October, 2004. The IMF notes the 13 percent of GDP figure comes from the Cambodia Development Council. IMF estimates of BOP external financing were about \$4 billion, or 10 percent of GDP.

<sup>7</sup> The "NGO Statement to the 2006 Consultative Group Meeting on Cambodia" puts the figure at 1,129 NGOs in 2005 (p.75)

(both inside of Government and outside), or have they relied too heavily on PIUs and NGOs?

23. **Portfolio implementation and management.** The Inspection Panel has investigated safeguard issues. The country team also initiated a review into procurement issues; this review was later expanded by INT. Did the Bank sufficiently enforce fiduciary aspects and safeguard issues? Did the Bank adequately identify and monitor potential risks?

24. **AAA.** Has the WB's analytical work contributed in a consistent way to the development of a strategy and policy framework, both at the macro level and through the development of sector strategies and policies? Have dissemination strategies helped broaden the impact of analytical work and informed the policy debate in civil society?

25. **Monitoring and Evaluation.** Has the Bank established a results orientation and effective monitoring and evaluation techniques? Have they been designed to take account of pervasive governance and fiduciary weaknesses? Has the Bank helped build institutional capacity in this area?

### **CAE Output and Timetable**

26. The CAE will be issued to the Committee on Development Effectiveness in the second quarter of FY08. The current CAS covers FY05-08. The task team will be led by Lily Chu and will work under the direction of Ali Khadr (Senior Manager, IEGCR). Hiroyuki Hatashima (IEG-IFC) will review IFC operations and prepare input for the CAE, as well as a separate IEG-IFC Country Evaluation Note (CEN). Consultations with the Government will take place before issuing the report. Peer reviewers are Keith Leonard (ADB), Mark Sundberg (DECVP), Yvonne Tsikata (AFTP3), and Rene Vandendries (Consultant).

27. **Budget Estimate.** Total direct costs for the CAE are estimated at US\$335,000 over the period FY07-08 to be funded from the IEG budget. The CEN will be costed separately.