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PROJECT PERFORMANCE ASSESSMENT REPORT

CAMBODIA

**TECHNICAL ASSISTANCE PROJECT
(CREDIT 2664-KH)**

**STRUCTURAL ADJUSTMENT CREDIT
(CREDIT 33230-KH)**

**DEMOBILIZATION AND REINTEGRATION PROJECT
(CREDIT 35640-KH)**

April 8, 2008

*Country Evaluation and Regional Relations
Independent Evaluation Group (World Bank)*

Currency Equivalents (annual averages)

Currency Unit = Riel (R)

1994	US\$1.00	R 2575	2001	US\$1.00	R 3895
1995	US\$1.00	R 2526	2002	US\$1.00	R 3930
1996	US\$1.00	R 2713	2003	US\$1.00	R 3984
1997	US\$1.00	R 3452	2004	US\$1.00	R 4027
1998	US\$1.00	R 3770	2005	US\$1.00	R 4112
1999	US\$1.00	R 3770	2006	US\$1.00	R 4057
2000	US\$1.00	R 3905			

Abbreviations and Acronyms

ADB	Asian Development Bank	EPSCB	Economic and Public Sector Capacity Building Project
ASEAN	Association of Southeast Asian Nations	FAO	Food and Agriculture Organization of the United Nations
CAE	Country Assistance Evaluation	FMIS	Financial Management Information System
CAR	Council for Administrative Reform	GAP	Governance Action Plan
CAS	Country Assistance Strategy	GDLN	Global Development Learning Network
CDAF	Council for the Demobilization of the Armed Forces	GDP	Gross Domestic Product
CDC	Council for the Development of Cambodia	HIPC	Heavily Indebted Poor Countries
CDRI	Cambodia Development Resource Institute	ICR	Implementation Completion Report
CDRP	Cambodia Demobilization and Reintegration Project	IDA	International Development Association
CED	Customs and Excise Department	IDF	Institutional Development Fund
CFAA	Country Financial Accountability Assessment	IEG	Independent Evaluation Group
CG	Consultative Group	IFAPER	Integrated Fiduciary Assessment and Public Expenditure Review
CIDA	Canadian International Development Agency	IMF	International Monetary Fund
CPAR	Country Procurement Assessment Report	INT	World Bank Department of Institutional Integrity
CPIA	Country Policy and Institutional Assessment	JICA	Japan International Cooperation Agency
CPP	Cambodian People's Party	LICUS	Low Income Country Under Stress
CSR	Civil Service Reform	LJR	Legal and Judicial Reform
CVAP	Cambodian Veterans' Assistance Program	LOI	Law on Investment
DCA	Development Credit Agreement	MBPI	Merit-Based Pay Initiative
DFID	Department for International Development (UK)	MDGs	Millennium Development Goals
EAP	East Asia and Pacific Region	MDTF	Multi-Donor Trust Fund
EFI	Economic and Finance Institute	MEF	Ministry of Economy and Finance

MOP	Ministry of Planning	PRGF	Poverty Reduction and Growth Facility (IMF)
MTEF	Medium-Term Expenditure Framework	PRGO	Poverty Reduction and Growth Operation
NA	National Assembly	PRSP	Poverty Reduction Strategy Paper
NAA	National Audit Authority	PSD	Private Sector Development
NGO	Non-Governmental Organization	PSI	Pre-Shipment Inspection
NPAR	National Program for Administrative Reform	PSM	Public Sector Management
NPRS	National Poverty Reduction Strategy	RGC	Royal Government of Cambodia
NSDP	National Strategic Development Plan	SAC	Structural Adjustment Credit
ODA	Official Development Assistance	SEDP	Socio-Economic Development Plan
OED	Operations Evaluation Department (predecessor to IEG)	SIDA	Swedish International Development Agency
PAD	Project Appraisal Document	SOE	State-Owned Enterprise
PER	Public Expenditure Review	SWAp	Sector-Wide Approach
PFM	Public Financial Management	TA	Technical Assistance
PFMAP	Public Financial Management and Accountability Project	TCAP	Technical Cooperation Assistance Program
PFMRP	Public Financial Management Reform Program	TTL	Task Team Leader
PHRD	Policy and Human Resources Development Fund (Japan)	UNDP	United Nations Development Program
PMG	Priority Mission Group	UNTAC	United Nations Transitional Authority for Cambodia
PMU	Project Management Unit	VAT	Value-Added Tax
		WBI	World Bank Institute
		WFP	World Food Program
		WTO	World Trade Organization

Fiscal Year

Government: January 1 – December 31

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IEGWB Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEGWB annually assesses about 25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEGWB staff examine project files and other documents, interview operational staff, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEGWB peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. IEGWB incorporates the comments as relevant. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

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Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

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Principal Ratings

Technical Assistance Project (Cr. 2664-KH)

	ICR*	ICR Review*	PPAR
Outcome	Unsatisfactory	Unsatisfactory	Unsatisfactory
Institutional Development Impact**	Modest	Modest	-----
Risk to Development Outcome	-----	-----	Moderate
Sustainability***	Unlikely	Unlikely	-----
Bank Performance	Unsatisfactory	Unsatisfactory	Unsatisfactory
Borrower Performance	Unsatisfactory	Unsatisfactory	Unsatisfactory

Structural Adjustment Credit (Cr. 33230-KH)

	ICR*	ICR Review*	PPAR
Outcome	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Institutional Development Impact**	Modest	Modest	-----
Risk to Development Outcome	-----	-----	Moderate
Sustainability***	Moderately Likely	Non-evaluable	-----
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Moderately Satisfactory

Demobilization and Reintegration Project (Cr. 35640-KH)

	ICR*	ICR Review*	PPAR
Outcome	Unsatisfactory	Unsatisfactory	Unsatisfactory
Institutional Development Impact**	Negligible	Negligible	-----
Risk to Development Outcome	-----	-----	Moderate
Sustainability***	Unlikely	Unlikely	-----
Bank Performance	Unsatisfactory	Unsatisfactory	Moderately Unsatisfactory
Borrower Performance	Unsatisfactory	Unsatisfactory	Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.

***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

Key Staff Responsible

Technical Assistance Project (Cr. 2664-KH)

<i>Project</i>	<i>Task Manager/Leader</i>	<i>Division Chief/ Sector Director</i>	<i>Country Director</i>
Appraisal	Guy Darlan	Vinod Thomas	Calisto Madavo
Completion	Natasha Beschorner	Homi Kharas	Ian C. Porter

Structural Adjustment Credit (Cr. 33230-KH)

<i>Project</i>	<i>Task Manager/Leader</i>	<i>Division Chief/ Sector Director</i>	<i>Country Director</i>
Appraisal	Su-Yong Song	Homi Kharas	Ngozi Okonjo-Iweala
Completion	Su-Yong Song	Homi Kharas	Ian C. Porter

Demobilization and Reintegration Project (Cr. 35640-KH)

<i>Project</i>	<i>Task Manager/Leader</i>	<i>Division Chief/ Sector Director</i>	<i>Country Director</i>
Appraisal	Bonaventure Mbida-Essama	Not Applicable	Ngozi Okonjo-Iweala
Completion	Gillian M. Brown	Cyprian F. Fisiy	Ian C. Porter

Preface

This is a Project Performance Assessment Report (PPAR) on three projects for Cambodia: the Technical Assistance (TA) Project (Cr. 2664), the Structural Adjustment Credit (SAC) (Cr. 33230), and the Demobilization and Reintegration Project (Cr. 35640).

The **TA project** in the amount of US\$17 million was approved on December 6, 1994 and became effective on March 23, 1995. The project was restructured in 1999 and closed on December 31, 2001, six months after the original closing date. Total IDA disbursements at closing were US\$15.97 million.

The **Structural Adjustment Credit (SAC)** in the amount of US\$30 million was approved on February 29, 2000 and became effective on March 28, 2000. The Government of Sweden provided co-financing of US\$5 million equivalent. The credit was disbursed in three tranches. The first tranche of US\$10 million was disbursed on May 3, 2000. The "floating" tranche was released on September 11, 2001. The second tranche was disbursed and the project closed on December 31, 2003. Both the IDA credit and the Swedish grant were fully disbursed.

The **Demobilization and Reintegration Project** in the amount of US\$18.4 million was approved on August 23, 2001 but did not become effective until July 1, 2002. Total project cost was estimated to be US\$42 million at appraisal. The project was co-financed by the Governments of Japan, Netherlands and Sweden and the World Food Program. A finding of misprocurement on an IDA-funded contract led the Bank to suspend the credit in mid-2003, call for repayment of US\$2.8 million disbursed against this contract, and impose sanctions on individuals and firms. The project closed on December 31, 2004, the original closing date. After the repayment, net disbursements from the IDA credit were only US\$0.7 million and total disbursements of donor and government counterpart funds were US\$18.6 million.

The PPAR is based on a review of relevant Bank documents, including ICRs and ICR Reviews, and interviews with Bank staff. An IEG mission visited Cambodia in February 2005 to conduct a Country Assistance Evaluation (CAE) of the Bank program during the period FY99-December 31, 2006 and to review the outcomes of several IDA-funded projects, including the three projects covered in this PPAR. The mission reviewed project outcomes with Government officials, donor representatives, and Bank staff based in the country. Their assistance, along with that of the Bank's Resident Mission's support staff, is gratefully acknowledged.

Comments from the Bank's Regional Management were received and have been incorporated in the report. The PPAR was also sent to the Government whose comments are included in Annex B. The report has been revised to reflect these comments where appropriate. Copies of the draft report were also sent to co-financiers; comments were received from WFP and their comments have been incorporated.

This report was prepared by Mr. Stephen O'Brien (consultant) under the supervision of Ms. Lily Chu and Mr. Jaime Jaramillo-Vallejo (Task Managers). The panel reviewer was Mr. Rene Vandendries. Administrative support was provided by Mr. Roderick De Asis.

Summary

1. This PPAR for three IDA credits to Cambodia – a Technical Assistance (TA) project, a Structural Adjustment Credit (SAC), and a Demobilization and Reintegration project (D&R) – was prepared in parallel with a Cambodia Country Assistance Evaluation (CAE). These projects are reviewed together because all three dealt with aspects of public sector financial management (PFM). However, the TA project and the SAC also addressed many other policy and institutional issues. All three projects suffered from flaws in project design and supervision, and weak government commitment to certain project objectives. The TA project and the D&R project outcomes were rated *unsatisfactory* in ICRs and ICR reviews, and the SAC outcome was rated *moderately satisfactory*.

2. The **TA project** was the second IDA commitment after lending began in 1993. It had two main objectives – improving PFM and establishing an enabling legal environment for private sector development (PSD). Project design was deliberately flexible given the Bank's limited knowledge of Cambodia's capacity-building needs. In PFM the project planned for TA, primarily to the Ministry of Economy and Finance (MEF), in budgeting, macroeconomic analysis and forecasting, public debt monitoring, public investment management, and funding for the establishment of the Economic and Finance Institute (EFI) training facility. In legal reform the project planned for a legal training needs assessment, a diagnostic study of all economic and financial laws, and publication of an official legal journal. Other components planned or added during implementation included studies of options for reducing civil service numbers, state-owned enterprise (SOE) reform, electricity tariffs and regulations, a stock exchange, TA in forest management, and assistance in strengthening capacity in the water supply sector.

3. The "umbrella" nature of the project, with many separate and unrelated consultancies, made supervision difficult for both Bank and Government, and some of the advisers proved unsatisfactory. Project implementation was disrupted by an attempted coup in 1997 and lack of a full-time task team leader (TTL) in 1997-99. In mid-1999 the project was declared a problem project, a new TTL was appointed, and an extensive review was carried out. The project's scope was reduced, with government agreement, to concentrate on continued support for capacity-building in the MEF and EFI; public administration reform including preparation of a civil service census and assistance in preparing for military demobilization; and a scaled back legal reform effort. While the project did build some capacity in the MEF and EFI, little was achieved in civil service reform or legal/judicial reform.

4. The PPAR agrees with the judgment of the ICR and ICR review that the outcome of the TA project was *unsatisfactory*. Risk to development outcome is judged *moderate* overall but *significant* for civil service and legal/judicial reforms. Bank and borrower performance are rated *unsatisfactory*, consistent with the findings of the ICR. While Bank supervision and performance of the PMU improved during the final three years of project implementation, the record over the first four and one half years – inadequate supervision, poor performance by several consultants, weak project management by the

PMU, misuse of project funds, and lack of government commitment to some reforms – justifies these ratings.

5. The SAC continued Bank support for PFM reforms, including revenue mobilization, expenditure management, and reorientation of public expenditures from defense and security to the social sectors and rural development, plus reforms in forestry, public administration, including a review of government functions and the civil service census, registration of all military personnel and implementation of a pilot demobilization program, and preparation of a governance action plan. The SAC, like the TA project, was broad-gauged, covering rather unrelated activities in several sectors. It was expected that further adjustment operations would follow, and preparatory work began in 2004, but the first operation (a PRGO) was not approved until July 2007.

6. The SAC was overburdened with conditionality – 50 performance indicators, eleven conditions of Board presentation, and thirteen tranche conditions. Project closing was extended five times due to delays in meeting tranche conditions. The SAC was rated *unsatisfactory* on implementation progress in March 2001 and from June 2002 to September 2003. The credit finally closed with disbursement of the second tranche on December 31, 2003, but two Board waivers were required for second tranche release.

7. The SAC contributed to strong macroeconomic performance, some limited improvements in public expenditure management, significant reorientation of public expenditures from defense and security to health, education and rural development which has been sustained since the SAC closed, resumption of import pre-shipment inspection, and modest improvements in the Law on Investment (LOI), but little or no progress during the SAC period in revenue mobilization, customs reform, or in public administration and governance.¹ The overall outcome is judged *moderately satisfactory*, in large part because of continued improvements in PFM, especially expenditure reorientation. Risk to development outcome is judged *moderate* overall, but *low* for public expenditure management, including expenditure reorientation, *low to moderate* for revenue mobilization, but *significant* for forestry reform, public administration reforms and the other elements of the SAC program. Bank performance is judged *satisfactory* and borrower performance *moderately satisfactory*.

8. The principal objective of the **Demobilization and Reintegration (D&R) Project** was to facilitate a significant reduction in the size of the armed forces to free up budget resources for the social sectors and rural development. Estimates of the size of the army as of the late 1990s varied widely; there was strong evidence that payroll numbers were being inflated and pressure was building on the Government from donors, including the Bank, to reduce defense expenditures. Under the TA project, following the 1999 restructuring, and through a post-conflict grant, the Bank provided support for a military census and for preliminary design of a demobilization program. The Bank's Post-Conflict Unit led this work. The staff involved with project preparation were aware of the many warnings about falsification of the census numbers, but did not challenge the

¹ While the SAC conditions on forestry and demobilization were met, these were linked to investment projects which had *unsatisfactory* outcomes. For information on the outcome of the Forest Concession Management and Control Project see World Bank, PPAR Report No. 40125, June 27, 2007.

result. Despite this flawed beginning, a pilot demobilization program for 1,500 soldiers was successfully completed in 2000. Based on this pilot, a demobilization program for 30,000 soldiers was planned for 2001-2002. The US\$42 million program, supported by the Bank and other donors, included health screening, economic assistance, vocational training and counseling. The IDA credit funded a large part of the economic assistance as well as TA for the implementing agency, the Council for the Demobilization of the Armed Forces (CDAF). The first phase demobilization of 15,000 soldiers was completed in 2001, before the Bank project became effective.

9. The Bank's D&R project faced problems from the outset. Effectiveness was delayed eleven months.² Project management had been transferred from the Bank's Post-Conflict Unit to the Resident Representative, but with the extremely limited staffing of the Resident Mission at the time the Representative was too overburdened to deal effectively with this project. In mid-2002 a new TTL was assigned from the EAP Social Development unit. In late 2002 losing bidders on an IDA-funded contract complained to the Bank that the winning bidder should be disqualified. An investigation by the Bank resulted in a declaration of misprocurement, suspension of the project, call for repayment of US\$2.8 million disbursed by IDA against this contract, and sanctions against firms and individuals. The Government disagreed strongly with the Bank's conclusions and actions, arguing that only the consulting firm employed by the Government should be held liable.

10. The D&R project closed on December 31, 2004. Although some donor funding for the program continued, the planned second phase of the demobilization program was not carried out. On the positive side, the limited demobilization carried out contributed to a shift in budget resources from defense and security to the social sectors and rural development which has been sustained, and the Government has maintained training programs for soldiers demobilized in the first phase with support from JICA. However, given the serious performance issues in this operation, the outcome rating for the Bank's program remains *unsatisfactory* and Bank performance is rated *moderately unsatisfactory* while borrower performance is rated *unsatisfactory*. However, given the positive trends in reduction in military expenditures and in training demobilized soldiers, the risk to development outcome is rated *moderate*.

11. The main **findings and lessons** from these credits are:

- A substantial share of donor aid to Cambodia has been allocated to TA, but results have been generally disappointing. Too much TA has been donor-driven without adequate Government involvement. This is changing in the Bank-led support for the PFMRP.
- All three projects suffered from flaws in project design. The TA project and the SAC were overly broad in attempting to resolve too many problems through a single operation. The SAC had an excessive number of conditions which delayed effectiveness and tranche releases. The D&R project failed to heed the public

² The IDA credit became effective on July 1, 2002.

- complaints about falsification of the number of military personnel and corruption in handling the military payroll.
- The Bank was unrealistic in its assessment of the Government's commitment to many of the reforms in public administration and governance supported by these projects.
 - The Bank should have carried out more intensive supervision of fiduciary issues in the IDA portfolio. However, after the findings that led the Bank to declare misprocurement in the D&R project, the subsequent Fiduciary Review and the ensuing INT investigations, the Bank has now taken appropriate steps to address these problems.
 - The Bank delayed for almost ten years before building up an adequate field office presence, contrary to the lessons of experience in post-conflict countries. This had an adverse effect on the Bank's ability to supervise complex projects, to maintain regular contact with government officials, and to work effectively with other donors. This deficiency has been corrected since 2003.

Vinod Thomas
Director-General
Evaluation

1. Background

POLITICAL BACKGROUND

1.1 Cambodia, with an estimated population of 14 million in 2005, has experienced armed conflict over many decades including four years of genocidal rule by the Khmer Rouge from 1975 to early 1979. This prolonged conflict resulted in the deaths of two to three million people and virtually destroyed the country's social, economic and political infrastructure. Low-level armed conflict continued during the 1980s and most of the 1990s despite a UN-brokered peace agreement, a peace-keeping force under the United Nations Transitional Authority in Cambodia (UNTAC), a new constitution and an elected coalition government in 1993. The political situation stabilized following an aborted coup attempt in 1997, with the dominance of the ruling Cambodian Peoples' Party steadily increasing through national elections in 1988 and 2003 and local elections in 2002. While democratic processes have been established and some decentralization of governmental authority to provinces and communes is underway, the administration remains highly centralized and authoritarian. The public sector is characterized by weak institutions and human resources and widespread problems in governance.

ECONOMIC AND SOCIAL BACKGROUND

1.2 At the time of the UN intervention 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 averages for the EAP Region as well as those of most other low-income countries (LIC). (See Table 1 below.) However, overall

Table 1 Economic and Social Indicators for Cambodia, EAP and LIC

Indicator	Cambodia	EAP	Low-income
GDP per capita (US\$, 1994 in 2000 prices)	216	677	327
Population growth rate (1996)	2.6	1.2	2.1
Primary enrollment (gross, 1989-1994)	47	118	83
Infant mortality (per 1000 live births, 1992)	110	40	89
Maternal mortality (per 1000 live births, 1992-97)	6.5	1.2	6.8
Life expectancy (1990)	54	67	56
Access to improved water source (percentage, 1992-97)	13	72	64

Source: World Bank Database

economic performance over the past twelve years has been quite strong. Annual GDP growth has averaged above 8 percent since 1994 and more than 10 percent over the past three years, raising per capita incomes in current dollars to US\$450 in 2005 and over US\$500 (estimated) in 2006. The high rate of economic growth has contributed to a reduction in poverty, from an estimated 47 percent of the population in 1993/94 to 35

percent in 2004.³ Conservative fiscal and monetary management has reduced inflation from over 100 percent per annum in the early 1990s to single digits in the last eight years. The Government began a process of economic liberalization in the late 1980s which has been sustained. Economic data for 1998-2006 are summarized in Table 2.

Table 2 Economic Trend Indicators for Cambodia, 1998-2006

Indicator	1998	1999	2000	2001	2002	2003	2004	2005	2006*
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	20.1	21.5
Foreign Direct Investment/GDP	7.8	6.6	4.1	3.8	3.4	1.8	2.5	6.1	6.5
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	–
Curr. Acct. Bal/GDP(incl. transfers)	-5.6	-5.4	-3.8	-2.8	-2.6	-5.1	-3.5	-4.2	-2.0
Consumer Prices – annual increase	13.3	-0.5	-0.8	0.7	3.7	0.5	5.6	6.7	2.8

*Preliminary

Source: Cambodia National Institute of Statistics, National Accounts of Cambodia, June, 2007, World Bank Database, IMF Staff Reports

1.3 The international donor community has responded to Cambodia's overwhelming social and economic needs with substantial inflows of aid. During 1994-2005 Cambodia has received over US\$5 billion in official development assistance (ODA), or an average of US\$420 million per year, but rising to almost US\$490 million on average since 2000. Annual aid disbursements have been equivalent to 12 percent of GDP or US\$33 per capita, compared to an average for LICUS countries of US\$18.4 per capita.

1.4 While progress in recent years has been significant, economic growth to date has been narrowly based on tourism and garment manufacture for export, and related construction activity. Despite the observed reduction in poverty incidence, the rural areas, where 85 percent of the population and 90 percent of the poor are located, have lagged behind in development. Agricultural productivity is low and output varies greatly from year to year due to weather conditions.⁴ Most health indicators have improved significantly and more rapidly than in LICs on average, but still remain low. School enrollments have risen faster than the LIC average and narrowed the gap with other EAP countries. While significant improvements have been made in infrastructure, with strong support from the Bank and other donors, Cambodia still lags well behind its neighbors in availability of transport, electricity, water and sanitation services.

³ See World Bank, *Cambodia: Halving Poverty by 2015? Poverty Assessment 2006*.

⁴ The portion of arable land under irrigation was only 7 percent in 2002, the lowest ratio in all of Southeast Asia.

WORLD BANK OBJECTIVES AND PROGRAM

1.5 Cambodia became a member of the World Bank in 1970 but did not borrow until FY94. Following the UN intervention in the early 1990s and the election of a new government in 1993, the Bank moved rapidly to complete a review of the country's economic and social needs⁵ and prepare import-support and TA credits. Since then the Bank's program has evolved through four country assistance strategies (CASs) from the mid 1990s to 2005. The objectives of each CAS are shown in Box 1 below. Although the primary objectives of these CASs

Box 1 World Bank Country Assistance Strategies

Objectives of the First CAS

- Support macroeconomic stability and economic reforms. Support rural development and natural resource management. Support infrastructure rehabilitation.
- Improve the human resource base and reduce poverty.
- Strengthen institutional capacity, including implementation performance and aid coordination.

Objectives of the Second 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 Third 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 Fourth CAS

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

shifted slightly over time, the principal aims can be summarized under the headings: (i) maintain macroeconomic stability and continue economic policy reforms; (ii) support private sector development leading to sustainable growth and poverty reduction; (iii) improve delivery of social services, linked to attainment of the Millennium Development Goals (MDGs); (iv) support agricultural and rural development and sustainable natural resource management; (v) rehabilitate and expand physical infrastructure; and (vi) improve governance through reforms in public sector management. These CAS objectives have been broadly consistent with the stated priorities of the Cambodian

⁵ World Bank, *Cambodia: From Rehabilitation to Reconstruction*, Country Economic Memorandum, February 10, 1994. This report emphasized the priority need for TA for capacity building.

Government. The CAS objectives most closely linked to the three projects evaluated in this PPAR are (i) and (vi).

1.6 IDA commitments (credits and grants) in support of these objectives totaled US\$678 million over the period FY94-07, placing the Bank third among all donor agencies after Japan and the Asian Development Bank (ADB). Of this amount US\$133 million or 20 percent has been for non-project lending, including the SAC; US\$164 million (24 percent) for the social sectors, including the Demobilization and Reintegration Project; and US\$36.5 million, or 5.5 percent for TA projects. However, if all of the TA components in other IDA operations were included, the total share of TA in lending would be significantly higher.⁶

1.7 While two of the three projects evaluated in this PPAR had multiple objectives, all three included a focus on reforms in public administration and public financial management (PFM). In the TA project and the SAC the emphasis was on improving revenue administration, budgeting and expenditure management, and capacity-building in the civil service. The D&R project and the SAC had the common objective of reducing the fiscal burden of expenditures for defense and security in order to release resources to meet growing demand for social services and to support to rural development.

⁶ For all projects approved during FY95-00 TA represented 26 percent of project costs. World Bank, Country Review

2. Technical Assistance Project

BACKGROUND

2.1 In late 1992, the Government called on the Bank and the IMF for assistance in developing an economic reform program, indicating that its highest priority needs were for assistance in reducing the budget deficit by controlling current expenditures and increasing revenues, restructuring the civil service to improve the efficiency of public administration, reducing subsidies to state-owned enterprises (SOEs) through reforms and privatization, managing a rapidly expanding public investment program, and managing foreign debt. The Bank provided an Institutional Development Fund (IDF) grant for the rehabilitation of public finances to support development of budget and Treasury management systems and also for preparation of this TA project, and the IMF provided TA and financial support through a Systematic Transformation Facility. The TA project was prepared in parallel with IMF assistance in tax administration and monetary management and a UNDP project in administrative reform.

OBJECTIVES AND DESIGN

2.2 The primary objectives of the TA project were: (i) building capacity for public financial management (budget preparation and monitoring, macroeconomic analysis and forecasting, public investment programming, external debt management) in the Ministry of Economy and Finance (MEF), other ministries, provincial governments, and the Council for the Development of Cambodia (CDC),⁷ and establishment of a training institute – the Economic and Finance Institute (EFI);⁸ and (ii) legal and judicial reforms (LJR) to improve the environment for private sector development (PSD), including an assessment of legal training needs, establishment of a legal reform unit and legal advisory services for key government institutions, supporting regular publication of laws, regulations and judicial decisions in an Official Gazette, and support to the Council of Jurists. The project's objectives were consistent with the Government's priorities – to stabilize and liberalize the economy and stimulate private investment. The breakdown of project costs at appraisal called for 50 percent of project funds to be allocated to PFM and 18 percent to public administration and legal assistance, with the balance for training of all types and project management.

IMPLEMENTATION EXPERIENCE

2.3 The TA project was an "umbrella" project intended to cover a wide spectrum of capacity-building requirements, but with identification of specific components to be determined during implementation, given the Bank's limited knowledge at appraisal of Cambodia's highest priority needs.⁹ With this flexible approach the project took on many

⁷ Support for the CDC, which coordinates donor aid and private investment, was instead provided through a Japanese grant.

⁸ The Bank established a multi-year partnership between the EFI and the World Bank Institute, and the MEF guaranteed support for the EFI for three years following completion of the TA project.

⁹ Initially some consideration was given to preparing several separate TA projects for different sectors of the economy, but it was decided that this would have been even more challenging for the Bank and Government to supervise than a single omnibus operation.

diverse activities, both within and outside its primary objectives. Funding was subsequently provided for a legal adviser to assist the MEF in making preparations for Cambodia's membership in ASEAN; support to the National Bank of Cambodia to complete restructuring and modernizing of its accounting system; assistance to the CDC in promoting private foreign investment; consultants to design a strategy for privatization and liquidation of public enterprises; capacity-building in the water supply sector; a study of electricity sector regulation, pricing, finances, and operation and maintenance; a study of prospects for a stock exchange and for a securities commission; and a study on options for reducing the size of the civil service. A significant change in project scope occurred in 1996 when project funds were allocated to finance a study of the forestry sector which led to the Bank's Forest Concession Management and Control project.

2.4 During the first four years of implementation (1995-98) the project encountered numerous problems. The large Project Management Unit (PMU) set up by the Bank did not provide effective management despite the substantial resources allocated to project administration. While the employment of some qualified returning Cambodian expatriates as consultants was a rational step, consultant remuneration was highly variable and generally well above prevailing market rates and norms established by other donors. In some cases the quality of consultants' output was poor and the time taken to complete tasks was inordinately long; some advisers remained in place long after their original terms of reference had lapsed. There was excessive reliance on substitution-type TA with insufficient attention given to training of Cambodian counterparts. Training was not systematically evaluated, making it difficult to determine its effectiveness. Effectiveness was also reduced by weak inter-ministerial coordination and the absence of strong government ownership, outside the MEF, for many of the reforms introduced by the project. Finally, the project was adversely affected by the July 1997 political disturbances. Many Government officials, including the project manager and some of the Cambodian consultants on the project, left the country.

2.5 The breadth of project activities substantially increased the complexity of supervision for both the Bank and Government and the Bank was handicapped by the absence of staff in-country to oversee project implementation.¹⁰ While a few of the Bank's early Cambodia projects were managed by staff based in neighboring countries, the TA project Task Team Leader (TTL) was based in Bank Headquarters. From mid-1997 until May 1998 the TTL had other responsibilities which left little time to supervise the project, and in May 1998 the TTL transferred from the Region and was not replaced until April 1999. While all supervision reports during 1995-98 rated implementation progress *satisfactory*, subsequent review found these ratings unjustified.¹¹

¹⁰ The Bank had only a liaison officer in Cambodia in the mid-1990s and did not open a Resident Mission with a Resident Representative until 1999. A second international staff member was added in mid-2001 but the Bank did not begin building up the Phnom Penh office staff until 2003.

¹¹ The Bank's 2000 Country Review stated that "The World Bank is exposed to considerable reputational risk because of inadequate supervision [of the TA project], primarily before May 1999." Surprisingly, other Bank ratings, rated quality of supervision in the first phase of project implementation *satisfactory*, but rated "realism of project performance ratings", *marginal*.

2.6 A new TTL was appointed in April 1999. Following an April/May 1999 supervision mission the project was declared a problem project for the first time. The mission found some progress in building capacity for macroeconomic management in MEF, but uncovered all of the above-mentioned problems as well as others. Serious errors were found in some consultants' contracts, credit proceeds had been utilized for ineligible expenditures, the system of allowances paid to civil servants attending training courses and seminars was abused, the inventory of fixed assets was inadequate, and record-keeping was confused.¹² As a result of these findings the PMU was reorganized, MEF staff that were paid from the PMU budget but did not belong to the PMU were reassigned, some consultant contracts were declared ineligible for IDA financing, and the Bank called for immediate reimbursement of all ineligible expenditures. The project was restructured; components were reduced in number and regrouped under: (a) continued support for macroeconomic management and capacity-building in the budget and economic policy departments of the MEF;¹³ (b) public administration reform – a census and registration of civil servants and design of a military demobilization program; and (c) a scaled-back legal and judicial reform effort – support to the Ministry of Commerce for development of a commercial code and related regulatory activities.

2.7 Project supervision, including the role of the PMU, improved over the last two and one half years of project implementation. However, many of the problems could not be overcome and the project remained a problem project until mid-2000. Knowledge transfer from consultants to counterparts remained an issue. The census of civil servants was not completed prior to project closing. Analysis of options to reduce the size of the civil service through a voluntary departure program proved to be a highly sensitive issue. The Government did not respond to the consultant's recommendations, and no action was taken to implement the program. Further support for civil service reform in the second phase of the project was cancelled. In LJR a Legal Reform Unit was established in 1997 and a diagnostic study was completed and discussed in a workshop in 2000, but little action was taken. The consultant's report on a legal and judicial reform strategy was judged unsatisfactory by the Bank. There were continuing delays in completion of a Commercial Code and implementing regulations. Consultants were employed to advise the Ministry of Commerce on laws on commercial enterprises and on commercial contracts, but the work was not completed. At closure disbursements from the project account were US\$15.97 million out of the US\$17 million IDA credit. Given the shifting objectives over the life of the project, significant modifications were made in the allocation of project funds; PFM absorbed 40 percent rather than 50 percent of the total, public administration and LJR 25 percent, despite the lack of progress, and forestry reform, not included in the initial project design, used 11 percent of total expenditures.

¹² The Country Department requested an audit of the project's accounts by the Bank's Internal Audit Department but this was not done.

¹³ Support was added for introduction of a VAT; however the consultancy service provided was judged inadequate and the IMF picked up the work.

2.8 This project paralleled the efforts of many donors to rebuild Cambodia's severely weakened administrative capacity through massive infusions of TA.¹⁴ Assessments of donor-funded TA in Cambodia have found that results were far short of expectations.¹⁵ Most projects, including the Bank's, were donor-driven in identification and design with government having little or no role in selection of advisors, resulting in weak government ownership. The Government was also at fault in often asking consultants to complete assignments themselves rather than training local counterparts. All such projects were, and still are, adversely affected by the disincentive of low government salaries for all civil servants.¹⁶ To deal with this problem most donor agencies, including the Bank, set up PMUs instead of implementing projects through normal governmental structures, which undermined government's internal capacity and institutions rather than strengthening them.¹⁷

2.9 Following closure of the TA project the Bank continued, with some lags, to support most of the policy reforms and capacity-building needs addressed in that project. Ongoing support for public administration, civil service reform and LJR has been provided primarily through the FY02 Economic and Public Sector Capacity Building project (EPSCB) and related Trust Funds. The EPSCB project is a small (US\$5.5 million) LIL, a bridging operation on which work started before the TA project closed, intended to fill a gap in TA support until a more comprehensive project could be designed which would incorporate lessons from the TA project.¹⁸ It is focused primarily on broad public administration and governance reforms – drafting a medium-term strategy for civil service reform, training needs assessments, managerial training, and studies of the labor market, government functions, compensation policy, decentralization, and mechanisms to reduce staffing which were to be carried out under an Institutional Development Fund (IDF) grant. The EPSCBP has experienced numerous delays and has been rated *unsatisfactory* on implementation progress over much of its life. Only one of the five studies has been completed, results of the earlier civil service census have not been shared with the Bank, and the Government has been resistant to the Bank's proposals for compensation reform. In addition to the EPSCB the Bank proposed public sector reform and LJR projects in the FY00 CAS but these did not materialize. In FY03 a trust fund grant was proposed for a legal/judicial needs assessment but this was not

¹⁴ An estimated 40 percent of donor aid to Cambodia has been allocated to TA, compared with the norm of 15-20 percent for aid recipients. See, Council for the Development of Cambodia, *Development Cooperation Report*, 2004.

¹⁵ See Cambodia Development Resource Institute (CDRI), "Technical Assistance and Capacity Development in an Aid-Dependent Economy: the Experience of Cambodia," Working Paper 15, August 2000.

¹⁶ Average civil service salaries were below US\$20 per month in the late 1990s, and have only been increased to US\$45 on average in 2006.

¹⁷ The CDRI study concluded, "The most urgent single priority is to abolish project-related salary supplementation and ensure that key government officials are paid a living wage for full-time commitment to their work. The concept of PMUs should be re-examined and alternative ways found of managing assistance through normal government structures. One suggestion worth considering is that each ministry should have only one unit for managing all of its donor-assisted projects."

¹⁸ Almost US\$2 million from the credit was allocated to construction of a Global Development Learning Network which is not discussed in this report. In 2005 the project was restructured with US\$1 million reallocated from the GDLN to training.

implemented, nor was a multi-donor SWAp operation for legal/judicial reform. The Bank does not provide support for any specific components of LJR at the present time. With respect to broad civil service reforms and LJR the Bank and Government have not reached a mutual understanding of the issues or the way forward.

2.10 Following completion of the TA project the Bank temporarily reduced its emphasis on PFM, except for limited TA to MEF in budget management and procurement reform under the EPSCB and support for expenditure reorientation under the SAC and the Demobilization project. This was due in part to the Government's lack of progress in implementing the recommendations of the Bank's 1999 PER. The Bank did not participate in the Technical Cooperation Assistance Program on Strengthening Economic and Financial Management (TCAP) undertaken during 2001-2003 by the IMF, UNDP and a few bilateral donors.¹⁹ The limited progress in almost ten years of donor support for reforms in PFM prior to 2005 was reflected in World Bank/IMF assessments of Cambodia's PFM system against benchmarks for HIPC countries: In 2003 Cambodia met only three out of fifteen benchmarks, versus an average of eight of fifteen for 24 HIPC countries and in 2004 Cambodia met only five of sixteen benchmarks versus an average of 6-7 for 26 HIPC countries.

2.11 However, the situation in PFM has improved significantly in the past two to three years, due in large part to action by the Bank. In 2003 the Bank collaborated with the ADB and the MEF to produce an Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER). This led to a Government decision to undertake a Public Financial Management Reform Program (PFMRP) based on the recommendations of the IFAPER. Launched in December 2004, the program is to be carried out in four stages ("platforms") over ten years. Bank support is being provided through the FY06 Public Financial Management and Accountability Project (PFMAP), as well as Trust Fund and PHRD grants for project preparation, for strengthening the National Audit Authority (NAA) and for improving the management of public procurement. These reforms are also supported by a multi-donor task force and a multi-donor trust fund managed by the Bank. This program is now producing positive results across a broad spectrum of PFM activities, in contrast with the slow and limited progress in the past. The fundamental difference in this new approach is that donors are supporting the Government's program, not one designed and imposed by donors; the Government has defined the objectives and pace of reforms and has a voice in the choice of advisors.

OUTCOME/RATINGS

2.12 The TA project and subsequent Bank efforts have resulted in slow but steady progress in strengthening the MEF. A national budget – non-existent before the project – was put in place, with guidelines and procedures. Computers funded by the project have facilitated the work of the budget department. The MEF Economic Unit established an

¹⁹ At completion this program was judged largely unsuccessful by the IMF and UNDP due primarily to uncoordinated donor interventions, lack of government ownership, and failure to address the problem of low civil service remuneration. 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.

economic data base and prepared the macroeconomic framework used in the PFP. The Economic Advisory Team prepared statements of economic and financial policies for CG meetings, and was involved in SAC and PRSP preparation. The External Debt Unit developed a satisfactory debt recording and reporting service in compliance with World Bank requirements and it remains adequately staffed and operational. The project also funded legal advice on the requirements for Cambodia's accession to ASEAN and the WTO. While the EFI still lacks adequate staff and depends on donor support, it continues to provide needed training to MEF staff, including an important training function in support of the PFMRP. On revenue administration, while there were some problems with consultants, tax experts funded by the project assisted the MEF with VAT implementation and administration, including drafting implementing regulations for the Law on Taxation, and training seminars on the VAT.²⁰ Although there was limited progress in tax administration under the TA project, some improvement is apparently now occurring under the PFMRP. The Bank has made modest contributions to customs administration and advice on trade policy to the Ministry of Commerce.

2.13 In the other broad area of support under the TA project – public administration and legal/judicial reforms to create a conducive environment for PSD – the outcome has been *unsatisfactory*. The project provided support for the pilot demobilization program which was successfully completed, and financed initiation of the first civil service census, which was completed after long delays. However, there was no progress in civil service reorganization and little effective progress in civil service compensation until the introduction of a limited Merit-Based Pay Initiative developed by the Bank under the PFMRP. In LJR the only actions taken to date have been procedural and have not brought about fundamental reforms in the judicial system. Given this very mixed record on progress against the objectives of the TA project, the overall outcome is judged *unsatisfactory*, consistent with the findings of the ICR.

2.14 *Relevance*. The project was highly relevant in that Cambodia desperately needed TA in almost all areas of governmental activity. It was linked to the country's needs identified in the Bank's first economic report, and with the country strategy set out in the first CAS. The project's broad objectives were consistent with government priorities for liberalizing the economy and opening it to foreign investment. What was not factored into the Bank's thinking was that a multitude of donors were already providing, or preparing to provide, TA as well. In light of this the Bank could have designed a more tightly structured project focused on the Bank's areas of comparative advantage such as macroeconomic management, PFM, public investment and trade policy. While the initial goal of the project was to begin a process of long-term capacity-building, this longer-run focus was diluted as the Bank responded increasingly to requests from the Government for short-term assistance to deal with immediate problems. As the project took on an increasing number of these unrelated TA activities its relevance was weakened.

2.15 *Efficacy*. It is understandable, given the Bank's limited knowledge of Cambodia at appraisal, that project objectives could only be loosely defined in the credit document –

²⁰ The Value Added Tax (VAT) was introduced in January 1999. The TA project funded experts to assist in the implementation of the VAT but there were irregularities in contract execution; as a result the contract was cancelled and the IMF took over responsibility.

"assist in the transition to a market economy; help to implement the Government's economic reform program, strengthen the economic management team, and help put in place the foundations for an environment conducive to private sector development." Even the definition of specific project activities could only be presented in very general terms – "strengthen budget preparation capacity of MEF, strengthen budget monitoring and control mechanisms, define a series of options for reduction of public sector employment by various departure schemes." However, this vagueness, and the absence of any benchmarks for measuring progress in any of the project components, makes it possible to judge only in subjective terms the extent to which project objectives were achieved. In addition, the achievement of project objectives was adversely affected by several other factors. The broad range of components covered by the project made it difficult for the Bank to focus on progress in any single area. The complexity of the project worked against efforts to monitor the performance of the consultants delivering training and advisory services, and, as was stated earlier, the performance of several consultants was inadequate, particularly in counterpart training. The Bank's limited supervision capacity contributed to this deficiency. Also, although at the time of project preparation the Bank felt that the Government's commitment to the reform program was strong and broadly shared, this proved not to be the case. The Bank over-estimated governmental commitment in several sensitive areas, including civil service reform, LJR, developing a reliable base-line for military personnel, and the support for PFM reforms outside the MEF. Also, project effectiveness was adversely affected by the political climate in Cambodia leading up to the political disturbances in 1997 and the election in 1998; the 1997 coup caused the departure from the country of key project staff and consultants, leading to a virtual halt in progress for almost two years.

2.16 *Risk to Development Outcome.* The ICR rated the project's sustainability *unlikely* primarily on the grounds that the capacity-building efforts supported by the project were still needed but could not be maintained without continued donor funding. The ICR anticipated that some future capacity-building needs might be met by the Bank through a series of proposed operations in LJR, civil service reform and training, of which only the EPSCB materialized. The PPAR, five years after the ICR, judges the risk to development outcome *moderate*. The constraint to capacity-building in Cambodia is judged not to be limited donor assistance, which has continued to increase, but rather government's commitment to sustain reform efforts. This commitment now appears to be relatively strong in PFM, but negligible in civil service reform and LJR.

2.17 *Bank and Borrower performance.* In project preparation the Bank did not adequately assess government commitment or capacity, and in supervision in the first phase of implementation the Bank did not address problems in a timely manner. Supervision ratings did not reflect the true situation and the project languished virtually unsupervised for almost two years. Despite the improvement in project supervision following the mid-term review in 1999, the overall rating for Bank performance is *unsatisfactory*. The ICR rated borrower performance *unsatisfactory* because of long delays in implementation, problems in coordination between ministries and weak ownership outside the MEF. The PPAR accepts these valid criticisms of the Government's performance during implementation of the TA project and concurs in the rating of *unsatisfactory*.

3. Structural Adjustment Credit

OBJECTIVES AND DESIGN

3.1 The SAC was in many respects an "umbrella" project comparable to the TA project. The broad objectives of the SAC were to: i) improve public resource management, including resource mobilization²¹ and forestry management; ii) enhance public sector management – expenditure reorientation and preparatory steps for military demobilization and administrative reform; and iii) assist government in formulating and implementing a strategy for enhancing governance and fighting corruption. Under these objectives the specific SAC components were:

- public resource management: revenue mobilization – improve administration of the Law on Taxation (with support from FIAS), reduce exemptions in customs and in the VAT, re-introduce pre-shipment inspection of imports,²² reduce fiscal exemptions in the Law on Investment (LOI), and in forestry management – support development of a new forestry law, improved concession management, reduction in illegal logging, and forest crime monitoring.²³
- public expenditures – improve the budget process, strengthen management of public investment, improve performance of spending units, reorient expenditures from defense and security to the social sectors and rural development, and adopt a Medium Term Economic Framework (MTEF) for budget forecasting on a pilot basis in the Ministry of Health. The key problems here were that budget allocations were not honored, coordination between the MEF and the Ministry of Planning on the investment budget was weak, and ministries such as Health and Education did not receive their budgeted allocations while budget overruns often occurred in defense, security and the Office of the Prime Minister.²⁴ Also, budget releases were not spread evenly over the year but were usually concentrated in the final months.
- governance and anti-corruption – complete a census of the civil service (which had not been completed under the TA project) and a functional review of all ministries, extend the computerized payroll system to all ministries, prepare an action plan for rationalizing the size and functions of the civil service; registration of all military personnel, formulation and implementation of a pilot demobilization scheme, and development of a full demobilization program – this activity would contribute to expenditure reorientation under objective (ii); carry out surveys of public perceptions of corruption, prepare a national governance action plan, disseminate the plan and begin its implementation. Also, under this

²¹ Foregone public revenues were estimated at 5-6 percent of GDP in 1996-1997, or more than half the amount actually collected.

²² A PSI firm had been contracted in 1995 but the contract was later cancelled. A Board condition of the SAC was tendering for a new PSI contract.

²³ The annual revenue loss from illegal logging was estimated at US\$60 million in 1997 or 2 percent of GDP.

²⁴ In 1994-98 defense expenditures varied between 3.3 percent and 5 percent of GDP, close to half of total revenue.

heading the Government was committed to modernize the Commercial Code covering business organizations, trademarks, commercial arbitration, commercial agency, bankruptcy, commercial contracts, product liability, and to ratify the convention on arbitration.

3.2 While these individual objectives were highly relevant, the SAC lacked a clear central focus. Its main purpose seemed to be to add conditionality to achieve outcomes that were not being realized under ongoing investment operations.²⁵ Some concerns were raised by Regional Management about some of the issues covered by the SAC – whether the Bank should proceed with demobilization given the controversy over the baseline data, and whether the SAC was the appropriate vehicle for civil service reform.

IMPLEMENTATION EXPERIENCE

3.3 The Bank moved expeditiously to prepare the SAC, with appraisal in December 1999, Board in February 2000, and effectiveness in March. The SAC was designed as a three-tranche operation with 50 performance indicators, eleven conditions for Board presentation, and 13 tranche release conditions. While Bank supervision was satisfactory, with the same TTL throughout, headquarters supervision of so many components was difficult and would have benefited from a stronger Bank presence in the country. Supervision ratings were realistic and did not hide ongoing problems. Implementation progress was rated unsatisfactory in August 2002 and May-November 2003, due to lack of progress in forestry management and amending the LOI. There was sufficient management oversight which benefited from the move of the Country Director to the field in 2001. The Bank worked with the MEF on most SAC issues but other branches of government were not necessarily committed to the reforms agreed with the MEF, and the MEF did not have sufficient leverage to compel compliance. The SAC would have benefited from an inter-ministerial steering group and a secretariat with representatives from affected ministries and agencies to oversee day-to-day implementation. There was an Inter-Ministerial High-Level Committee for Economic and Financial Policies chaired by the MEF and composed of several Ministers and Vice-Ministers, but this committee did not focus attention on the SAC.

3.4 Completion of the SAC program required almost four years with the closing date extended five times. Delays occurred in adopting the revised forest law and reforming forestry management (requiring 33 months longer than originally anticipated), rationalizing fiscal incentives for investment, improving tax and customs administration, implementing a governance action plan, formulating a civil service reform strategy, moving toward a full demobilization program, and producing a new Commercial Code. In addition, waivers were required for two second tranche conditions. One waiver related to the length of the tax holiday granted under the revised Law on Investment; the SAC condition was to limit the tax holiday period to three years while the amended law provides for three years plus a possible extension after evaluation by government. The other related to the targets for reorientation of public expenditures which were not

²⁵ The Bank was also being urged by the IMF to add its weight to the objectives of the Fund's program. An IMF PRGF was approved in October 1999. The IMF program focused on fiscal and financial sector reforms. The program remained on track and the final installment was released in February 2003.

attained during the SAC period because of exceptional expenditures for flood relief following devastating floods in 2000. The SAC closed on 12/31/03 having fully disbursed the full credit of US\$30 million (US\$10 million in the first tranche, US\$5 million in the floating tranche and US\$15 million in the second tranche.)

3.5 The Bank's intention had been that the SAC would be followed by one or more additional quick-disbursing operations, suggested in the 2000 CAS, or by a series of PRSO budget support operations proposed in the FY05 CAS. Preparatory work actually began in 2004; however, due to concerns with lack of progress in governance and corruption problems uncovered in the IDA portfolio, as well as the need to build a strong program in PFM, the Bank did not present the first of these operations for Board approval until July 2007.

OUTCOME/RATINGS

3.6 The SAC's 50 performance indicators had a 1999 baseline. Those which could be evaluated quantitatively were: raise the GDP growth rate to 6.0 percent in 2002, raise GDP per capita to US\$360 in 2002, reduce inflation from 5 percent in 1999 to 4 percent in 2002, raise domestic revenue from 11.2 percent of GDP to 13.2 percent in 2002, raise expenditures for health, education, agriculture and rural development from 23 percent of recurrent expenditures to 32 percent in 2002 and from 2.1 percent of GDP to 3.2 percent in 2002, reduce poverty from 36 percent in 1997 to 27 percent., attain an export growth rate of 8 percent, and restrict the Balance of Payments current account deficit to 12-13 percent of GDP. Most of these targets, including the GDP growth rate, inflation, export growth, current account deficit and public expenditure reorientation, were met and continue to be met or exceeded. The GDP per capita target for 2002 was not met but continued growth has now raised incomes well beyond this level.²⁶ The poverty reduction target was not met but the benchmark was based on flawed data.²⁷

3.7 Revenue performance did not improve as a share of GDP as anticipated in the SAC (see Table 3). While revenue policy has been primarily an IMF responsibility, the

Table 3 Government Revenue and Expenditure as a Share of GDP 1998-2006

Indicator	1998	1999	2000	2001	2002	2003	2004	2005	2006*
Govt. Revenue/GDP	8.9	11.5	10.2	10.0	10.5	9.7	10.4	10.3	11.5
Tax Revenue/GDP	6.4	8.3	7.5	7.2	7.4	6.7	7.8	7.7	8.3
Non-tax Revenue/GDP	2.3	3.1	2.6	2.7	3.0	2.9	2.6	2.4	3.1
Govt. Expenditure/GDP	13.8	14.7	15.0	15.2	16.8	16.7	14.9	13.7	13.5
Overall balance	-6.0	-4.4	-4.8	-5.2	-6.3	-6.0	-4.6	-3.4	-2.0
Overall balance including grants	-2.7	-1.4	-2.1	-2.6	-3.6	-3.7	-3.0	-1.3	-1.3

* Preliminary

Source: Cambodia National Institute of Statistics, World Bank Database, IMF Staff Reports.

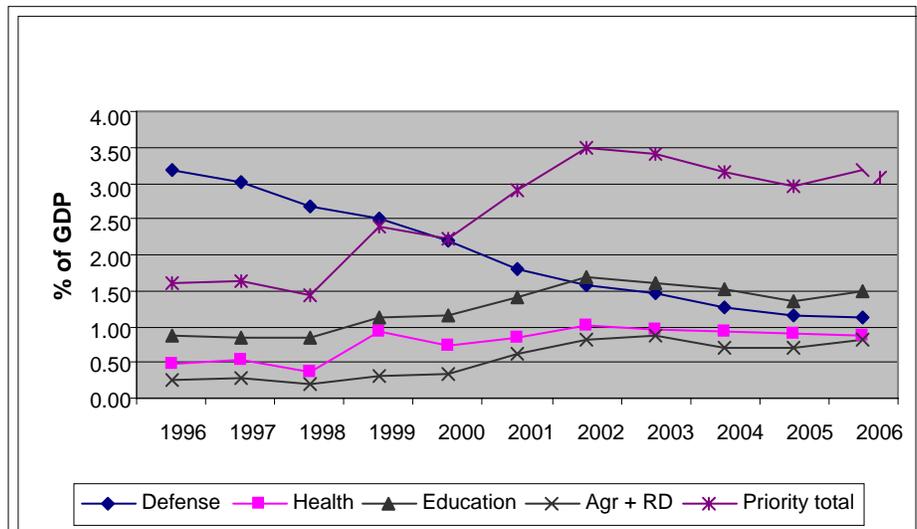
²⁶ The SAC GDP per capita target appears completely unrealistic, requiring an annual growth rate of GDP of 10 percent, which was inconsistent with the GDP growth target of 6 percent. In fact, the average GDP growth rate during the SAC period was 7 percent.

²⁷ According to recent more reliable work, poverty incidence has decreased from 47 percent in 1994 to 35 percent in 2004. See World Bank, *Cambodia: Halving Poverty by 2015? Poverty Assessment 2006*. February 2006.

Bank supported the Fund's efforts with fiscal revenue targets and limited customs reforms in the SAC, and some support for the VAT under the TA project. While the SAC target was to increase total revenues to 13.2 percent of GDP in 2002, revenues remained at 10.0-10.5 percent of GDP before rising modestly to 11.5 percent in 2006. Some revenue enhancing measures have been implemented, including improvements in tax administration, a limited reduction in the fiscal incentives in the LOI, reintroduction of PSI, and an increase in the royalty on timber (a moot issue so long as there is no resolution of concession arrangements and a ban on log exports), but these had little impact on overall revenue performance until 2006. Thus, despite donor inflows equal to almost 10 percent of GDP, total public spending has been tightly constrained – a major reason why the Government has been unable to raise civil service compensation.

3.8 The reorientation of public expenditures from defense and security to health, education and rural development has been a major success story, as shown in Figure 1 below. Education spending as a share of GDP rose significantly during a period of rapid GDP growth, increasing more than 50 percent in real per-capita terms. The share of public education spending financed domestically rose from 54 percent in the mid-1990s to 80 percent in the mid-2000s, reducing reliance on donor funding. In health total spending more than doubled in real per-capita terms between 1996-98 and 2004-06, while the share of health expenditures in the domestic budget increased by over 90 percent.²⁸ However, cash management problems which led to delayed releases of budgeted funds continued, thereby diluting the impact of the increased allocations.

Figure 1 Reorientation of Domestic Public Spending (as % of GDP)



Source: IFAPER, 2003 and World Bank Database 2007.

²⁸ The pro-poor focus of public spending on health and education, including the emphasis on basic education and health care, also increased significantly, and health and education indicators have shown marked improvement. See World Bank, Cambodia Sharing Growth: Equity and Development in Cambodia, Report No. 39809, June 4, 2007.

3.9 Progress on expenditure management under the SAC was limited. The fundamental objectives were essentially non-quantitative and thus difficult to monitor – to "ensure the integrity of the budget process by establishing a budgetary strategy and enforcement center at the MEF, strengthen the public investment management system, and improve the performance of spending units." A pilot MTEF was introduced in the Ministry of Health, but use of this budget forecasting tool has not yet been expanded to the rest of the government. Useful expenditure tracking studies were carried out in education and health but the Government has not established a plan for continuing such studies. A budget strategy and enforcement center was set up in the MEF to streamline budget processes and facilitate cash disbursements to key social and economic sectors, but it was unsuccessful and was subsequently disbanded. There was little progress in this area until work began on the PFMRP in 2005.

3.10 In public administration reform the pilot demobilization program for 1,500 soldiers was completed in July 2000 and a plan for demobilizing a further 30,000 soldiers was prepared. (See next chapter for details.) IDA led the efforts to secure funds for the pilot program from six donors and supervised implementation of the pilot scheme. At the same time, almost no progress was achieved in civil service reform beyond computerization of the payroll for the central administration. As indicated earlier, the Bank considered designing a separate public sector reform credit and a PHRD grant of US\$480,000 was approved in October 2002 for preparation of this credit, but the plan was dropped and the grant was reallocated in December 2003 to support PRSC preparation. On this subject the Bank admitted in mid-2004 that the preparatory activities toward administrative reform were still in the initial stages.

3.11 On governance and anti-corruption under the SAC the Bank supported an NGO study on governance and corruption problems in the public sector leading to preparation by the Government of a draft Governance Action Plan (GAP) which was presented at the May 2000 CG meeting.²⁹ The GAP was finalized and approved by the Council of Ministers in 2001 and disseminated but little has been done to make it effective. No fully autonomous anti-corruption body exists. In 1999 the Government had established a Ministry of National Assembly-Senate Relations and Investigations (MONASRI) to investigate allegations of corruption and an anti-corruption unit in the Council of Ministers. However, neither of these bodies is independent of the executive branch of government and both lack capacity and resources. The Government began working on a draft anti-corruption law in 1995, but the law has not yet been adopted. No 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. Corruption remains the highest-ranked concern of Cambodian citizens. With respect to the broad issues of governance and corruption the Bank's efforts under the SAC, as well as in other initiatives during this period, were

²⁹ World Bank, *Cambodia Governance and Corruption Diagnostic: Evidence from Citizen, Enterprise and Public Official Surveys*, May 10, 2000. Another study on governance was carried out by CDRI funded by the ADB. Several other NGO reports on this topic have been issued in recent years, including Cambodia Center for Social Development, *National Integrity Systems Country Report*, 2006, and *Corruption and Cambodian Household*, 2005, and Economic Institute of Cambodia, *Cambodia Competitiveness Report 2005-2006*, September 2005.

unsuccessful. As a result the Bank has taken a much more narrowly focused approach to governance reforms under the most recent (FY05) CAS.

3.12 Clearly the outcomes for the reforms supported by the SAC were mixed. This is perhaps not surprising given that such a wide range of issues was included in the program. Taking into account the trends since the SAC closed at the end of 2003, the results vary from successful/showing definite progress (expenditure reorientation, PFM), very limited progress (trade reforms, PSI, LOI), little progress until recently (fiscal revenue), initial progress followed by collapse (military demobilization), procedural/legislative reforms but no substantive results (forestry), to no discernable movement (public administration reforms, governance and anti-corruption). At the same time, the SAC supported macroeconomic management and the Government has continued to adhere to responsible fiscal and monetary policies which have contributed to strong economic growth and poverty reduction. Weighing all of these contradictory results the PPAR evaluates the overall outcome as *moderately satisfactory*, consistent with the finding of the ICR and ICR Review.

3.13 *Relevance.* The issues taken up in the SAC were relevant. Most of these were in areas where the Bank had already been working to bring about reforms – PFM, revenue mobilization (including the LOI and the VAT), customs reforms, forestry, civil service reform, governance and anti-corruption. In many of these areas the Bank was frustrated with the lack of progress and sought to apply the added leverage of quick-disbursing funds to achieve a break-through. In retrospect it is questionable whether packaging all of these diverse issues in a single adjustment operation was the most effective approach to follow. On the one hand the task of supervision was made more difficult for the Bank due to the wide range of ministries and government agencies involved. This problem was compounded by the Bank's lack of field presence during SAC implementation. On the Government side there was a serious problem of lack of coordination. All of the SAC issues were relevant to some degree to the MEF, but that ministry was unable to compel timely compliance with SAC conditions from other branches of the government.

3.14 *Efficacy.* The achievement of project objectives has already been described above. This can be summarized by stating that in those areas where the Bank was seeing progress before the SAC there continued to be progress during implementation of the SAC and beyond. In those areas where progress was not being realized little was accomplished by the SAC, and in many cases this remains true up to the present. The overall outcome for the objectives incorporated in the SAC was judged to be moderate success, but the real question is whether the SAC contributed significantly to this outcome. This could be re-interpreted as asking whether the SAC shifted the trend line of reform actions upward. Since the pace of reforms in most of the areas covered by the SAC was not substantially altered by the SAC, the conclusion drawn is that the SAC was only marginally relevant for the outcomes under the Bank's agenda during this period. (The one SAC area in which progress is now accelerating is PFM, but the focus on PFM in the SAC was peripheral and vaguely defined.) This argument is reinforced by the fact that, following the SAC, there was no further Bank adjustment lending in Cambodia for almost four years, with no observable impact on the economy or on the pace of reforms.

3.15 *Risk to Development Outcome.* The ICR evaluated sustainability as *moderately likely* but the IEG review judged it *non-evaluable* primarily because of unclear government commitment to some of the SAC reforms. As was the case for outcomes, the risks to outcomes are highly varied. The PPAR assesses the risk to be *low* for PFM, including expenditure reorientation, and *low to moderate* for revenue mobilization, based on very recent improved revenue performance, but *significant* for forestry reform, public administration reforms, governance, and demobilization. The overall risk to development outcome is judged to be *moderate*.

3.16 *Bank and Borrower performance.* Bank performance in preparation and supervision of the SAC was satisfactory. The same TTL supervised the project throughout implementation and management at all levels provided careful oversight. The Bank remained engaged with all of the units of government involved with SAC conditions and remained firmly committed to holding government to the conditions negotiated in the SAC. (In this regard, the deviation from two of the second tranche conditions was minor and the Bank was justified in requesting waivers in this case.) However, as has been stated repeatedly in this PPAR, Bank supervision of this complex operation suffered from lack of relevant personnel on the ground. This undoubtedly contributed to the extraordinarily long delay in completion of the SAC. Nevertheless, Bank performance is judged *satisfactory*. The Government participated in the design and preparation of the SAC and there appeared to be strong commitment from senior officials in the MEF to the development objectives of the credit. The performance of the MEF during implementation was satisfactory. However, the country's weak institutional capacity and apparent absence of ownership in other branches of government and in the lower ranks of the civil service meant that implementation took much longer than originally planned and was less complete than hoped. In the absence of a formal high-level inter-ministerial coordinating body, neither the MEF nor the PMU were able to compel compliance with SAC conditions in a timely manner. These problems were primarily responsible for the lengthy delays in reaching SAC targets. Overall borrower performance is rated *moderately satisfactory*.

4. Demobilization and Reintegration Project

BACKGROUND

4.1 One legacy of Cambodia's decades of civil conflict was the existence into the 1990s of several armed forces – remnants of the Khmer Rouge, a national army with divided political allegiances, local militias and private armies. According to the United Nations, 140,000 soldiers from the four factions were absorbed into the national army in the early 1990s, following which 36,000 were officially demobilized. During the 1990s many more former combatants died or returned to civilian life, but all the factions continued recruiting, swelling the numbers in uniform to an alleged 150,000-160,000 by 1999.³⁰ However, it was commonly believed that these numbers were greatly inflated by local commanders in order to receive salary allotments which could compensate for lack of funding for food and other supplies, or for personal gain. It was rumored that villagers who had never been combatants were outfitted, photographed and registered to justify the reported numbers. The donor community, including the Bank, was pressing the Government to carry out a demobilization program in order to reduce the excessive burden of unwarranted military expenditures and shift budget resources to meet social needs. A census was finally carried out during 1999, assisted by the Bank's Post-Conflict Unit and supported by an IDA post-conflict grant, in which 15,551 "ghost" soldiers and 160,000 "ghost" dependants were allegedly removed from the rolls, leaving a reported total force of 131,227. However, even these census results were widely discredited.³¹ The Post-Conflict Unit's defense of the census figures undermined the Bank's credibility.³²

4.2 Despite widespread doubts about the validity of the census numbers, a pilot demobilization scheme for 1,500 soldiers was developed with support from the Bank and successfully carried out in 2000. The Bank did not participate in funding this US\$2.25 million pilot project but managed donor trust funds provided by Canada, the Netherlands and Sweden. The pilot project was well managed and developed effective implementation arrangements. However the pilot operation failed to put to rest doubts about a number of key project parameters – the reliability of the figures on which demobilization plans were based, including the problem of "ghost" soldiers and inflation of the military payroll, and whether the right soldiers – the old, sick and disabled – were on the list. Nevertheless, based on the positive evaluation of the pilot program, a full-scale demobilization plan for

³⁰ The Government prepared a further demobilization plan, the Cambodian Veterans' Assistance Program, 1995-96, which was supported by the Bank's TA project and AusAid (Australia), but it was not implemented because of the political disturbances in 1997.

³¹ One published account claimed that there had never been more than 40,000 uniformed combatants. "The Cambodian government has continued to claim that it has a force of at least 130,000 soldiers, yet its own commanders admitted that the numbers are probably no greater than 40,000." Sophie Richardson and Peter Sainsbury, "Security Sector Reform in Cambodia," in Schnabel, Albrecht, *Security Sector Reform and Post-Conflict Peacebuilding*, United Nations University, 2005.

³² The Bank's Post-Conflict Unit failed to heed the many warnings about the inflated numbers in the census, including warnings from the unit's own consultant on the ground. In addition, the unit was proposing a model for demobilization from its African experience which the Cambodian authorities felt did not fit their situation. As a result of these shortcomings, responsibility for the subsequent Demobilization and Reintegration Project was transferred to the Country Department.

30,000 soldiers was prepared, with 15,000 to be demobilized in 2001 and 15,000 in 2002.³³ This program was supported by the US\$42 million Demobilization and Reintegration (D&R) project financed by the Cambodian Government, Japan, the Netherlands, Sweden, WFP, and the World Bank, with the Bank's US\$18.4 million and the Japanese contribution of US\$10 million accounting for two-thirds of the funding. The Bank's management was reluctant to participate in the operation, and the program was rated as high-risk in the PAD,³⁴ but the other donors insisted that the Bank take the lead.

OBJECTIVES

4.3 The objectives of the D&R project were to: (i) assist the Government in demobilizing 30,000 soldiers and supporting their successful re-entry into civilian life; and (ii) contribute to a reallocation of budgetary resources to the social sectors and rural development. The components were: (i) preparation of a computerized personnel database, estimated cost US\$0.2 million; (ii) demobilization – assembly and disarmament, discharge, a transitional safety net of US\$240 for each soldier, and transport to home village, estimated cost US\$ 13.2 million; (iii) reintegration – health screening, counseling, assistance package of food, household supplies, and income-generating assets – a generator, water pump or sewing machine plus a motorbike,³⁵ and vocational training, estimated cost US\$22.8 million; (iv) project management and technical assistance, estimated cost US\$3.9 million. Bank participation included funding for the data base, TA and project management, and for the income-generating assets. The performance indicators were to be (a) the number of soldiers removed from the military records and from the payroll data base; (b) the percentage of demobilized soldiers able to maintain or improve their standard of living; and (c) the increase in public spending on the social sectors and rural development to follow from the reductions in spending on defense and security. This was not a quantitative target in the D&R project but was a condition in the SAC, as mentioned earlier.

IMPLEMENTATION EXPERIENCE

4.4 In 2000, because of Regional management's dissatisfaction with the performance of the Post-Conflict Unit, management of project preparation was taken over by the Country Department (CD) and, within the CD, by the over-stretched Resident Representative in Phnom Penh.³⁶ The D&R project was approved by the Bank's Board in August 2001. Project effectiveness was expected in September 2001 but did not occur until July 1, 2002, primarily due to delay in selection of consultants to assist the Council for the Demobilization of the Armed Forces (CDAF) in implementing the program. Nevertheless, the first phase demobilization of 15,000 soldiers was completed in October 2001,³⁷

³³ The Government declared in its Defense White Paper of February 2001 that a total of 55,000 soldiers would be demobilized over a five-year period.

³⁴ However, the risk analysis focused on technical problems rather than the political risks associated with the alleged census over-counting.

³⁵ Soldiers identified land, cows and cash as their primary needs for establishing an economic base in civilian life, but these were determined to be ineligible for funding by IDA.

³⁶ In mid-2001 there were only two international staff assigned to the Cambodia Resident Mission.

³⁷ The demobilization included 15,000 regular soldiers and 1,000 reserves. The Ministry of Defense reported a drop in the total payroll from 130,695 in September 2001 to 112,359 in September 2002, a reduction of 18,336.

although delivery of the income-generating assets funded by the Bank was delayed for a year.

4.5 Recognizing that the Resident Representative could not effectively supervise this project alongside his other responsibilities, project management was transferred in mid-2002 to the EAP Social Development unit. Project supervision was intensified under a new task team which was well aware of the serious allegations surrounding the program. A procurement problem arose soon after the project was declared effective. Complaints were received from losing bidders on the motorbike contract that the winning bidder should have been disqualified. The Bank conveyed these allegations to the CDAF but received assurances that the winning bidder was fully qualified. Accordingly, the Bank issued a letter of no-objection to the motorbike contract on October 24, 2002. However, the complaints continued and Regional Management called on the Bank's Department of Institutional Integrity (INT) to investigate. INT issued its report in March 2003 leading the World Bank to declare misprocurement and to issue an informal suspension of disbursements on June 26, 2003. The Government reacted by informing the Bank that it no longer wanted to continue the relationship with the Bank on demobilization. Over the following fifteen months the misprocurement issue was not resolved because, following the July 2003 national election a new coalition government was not formed until August 2004. Finally, in September 2004, the Bank formally suspended the project, issued sanctions against suppliers, government officials and the consulting firm advising the Government on the demobilization program, and demanded repayment of US\$2.8 million disbursed by IDA against the motorbike contract. The Sanctions Committee's debarment decisions were based on a preponderance of the evidence that the respondents engaged in fraudulent practices during the procurement and/or implementation process of the contract.³⁸ The Bank did not receive reimbursement until January 2005, after the project had been closed, and after the Bank threatened to suspend the entire lending program unless the funds were repaid. The Government took strong exception to the Bank's actions (see Box 2 below and the Government's comments in Annex B).

Box 2. Government Reaction to the Bank's Actions in the Demobilization Project

The Government protested that the Bank did not furnish proof of its findings, although the Bank had provided the Government with a detailed report from INT which the Government chose not to review. The Government also argued that, if fraud had occurred, the only liable party should be the consulting firm employed to assist in the demobilization program, which, in the Government's view, had full authority to act on the Government's behalf. The Government stated that, "The Royal Government of Cambodia neither accepted nor rejected the decision to declare misprocurement and debar firms and people. The World Bank conducted a unilateral investigation and the RGC was not privy to its methodology, factual findings, or conclusions. The RGC was therefore in no position to make a judgment about the World Bank's decisions or actions. On the role of consultants, the Development Credit Agreement states in Schedule 4, Section I (4) 'The borrower shall appoint, in accordance with the provisions of Section II of Schedule 3 to this agreement and terms and conditions satisfactory to the Association, and thereafter maintain at all times during the implementation of the Project a procurement and financial management firm

Continued ⇒⇒⇒

³⁸ See "Cambodia: World Bank Sanctions Thales Engineering and Consulting S.A. and Others in Demobilization Project", World Bank press release, November 22, 2004.

Box 1 (continued)

which shall be responsible for managing on behalf of the borrower, procurement and financial management matters under the project . . .' In the consultant's contract it is stated, 'The Government is committed to maintain integrity and transparency of the activities financed by the Program. To achieve these objectives, the General Secretariat proposes to contract out the procurement and financial management of the Program to an internationally recognized firm with experience in project administration, procurement, and financial management.'

Two points are relevant here. First, the evidence of misprocurement was irrefutable. Second, while the Bank is clear that ultimate responsibility for any misuse of Bank/IDA funds always rests with the borrower, in this case the borrower tried, unsuccessfully, to use the Bank's own legal language to shift this responsibility to consultants.

OUTCOME/EVALUATION

4.6 Following the suspension and eventual cancellation of the Bank project, and the repayment of the component of the Netherlands Trust Fund linked to motorbike procurement, resources for sustaining the demobilization program were severely limited, even though other donor support continued.³⁹ Project expenditures were only US\$18.6 million out of the original total of US\$42 million, and only US\$0.7 million from the IDA credit of \$18.4 million (after reimbursements and cancellations.) Of the US\$13.2 million allocated to demobilization only US\$3.5 million was spent; of US\$22.8 million for reintegration only US\$14.3 million was spent. There has been no further progress in the formal demobilization program due to lack of funds, neither for the 15,000 in the second phase of the project nor the remainder of the 55,000 which the Government set as the ultimate target for demobilization. Nevertheless, the continuing decline in defense expenditures shown in Figure 1 has been due to informal but steady attrition of former combatants and deliberate downsizing of the military establishment. (See the Government's statement in Annex B.)

4.7 The Bank and other donors were fully aware of widespread problems of corruption in Cambodia; Bank reports, consultancies and policy dialogue at the time the D&R project was launched were already giving increasing attention to the issue. The Bank was also aware that the IDA portfolio was vulnerable to these problems. However, it can be argued that the Bank placed too much reliance on the performance of PMUs and consultants and did not utilize its own financial and procurement specialists to the extent necessary.⁴⁰ Inadequate attention to fiduciary issues was also due in part to the Bank's lack of staff resources on the ground prior to 2003. While concerns were growing regarding the possibilities of fraud in the Bank's lending program, and these concerns had been conveyed repeatedly to the MEF, the D&R project represented the first case in which clear evidence of misprocurement could be substantiated. Following on the actions taken in this case, the Bank (EAP and INT) undertook a joint Fiduciary Review⁴¹ with the Government (the MEF) of four other IDA credits, leading to an INT

³⁹ Japan has funded skills training programs for demobilized veterans and has been carrying out a study of the reintegration experience of the 16,500 soldiers demobilized in 2000-2001.

⁴⁰ The 2004 CPAR stated that a procurement specialist should accompany all supervision missions and that a headquarters procurement specialist should be assigned to the Phnom Penh office, but this position was not filled until 2006.

⁴¹ Referred to by INT as a Detailed Implementation Review (DIR).

investigation of these and five other projects. The final outcome was a finding of widespread procurement problems in most of the nine projects investigated, suspension by the Bank of three projects, and a joint decision that Government would employ an independent agent to handle procurement on IDA-funded projects.

4.8 There have been some positive outcomes from this program, although they cannot be attributed exclusively to the IDA project. Altogether over 16,000 soldiers and reservists were demobilized and reintegrated into civilian life. The Government has maintained good records on those who were demobilized. A Pilot Skills Training Project (STP) for demobilized veterans was introduced in two provinces in 2003. Based on the successful implementation of the pilot STP, the CDAF has continued to provide skills training programs in 24 provinces for soldiers discharged in 2000-2001. (See Annex B for a detailed description of this program.) The Government has continued to reduce the share of the budget allocated to defense and security while expanding significantly the allocations to the social sectors. During 2000-2005 security spending remained the same in nominal terms while social sector spending more than doubled. As a result defense/security fell from 47 percent of total public expenditures in 1997 to 18 percent in 2005. Similarly, as shown in Figure 1 in Chapter 3, defense and security expenditures have declined from 3 percent of GDP in 1997 to approximately 1 percent in 2006. However, in addition to the breakdown in procurement which led to cancellation of the IDA credit, and the serious questions regarding the numbers in the military and the level of defense expenditures, there were other outcomes of the program which were not achieved. Plans to involve civil society in monitoring the demobilization process were not implemented. A monitoring and evaluation system for measuring the socio-economic impact of the project was designed and ready for implementation, but the project was stopped before this could be implemented. Finally, a more comprehensive social safety net such as a military pension system or a social security system, that would have strengthened the long-run sustainability of the reintegration program, was not developed. Despite the successful completion of the first phase of the demobilization program, the outcome of the Bank's program is rated *unsatisfactory*, consistent with the findings of the ICR and ICR Review.

4.9 *Relevance.* This project was highly relevant for the future development of Cambodia and was cited as a high priority in the Bank's 2000 CAS. The Bank correctly identified the need for the program given the high priority attached to reducing defense expenditures by Government, civil society and the donor community. However, the Bank's reservations about whether to participate in the program were justified. A fully effective operation would have required direct intervention to determine the level of military establishment required (similar to a functional review of the civil service) and to verify the true level of staffing, but the Bank is prohibited from direct involvement in the military affairs of its member countries. Thus the Bank, and the other involved donors, were forced to join in backing the demobilization program simply on the basis that supporting some demobilization, however flawed the process, would be better than the status quo. Also, Cambodia's demobilization exercise was more problematic than those in other countries where the Bank had been involved. In other countries the demobilization usually took place immediately following the cessation of hostilities, was a comprehensive exercise intended to return to civilian life the great majority of combatants, and in many cases was organized and supervised by an outside agency or

government. It was a one-time effort which could be quickly completed. However, in Cambodia's case the demobilization was taking place many years after the end of most hostilities, when the numbers in the military forces had fallen and then risen again and when the present complement was not the same as the force that should have been demobilized in the early 1990s. In summary, while demobilization of both real and "ghost" soldiers was needed and relevant, the approach adopted did not address adequately the concerns surrounding the program.

4.10 *Efficacy.* The project was successful in completing the first phase of the demobilization program and beginning a shift in budgetary expenditures from defense and security to the social sectors and rural development which has been sustained. While reaching only half of the ultimate target, the implementation of this component was carried out as planned and was relatively effective. However, the delivery of reintegration packages to the demobilized veterans suffered from long delays, due in large part to the eleven-month delay in effectiveness of the Bank project. Also, because the demobilization program was terminated at the mid-point, many other objectives were not achieved, including not only the second phase demobilization, and possibly donor support for even further demobilization exercises, but also the implementation of a monitoring and evaluation program and timely follow-up investigation of the experience with reintegration.

4.11 *Risk to Development Outcome.* The ICR rated sustainability *unlikely*. Clearly further progress with formal demobilization was not achieved, despite the fact that some donor support remained to support the program and that the pilot and first phase demobilization exercises were carried out effectively. At this point there is no further dialogue between the Government and the Bank on demobilization. The reductions in military expenditures which have taken place since the D&R project closed have resulted from attrition and restructuring of the military forces rather than any formal demobilization effort by Government.⁴² However, given the sustained reduction in the share of military expenditures in the budget, and the maintenance of training programs for demobilized soldiers, the risk to development outcome is rated only *moderate*.

4.12 *Bank and Borrower performance.* Bank performance in the early stages of the demobilization program was unsatisfactory. The Bank deserves credit for recognizing the need for demobilization, for assisting with the military census, design of the pilot program, coordination of assistance from other donors for the pilot program, and for taking the lead role in supporting the full program (despite major reservations). However, while the Bank identified many of the project risks at appraisal – flaws in the registration process and the risks of corruption – these were not adequately addressed in project design. The Bank's defense of the military census undermined its credibility with civil society. Initially the project was managed by the Bank's Post-Conflict Unit, but Regional Management was unhappy with issues of project design and the consultation process. As a result, project management was transferred to the CD and later to the EAP Social Development unit, both of which lacked technical expertise and experience with

⁴² Military personnel expenditures could begin to rise in the future, given that the Government has passed a law providing for conscription, although the law has not been implemented to date.

similar projects. Once the project became effective Bank supervision was intensive and was rated satisfactory by QAG. The Bank pursued the issue of misprocurement diligently even though this led in the end to a breach in relations with the project implementing agency and to strains in the overall Bank-Government relationship. The evaluation of overall Bank performance is *moderately unsatisfactory*. With respect to Government's performance, the CDAF carried out a successful pilot project and made concerted efforts to implement the full program effectively, but it was unable to challenge the flawed military census which undermined the program. The major failing of government with respect to the Bank's project was misprocurement under the contract for motorbikes which led to the suspension and eventual closure of the project. The Bank presented firm evidence of its findings to the Government, and sanctioned specific firms and individuals, but the Government did not take any further action itself. Instead, the Government denied responsibility for the problem. (See Annex B for the Government's statement on the issues surrounding the Bank's finding of misprocurement.) Given Government's role in the faulty census on which the program was based, and involvement in misuse of project funds, overall borrower performance is judged *unsatisfactory*.

5. Findings and Lessons

- Some 40 percent of donor aid has been for TA, well above the average for LDCs. Much TA has been donor-driven with inadequate government involvement in defining objectives or choice of consultants. Capacity-building has fallen short of objectives and the Government has developed a negative attitude toward donor TA. However, in contrast to past experience, PFM reforms are now moving forward because, in addition to the technical nature of the reforms and backing by reformers in the MEF, donors are listening to the Government and agreeing to feasible benchmarks, government has a voice in the choice of consultants, and there is effective donor collaboration in which the Bank has played a lead role.
- All three projects suffered from flaws in design. The TA project and the SAC were overly broad in attempting to resolve too many problems through a single operation. The SAC had an excessive number of conditions which delayed effectiveness and tranche releases. The D&R project failed to heed the public's complaints about falsification of the number of military personnel. Delays in effectiveness and/or in implementation have also affected the D&R project and the EPSCB project which followed the TA project. The Bank's lending operations should be more narrowly focused, concentrating on a few limited objectives and specific implementation steps to achieve these objectives.
- The Bank needs to do a better job of judging Government's willingness to implement difficult reforms. The D&R project shows the importance of understanding underlying political realities. Under the 2005 CAS the Bank is following a more targeted approach focused on achievable governance reforms.
- Given the problems uncovered first in the Demobilization and Reintegration project and subsequently in other Bank operations, the Bank can be faulted for not having carried out more intensive supervision and more careful oversight of fiduciary issues in the portfolio. An important lesson from this project is that contracting an international firm to oversee procurement and financial management is insufficient to prevent misuse of IDA funds. The Bank has now taken steps to address these issues in project implementation, including the employment of an independent procurement agent for IDA-funded programs.
- During the first ten years of the Bank's engagement with Cambodia the Bank lacked adequate staff resources in the country. Almost all project development, appraisal and supervision were managed through visiting missions. This had an adverse effect on the Bank's ability to supervise complex projects such as the TA project and the SAC and problem projects such as the D&R project, to maintain regular contact with key government officials, and to work effectively with other donors. One of the most important lessons drawn from IEG analysis of the Bank's performance in post-conflict countries is the need to establish an early, strong

presence in the country.⁴³ This should have been of particular relevance for Cambodia, where the Bank had no program before the 1990s. Fortunately, this problem has been corrected.

⁴³ For discussion of this issue see World Bank, Independent Evaluation Group, *Engaging with Fragile States: An IEG Review of World Bank Support to Low-Income Countries Under Stress*, 2006.

Annex A. Basic Data Sheet

TECHNICAL ASSISTANCE PROJECT (CR. 2664-KH)

Key Project Data *(amounts in US\$ million)*

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	18.69	18.70	100%
Loan amount	17.00	15.97	94%
Cofinancing			
Cancellation			
Institutional performance			

Project Dates

	<i>Original</i>	<i>Actual</i>
Initiating memorandum	03/24/1994	03/24/1994
Negotiations	10/27/1994	10/27/1994
Board approval	12/06/1994	12/06/1994
Signing	12/16/1994	12/16/1994
Effectiveness	03/23/1995	03/23/1995
Closing date	06/30/2001	12/31/2001

Staff Inputs *(staff weeks)*

	<i>No. Staff Weeks</i>	<i>US\$ ('000)</i>
Preappraisal	15.8	57.3
Appraisal/Negotiation	35.6	141.2
Supervision	141.2	623.2
Sub Total	192.6	821.7
ICR (est.)	7.8	22.5
Total	200.4	844.2

Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Staff days in field Specializations Represented</i>	<i>Performance Rating</i>	
				<i>Implementation Progress</i>	<i>Development Objective</i>
Identification/ Preparation	January 1994	7	2 Economists, 2 Public Sector Specialists, 2 Legal Experts, 1 Debt Specialist	S	S
Appraisal	Jun – Jul 1994/Oct 1994	10	4 Economists, 1 Public Sector Specialist, 2 Legal Experts, 1 Debt Specialist, 2 Others	S	S
Supervision	April 1995	2	1 Economist, 1 TA Expert	HS	HS
	July 1995	3	2 Economists, 1 Public Sector Specialist, 1 Legal, 1 TA Expert	HS	HS
	November 1995	1	1 Economist	HS	HS
	May 1996	4	2 Economists, 1 TA Expert, 1 Public Sector Specialist, 1 Civil Service Specialist	HS	HS
	January 1997	3	2 Economists, 1 TA Expert, 1 Legal Expert	S	S
	October 1997	2	1 Economist, 1 TA Expert	S	S
	December 1997	2	1 Economist, 1 TA Expert	S	S
	June 1998	2	1 Economist, 1 TA Expert	S	S
	November 1998	1	1 Legal Expert	-	-
	January 1999	1	1 Legal Expert	-	-
	May 1999	4	1 Economist, 2 Legal Experts, 1 FMS	U	S
	August 1999	3	1 Economist, 1 Legal Experts, 1 FMS	-	-
	February 2000	5	2 Economists, 1 Legal Experts, 1 FMS, 1 Public Sector Expert	-	-
	July 2000	2	1 Economist, 1 Legal	S	S
	February 2001	3	1 Economist, 1 Legal Expert, 1 FMS	S	S
	May 2001	2	1 Economist, 1 FMS	-	-
	September 2001	1	1 Economist	S	S
Completion		1	1 Economist	-	U

STRUCTURAL ADJUSTMENT CREDIT (CR. 33230)**Key Project Data** (amounts in US\$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	30.00	30.00	100%
Loan amount	30.00	30.00	100%
Cofinancing	5.00	5.00	100%
Cancellation			
Institutional performance			

Project Dates

	Original	Actual
Initiating memorandum	07/15/1999	10/14/1999
Negotiations	01/25/2000	01/24/2000
Board approval	11/30/1999	02/29/2000
Signing		03/07/2000
Effectiveness	03/28/2000	03/28/2000
Closing date	06/30/2002	12/31/2003

Staff Inputs (staff weeks)

	No. Staff Weeks	US\$ ('000)
Preappraisal	18	67.4
Appraisal/Negotiation	50	182.8
Supervision	60	207.8
ICR	8	24.0
Total	136	482.0

Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Specializations Represented</i>	<i>Performance Rating</i>	
				<i>Implementation Progress</i>	<i>Development Objectives</i>
Identification/ Preparation	October 1999	4	2 Economists, 1 Forestry Specialist, 1 Public Sector Specialist	S	S
Appraisal	December 1999	5	1 Task Team Leader, 1 Economist, 1 Forestry Specialist, 1 Legal Advisor, 1 Public Sector Specialist	S	S
	January 2000	6	1 Task Team Leader, 1 Economist, 1 Forestry Specialist, 1 Legal Advisor, 1 Public Sector Specialist, 1 Senior Advisor	S	S
Supervision	June 2000	1	1 Task Team Leader (TTL)	S	S
	August 2000	1	1 TTL	S	S
	December 2000	2	1 TTL, 1 Forestry Specialist	S	S
	March 2001	2	1 TTL, 1 Economist 1 Forestry Specialist, 1 Public Sector Specialist	U	S
	November 2001	1	1 TTL	S	S
	June 2002	2	1 TTL, 1 Forestry Specialist	U	S
	November 2002	2	1 TTL, 1 Forestry Specialist	U	S
	March 2003	2	1 TTL, 1 Forestry Specialist	U	S
	September 2003	1	1 TTL	U	S
	November 2003	2	1 TTL, 1 Forestry Specialist	S	S
Completion		1		S	S

DEMOBILIZATION AND REINTEGRATION PROJECT (CR. 35640)

Key Project Data (amounts in US\$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Total project costs	42.0	18.5	44.04%
Loan amount	18.4	1.2	6.52%
Cofinancing	2.9	2.6	89.65%
Cancellation			
Institutional performance			

Project Dates

	Original	Actual
Initiating memorandum	10/23/2000	12/19/2000
Negotiations		
Board approval	08/23/2001	08/23/2001
Signing		10/11/2001
Effectiveness	04/30/2002	07/01/2002
Closing date	12/31/2004	12/31/2004

Staff Inputs (staff weeks)

	No. Staff weeks	US\$ ('000)
Preappraisal		
Appraisal/Negotiation	57.24	360,627
Supervision	45.39	177,168
Other		
Total	102.63	537,796

Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Specializations represented</i>	<i>Performance Rating</i>	
				<i>Implementation Progress</i>	<i>Development Objectives</i>
Identification/ Preparation	October 2000				
Appraisal	May 2001				
Supervision	June 2002	12	Gillian Brown (Incoming TTL), Bonaventure Mbida-Essama (Outgoing TTL), Helen Brereton (Social Development Consultant), Omuwummi Ladipo (Senior Financial Management Specialist), David Howarth (Procurement Specialist) Nipa Siribuddhamas (Financial Management) Peter Sainsbury (Institutions), Melissa Fossberg (External Relations), Prok Vanny (Local Consultant), Neb Sinthay (Local Consultant)		
	August 2002	5	Gillian Brown (TTL), Helen Brereton (Social Development Officer), Bou Saroeun (External Affairs Consultant), David Howarth (Procurement) Wijaya Wikrema And Omuwummi Ladipo (Financial Management And Disbursement)	S	S
	October 2002	8	Gillian Brown (TTL), Markus Kostner (Post Conflict Specialist) Susan Wong (Monitoring And Evaluation) Helen Brereton (Social Development Officer) Bou Saroeun (External Affairs Consultant), Neb Sinthay (NGO Participant) David Howarth (Procurement),) Wijaya Wikrema And Omuwummi Ladipo (Financial Management And Disbursement)	S	S
	January 2003	4	Gillian Brown (TTL), Susan Wong (Monitoring And Evaluation), David Howarth (Procurement), Nipa Siribudhamus	S	S
Completion		2	Gillian Brown (Ttl), Dararith Kim-Yeat	U	U

Annex B. Borrower Comments



ព្រះរាជាណាចក្រកម្ពុជា
ជាតិ សាសនា ព្រះមហាក្សត្រ
KINGDOM OF CAMBODIA
Nation Religion King

ក្រសួងសេដ្ឋកិច្ច និង ហិរញ្ញវត្ថុ
MINISTRY OF ECONOMY AND FINANCE

N^o 1490 MEF/Dic

Date: 05 February, 2008

Mr Ali M. Khadr
Senior Manager
Country Evaluation and Regional Relations Group
Independent Evaluation Group
The World Bank
Washington, D.C.

Subject: Draft Project Performance Assessment Report (PPAR)
Credits 2664-KH and 33230-KH

Dear Mr Khadr,

We thank you for the draft PPAR for the captioned two projects, namely the Technical Assistance Project, IDA Credit No. 2664-KH and the Structural Adjustment Credit, IDA Credit No. 33230-KH, which you forwarded with your letter of December 20, 2007.

The Ministry of Economy and Finance, which is the executing agency for the Technical Assistance (Credit 2664-KH) and the Structural Adjustment Credit (Credit 33230-KH), is pleased to confirm that it has no comments on the draft PPAR in respect of these two projects. As we advised you earlier, the Council of Ministers which was responsible for the Demobilization and Reintegration Project (IDA Credit No.35640-KH), will send its comments on the draft PPAR separately.

Please accept the assurance for our consideration

Sincerely Yours 



Keat Chhon
Sr. Minister
Minister of Economy and Finance

Cc: - Executive Director for Cambodia in the World Bank
- World Bank Cambodia Country Office



ព្រះរាជាណាចក្រកម្ពុជា
Kingdom of Cambodia

ទីស្តីការគណៈរដ្ឋមន្ត្រី
Office of the Council of Ministers

ជាតិ សាសនា ព្រះមហាក្សត្រ
Nation Religion King

Phnom Penh, February 12, 2008

Mr. Ali M. Khadr
Senior Manager
Country Evaluation and Regional Relations Group
Independent Evaluation Group, The World Bank

Subject: Comments on the Draft Project Performance Assessment Report under the Cambodia Demobilization and Reintegration Project, IDA Credit No. 3564-KH.

Dear Mr. Ali:

I acknowledged the receipt of your letter dated December 20, 2007 through the Ministry of Economy and Finance regarding your request for comments on the draft of the Project Performance Assessment Report (PPAR) on the Cambodia Demobilization and Reintegration Project. According to the above draft PPAR and **due to time constraints, I wish at this stage to make my comments on 3 points as – follows:**

- 1. On the Issue of Misprocurement Allegation:** In addition to Box 2, page 23-24 of the PPAR that highlighted “*Government Reaction to the Bank’s Actions in the Demobilization Project*”, I would like to take once again this opportunity to provide you with the **Attachment 1** detailing the supplementary and clearer information regarding the issue of the World Bank misprocurement allegation in which you will see all related issues surrounding the above controversial allegations, especially covering (i) On Administrative and Technical Aspects; (ii) On Investigative Actions by the World Bank’s Teams; and (iii) On Timing for Alleged Misprocurement Declaration by the World Bank. Thus, may I suggest you to share the above report to the WB Board of Executive Directors for their information and attach it as an annexed document in your final report so that the PPAR readers would clearly understand the whole aspect of this misprocurement allegation.
- 2. On Sustainability of the Project shall be rated likely under the First Full Scale Demobilization and Reintegration Project:** As you are aware that the Demobilization and Reintegration Project consisted of two phases of demobilization, and even though the second round of demobilization of further 15,000 military personnel was not able to move forward as planned, but the CDAF General Secretariat has been firmly committed since 2003 until now to implement the Skills Training Project (STP) for the 15,000 first full scale demobilized veterans. As you may see in the **Attachment 2** that highlights detailed arrangements of the STP implementation, 5,347 out of the 9,167 veterans who are settling in 9 provinces among 24 provinces representing 61% of the total first full scale 15,000 demobilized soldiers have been until now receiving the short term and long term skills training at their localities. Furthermore, based on periodic evaluation and monitoring which were separately and/or jointly conducted by

the CDAF General Secretariat's reintegration teams, service providers and JICA experts, have clearly indicated that most of the veterans who have received the above skill training have been using their given skills to generate additional income and to improve their living conditions in the sustainable ways.

As such, it is crystal clear that **the sustainability under this first full scale demobilization and reintegration project does exist and, thus, it shall be rated likely or at least moderately likely in response to the planned objectives and goals.** Therefore, I would be grateful if you can reflect the above on-going activities of skills training project in your final document.

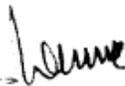
- 3. On Risk to Development Outcome shall not be rated significant:** The risk to development outcome is rated significant because you mainly argued that *"there is a further risk that the size of the military and defense expenditures, could begin to rise in future as a share of the budget, given that the Government had passed a law providing for conscription, although the law has not been implemented to date"* From a practical point of view, your above reason is unrealistic because so far, both the military size and defense expenditures have greatly decreased since the implementation of CVAP as pointed out in your report. Furthermore, the Ministry of National Defense has been ceaselessly striving to reform its army in close collaboration with other countries for the sake of strengthening the national security and sovereignty as well as international cooperation, hence the need for young and qualified soldiers.

In contrary to risk to development outcome that was rated significant, I am of the view that on the basis of the successful discharge of 16,500 military personnel from the army under both the pilot and first full scale demobilization plus the elimination of more than 15,000 ghost soldiers and more than 160,000 ghost soldier children and as clearly outlined in the policy and program identified in the White Paper of the National Defense, the Ministry of National Defense and Royal Cambodian Armed Forces have been able to smoothly conduct its military reform through the implementation of the following activities and measures:

- (i) Smoothly restructure the RCAF current size by combining the military units belonging to the Regional Military Headquarters to the smaller sizes and by deploying the military police forces to stand at every district throughout the country in order to further strengthen security and safety at the localities.
- (ii) Efficiently and effectively control the current size of the RCAF and take necessary measures in order to cut out soldiers who are irregular cases or absent without reasons over 15 days based on the RCAF military disciplines.
- (iii) Regularly transfer the elderly and chronically ill soldiers who are eligible to receive pensions from the Ministry of National Defense to the Ministry of Social Affairs, Veterans and Youth Rehabilitation.
- (iv) Allocate the social concession land to the demobilized soldiers who request land for household and/or for family farming in conformity with the Sub-Decree on Social Concession Land.

Therefore, the risk to development outcome under the implementation of the Demobilization and Reintegration Project shall not be rated significant.

Please accept, Sir, the assurances of my consideration.



Svay Sitha
General Secretary of the Council for the Demobilization of Armed Forces

Cc: **H.E. Keat Chhon**
Senior Minister, Minister of Economy and Finance

**AIDE-MEMOIRE
ON
THE ISSUE OF ALLEGATION OF MISPROCUREMENT UNDER
THE DEMOBILIZATION AND REINTEGRATION PROJECT, IDA
CREDIT 3564-KH**

On the 26th June 2003, the World Bank unilaterally declared that misprocurement had occurred in the Cambodia Demobilization and Reintegration Program ("the Program"). This declaration was made even though all actions and activities undertaken in furtherance of the Program were in compliance with all World Bank requirements. Specifically, the implication was made that misprocurement had occurred with regard to the procurement of some 13,764 motorcycles and requested the Royal Government to reimburse the amount disbursed under this contract to the World Bank. To those in the Royal Government, **especially those who had been led to believe that the Program was a partnership with the World Bank, the intent to place all of the blame for the allegation of misprocurement on the Royal Government seemed unbelievable and obviously unacceptable.**

In order to understand why this action was beyond belief, it is important to recount the process and the key events of this episode. You will see that at every stage, the World Bank was engaged in setting the requirements for procurement and overseeing the entire process. Of course, the Royal Government acted as a partner in this process, but **the World Bank dictated the requirements and the Royal Government complied with those requirements. However, before considering the following, it is necessary to recall several irrefutable facts:**

- i. **Development Credit Agreement ("DCA"):** According to the DCA, entered into between the Royal Government and the World Bank, Schedule 4, Section I(4) states that:

*"The Borrower shall appoint, in accordance with the provisions of Section II of Schedule 3 to this Agreement and terms and conditions satisfactory to the Association, and thereafter maintain at all times during the implementation of the Project a procurement and financial management firm which **shall be responsible on behalf of the Borrower, procurement and financial management matters under the Project including the Special Account, the Second Generation Special Account and the Project account.**"*

- ii. **Thales Contract:** According to the contract between the Royal Government and the Consulting Firm which was duly approved by the World Bank, Page 1, Paragraph 5(b) of the Form of Contract states that:

“The Consultants, having represented to the Client that they have the required professional skills, and technical resources, have agreed to provide the services on the terms and conditions set forth in this Contract.”

- iii. **Terms of Reference:** On Page 31, Paragraph 2 of this document, it is stated that:

“The responsibility for efficient and speedy implementation of the program lies with the GS, which is staffed with adequate number of personnel to carry out various Program work. The Government is committed to maintain integrity and transparency of the activities financed by the Program. To achieve these objectives, the GS proposes to contract out the procurement and financial management of the Program to an internationally recognized firm with experience in project administration, procurement and financial management.”

For the purpose of the discussion that follows, it is important to keep these clauses in mind, for they have very real legal and operational implications for the implementation of the project and the responsibilities of the respective parties. Because one can apparently confuse because the name of the Thales firm has the word “Consulting” in it, and the contract between the Royal Government and the firm was entitled “Procurement and Financial Management Consultants’ Services.” But the “Services” to be rendered were not “advisory and assistance” services. They were executive in nature, managing and administering the financial and procurement matters of the program. And now, please consider the following:

- Starting in early 2002, the General Secretariat of the Council for the Demobilization of the Armed Forces (“CDAF”) worked closely with the World Bank Procurement Specialists in order to prepare the bidding documents for the procurement of the motorcycles. The bidding documents were prepared on the basis of and in conformity with World Bank Standard Bidding Documents.
- As dictated by the Development Credit Agreement (“DCA”), the proposed procurement plan was furnished to the World Bank for its “*review and approval...*”¹. This procedure was in keeping with the requirements of the World Bank’s procurement guidelines for International Development Loans, which states, “The Bank reviews the Borrower’s procurement procedures, documents, bid evaluations, award recommendations, and contracts to ensure that the procurement process is carried out in accordance with the agreed procedures.”²

¹ Development Credit Agreement between the Kingdom of Cambodia and the International Development Association (Credit Number 3564-KH; October 11, 2001) Schedule 3, Section I, Part D(1) at p. 19.

² The World Bank, “Guidelines Procurement under IBRD Loans and IDA Credits” (January 1995, revised 1996, 1997 and 1999) Article 1.11 at p.5. In a section specifically referenced by the DCA, Appendix 1, paragraph 1 of the guidelines also states that “The Bank shall review the procurement arrangements proposed by the Borrower, including contract packaging, applicable procedures, and the scheduling of the

- Following the World Bank's "no objection" to the bidding documents on 24 June 2002, the International Competitive Bidding (ICB) was launched. Because of the procedures established and process dictated by the DCA and other documents, this bidding was consistent with World Bank procedures and guidelines.
- In accordance with the established bidding procedures, fourteen bids were submitted. On 14 August 2002, the bids were opened and read out at a public ceremony by the Thales Procurement and Financial Management Consulting Firm who was chosen and duly approved by the World Bank to be "responsible for managing, on behalf of the Borrower, the procurement and financial management matters under the Project...." as clearly set forth in its Development Credit Agreement (DCA).³
- After the public opening of the bids, the procurement and financial management consulting firm carried out its technical and professional work relating to this bidding and then evaluated them. In keeping with the requirements set down by the World Bank in the Development Credit Agreement, the above firm was completely responsible for the evaluation of the bids, namely: (i) opening the bids' packages submitted by the suppliers; (ii) maintaining all bids in its office so as to summarize all relevant and necessary information from the bids to be used for evaluation; (iii) verifying all collected information and then conducted bids evaluation by themselves; and (iv) drafting preliminary Bids Evaluation Report as well as recommending to award the contract to the lowest evaluated bids. As for the CDAF's Bids Evaluation Committee, it only had the responsibility of endorsing the result of the firm's activities.
- **On 1 October 2002, the World Bank issued a letter stating that it was "in agreement with the bids evaluation and recommendation. At the same time, it raised a question about the after sales services and spare parts and suggested a visit be made to the bid winner's service facilities. The firm managing the project did so, and discussed its findings with the World Bank Procurement Specialist based in Bangkok and the Project Task Team Leader in mid October, 2002 in Phnom Penh. With their approval, a report was submitted on October 18, 2002 to the World Bank Task Team Leader for review and endorsement. Thereafter, on 24 October 2002, the Bank issued its "no objection" to proceed with the award of the contract to the bid winner.**
- Based on the World Bank's "no objection" and approval from the Ministry of Economy and Finance, the contract was signed by the CDAF and the private sector, i.e. the supplier of motorcycles on **12 November, 2002** in which the first shipment of 6,864 motorcycles sets will be delivered in six weeks (**24 December 2002**) and the second shipment of remaining 6,900 motorcycles sets will take place on **21 January 2003**.

Procurement process, for its conformity with these Guidelines and proposed implementation program and disbursement schedule." p. 38.

³ Schedule 4(I)(4) at p. 23.

- On 04 December 2004, the World Bank sent another letter requesting the clarifications related to the after-sale service qualification of the winning bidder. With respect to this, the firm in charge of procurement and financial management, in cooperation with the CDAF General Secretariat, collected all relevant information from the winning bidder and on 10 December 2002 sent its clarifications letter to the World Bank, attaching hundreds of documentary evidence and supporting documents with respect to the above Bidder's transactions, accounting and spare part reports within two years of its business operations as required in the Bid criteria for evaluation.
- On 19 December 2002, the World Bank sent again a letter stating that points made in the response letter of 10 December 2002, had not adequately addressed the outstanding issue and then requested to further delay the Contract implementation as well as consider declaring misprocurement under this Contract.
- In response to the above World Bank letter of 19 December, the procurement and financial management firm, in cooperation with the CDAF General Secretariat, once again collected the information from the winning supplier and on 26 December 2002, sent its explanatory letter to the World Bank, attaching all documentary evidence of the above-mentioned winning supplier's qualifications reflecting the particulars of its practical capacity and experiences in providing qualified after-sale services facilities, resources engaged, actual execution of customers service activities and management of spare parts stock inventory, including the evidence of pictures and video camera, as well.
- Since the time that the letter of 26 December was sent to the World Bank until February 2003, the World Bank had no response, but Mr. Ian Porter, Country Director for Cambodia, sent a letter dated 05 February 2003 to H.E Mr. Sok An, Senior Minister, Minister in charge of the Office of the Council of Ministers and Chairman of the Council for the Demobilization of Armed Forces, informing that a team from the World Bank's Institutional Integrity Department, which is in charge of fraudulent task, and not specializing on procurement, will come to investigate the issues surrounding the procurement of motorcycles contract.
- **Based on its findings, the World Bank unilaterally decided to declare misprocurement under the procurement of this motorcycle contract at the date of beginning Cambodia's electoral campaign on June 26, 2003.**

As above mentioned, we would like to draw your attention to three important aspects related to the whole bidding process with the full participatory approach, namely (i) administrative and technical aspect; (ii) investigative actions by the World Bank's team; and (iii) timing for misprocurement declaration by the World Bank, as follows:

1. On Administrative and Technical Aspect:

The entire bidding process for the motorcycles was in full conformity with the World Bank procurement procedures and guidelines. Every stage was governed by standard World Bank procurement documents and guidelines or documents prepared in

compliance with World Bank requirements. At every stage in the procurement process, World Bank personnel were involved, especially the coordinator of Portfolio Management Cluster from the World Bank Bangkok Office. At every stage, World Bank approval was sought and obtained.

Nevertheless, two months after the World Bank's last "no objection" to the bidding, and six weeks after the signing of the Contract, the World Bank issued a letter dated December 19, 2002 asking that CDAF "delay further implementation of this contract." The letter alleged that the winner of the bid "may not have met the past experience criterion" that was part of the World Bank requirements. If true, we are left to wonder why this objection was not raised earlier, while the bidding was in process, not after the process was long completed.

We do not know if the charges have merit or not. The procurement and financial management firm was in charge of all bidding technical work including the bid evaluation, and so far as we know a professional job was done by the firm -- a conclusion endorsed by earlier World Bank letters. However, it is interesting to note that the World Bank letter of December 19, 2002 apparently was based on a World Bank investigation done by its staff in Phnom Penh. But this investigation was conducted without the knowledge or participation of the Royal Government. This unilateral investigation is not in line with the World Bank's own rules, e.g. as mentioned in the *Standard Bid Evaluation Form – Procurement of Goods or Works*.

However, we assume that the above investigation was prompted by requests for clarification of the bidding by two of the unsuccessful bidders for this project. After being provided with further information, their objections were withdrawn. The World Bank inquiries based on the two requests also led to additional information being supplied to the World Bank on December 10, 2002. The assumption of the CDAF General Secretariat was that the withdrawal of the complaints and the additional information provided resolved the issue.

Nevertheless, on December 19, 2002, *the World Bank asked CDAF to "further delay" implementing the project without clear justification of the grounds for such measure. There were several reasons why the Royal Government declined to do so. First, it was simply too late to "further delay."* According to the contract signed on 12 November, 2002, the supplier was bound to deliver the goods "in accordance with the terms specified in the Schedule of Requirements." The Schedule of Requirements state that one-half of the goods had to be delivered within six weeks of the date of the contract signature. With the signing of the contract on 12 November 2002, the delivery of one-half of the motorcycles had to occur by **24 December 2002**. With the World Bank letter being dated **19 December 2002**, it was already too late to stop the first shipment, even if the Royal Government wanted to. Thus, in a practical sense, by the time the World Bank issued its letter requesting "further delay," it was simply too late. The shipment already had been dispatched.

In a legal sense, if the Royal Government had delayed the shipment, it would have been in breach of the contract. Having signed a contract, the Royal Government had required the supplier to provide one-half of the goods within six weeks. While the supplier having done so, we were in no position to "further delay" the delivery. The Royal Government had no technical or legal basis to terminate or even delay the delivery, which, in any case, had already been performed.

There is another reason why the Royal Government could not afford to "further delay" the project after the World Bank's belated letter of concern. The very credibility of the Royal Government was at stake. The demobilization of these 15,000 soldiers began on 15 October 2001. Thus, by the time the contract was signed it was already over one year and a half since many of the soldiers had left the service. But many procedural delays had precluded the delivery of the promised goods to the veterans and their families. By late December 2002, the request to "further delay" the delivery of motorcycles simply was not possible. *Sharp criticism of the slow implementation of project schedules and delivery of reintegration assistance packages already was being heard, and without proof of allegations, we were requested to "further delay" to some unknown and indefinite date in the future.* If the World Bank had concerns, they should have been raised long before, during the bidding process, not after the delivery had begun.

If the Royal Government had further delayed the project, there would be one other consequence -- this issue would be resolved in the context of a 2003 general election campaign. This would have posed hazards to the free and fair political environment as well as social stability ensured by the Royal Government. The longer the delay of the program, the more politicians could attack the Royal Government as not tending to the interests of its veterans. But if the motorcycles were to be finally released at some time just prior to the elections, no doubt the Royal Government would be attacked for "playing politics" with the demobilization benefits of the veterans. The implication would be that the Royal Government was engaged in buying votes. Thus, the Royal Government was posed with a classic "lose-lose" scenario, where delay, regardless of the outcome of the World Bank inquiry, would become a political issue. It has been the strong desire of the Royal Government to keep this issue out of the election year's politics.

As a partner in the demobilization program, the Royal Government would have expected better. If there was a problem, we should have been informed much earlier. So far as we are concerned, we agreed to all World Bank procurement requirements, including the World Bank oversight and the retention of an independent firm to handle all aspects of the bidding process (*Schedule 4 – Implementation Program – Clause 4. The Borrower shall appoint, in accordance with the provisions of Section II of Schedule 3 to this Agreement and terms and conditions satisfactory to the Association, and thereafter maintain at all times during the implementation of the project a procurement and financial management firm which shall be responsible for managing, on behalf of the Borrower, procurement and financial management matters under the*

Project including the Special Account, the Second Generation Special Account and the Project Account".

In addition to this safeguard, we also relied to our detriment on a series of World Bank approvals, the so-called "no objection" letters before the implementation. And now the World Bank declared unilaterally misprocurement and since the Government has *not been involved, accordingly we cannot judge this case properly. However, since this procurement which was independently administered and managed by the consulting firm that we hired under the World Bank guidance and recommendation is at fault and leads to the World Bank declaring misprocurement, the Royal Government can not and will not be responsible for such alleged irregularities, both legally and technically.*

The Royal Government regrets the decision by the World Bank to declare misprocurement in an important program for the rehabilitation of Cambodia. Its decision concerning the Demobilization Program was made on the basis of an internal investigation for which the Royal Government was not a participant, and a copy of its inquiry has not been forwarded to the latter. For this reason, the Royal Government cannot pass judgment regarding whether the declaration of misprocurement is appropriate or not, because all technical work was fully done by the Professional Procurement and Financial Management Firm.

Consequently, the Royal Government categorically rejects the allegation that the Bid Evaluation Committee (BEC) was in any way responsible for the declaration of misprocurement. Certain officials of the World Bank know very well that the evaluation of the bids and the management of the program were done by the Procurement Management Firm that was hired according to World Bank requirements and with the approval of the World Bank. In accordance with the requirements of the World Bank, the Management Firm of Thales Engineering and Consulting Co. of France acted independently of the Royal Government. This fact was confirmed in the report by the Consulting Firm's Managing Director to the World Bank on April 29, 2003. The Royal Government therefore takes no direct responsibility for the bids process of the program because the BEC only accepted the information and approved the recommendations provided to it by the consulting firm.

In addition, other information in the World Bank decision is not accurate. For example, the World Bank states that it entered into a US\$6.93 million contract. However, only US\$2.77 million has been disbursed. Furthermore, on four separate occasions, the Royal Government has written substantive reports to clarify to the representatives of the World Bank issues such as the in-country qualified after-sales services and well-established service center facilities with adequate stock of spare parts. Also, many other issues raised by the Royal Government in those communications have never been answered. Copies of these communications and other relevant documents are available.

2. On Investigative Actions by the World Bank's Team:

Based on the constructive principle of partnership and mutual understanding, the Royal Government proposed in late December, 2002 to solve this problem in two separate steps, i.e. the first step was to have discussions at the technical level between the experts of the Procurement and Financial Management Consulting Firm and the World Bank procurement specialists particularly the Coordinator of Portfolio Management Cluster from the World Bank Bangkok Office, and the second one was to arrange a high-level meeting between the senior representative of the Royal Government and the senior management of the World Bank so as to consider and effectively address different reasons drawn from the point of view of the World Bank and the Consulting Firm's experts.

At the beginning, following this Gentlemen's Agreement by telephone conversation, the World Bank agreed upon the above-proposed initiatives, but later on the World Bank unilaterally decided to send another investigative team from the Department of Institutional Integrity **by switching this purely technical issue to the fraudulent matter which was not related to the clarifications of professional procurement issue that we were facing.** Furthermore, the above team was mainly focused on other factors that could be the winning bidder's weak points and those points were not the factors to be used as criteria for bid evaluation.

Prior to the completion of its investigation in Cambodia, the World Bank Team held a discussion with the procurement experts of the Management Firm during which there had been a full debate and inquiry session on the result of investigative findings and the above-mentioned Firm experts defended and assured in the meeting that the bids evaluation process was independently made and in accordance with the factors required in the criteria for bids comparison and evaluation as set forth in the agreed Bidding Document, which were not based on other unrelated factors as raised by the investigative team, specifically other factors which were not stipulated in the Bidding Document and in the Procurement Procedures and Guidelines of the World Bank, itself.

3. On Timing for Alleged Mis-procurement Declaration by the World Bank:

The timing of this unilateral inquiry was very disappointed that took place since February 2003 and yet was not concluded until almost four months after the procurement, delivery and distribution of this motorcycle package were finished.

Nevertheless, the Royal Government regretted the timing of the release of the World Bank decision with no reason was given for the rush to issue the press release of misprocurement through its website on 26 June 2003, the date beginning the electoral propaganda campaign in Cambodia rather than waited until the Royal Government and the World Bank had the time to adequately consider the important issues of demobilization implies that some in the World Bank want to meddle and participate in the electoral campaign as well as in the domestic politics of Cambodia. The Royal Government rejected the notion that the World Bank has this right.

Attachment 2

**On-going Activities by the CDAF General Secretariat for the
Implementation of the Skills Training Project under the First Full
Demobilization and Reintegration Project**

Even though the 2nd phase of demobilization component under the Demobilization and Reintegration Project was suspended since late 2002, the General Secretariat of the Council for the Demobilization of Armed Forces (CDAF) in close cooperation with the JICA expert has begun the preparation and implementation of the Skills Training Project in order to assist the 15,000 first full scale demobilized soldiers who were discharged from the army since late 2001. As a result, the following activities have been implemented so far:

A. On Design and Implementation of Pilot Skills Training Project:

With the technical assistance from the JICA experts, the CDAF General Secretariat and its structure at the provincial levels cooperated with the involved line-ministries, institutions and specialized agencies both at central and provincial levels in order to lay the groundwork for preparing and designing the Procedures and Guidelines for selection of the Skills Training's Service Providers and establishment of the Pilot Skills Training Project as planned under the Reintegration and Demobilization Project financed by the Japan None Project Grant Aid Fund. The main objective of this Project is to provide skills training to the 15,000 first full scale demobilized veterans so that they could use the above skills training to be provided in order to generate daily income to support and improve the living situation of their families at the locality.

As it turned out, the above Procedures and Guidelines was designed and established in June 2003 to be used for selection of the service providers (NGOs or vocational training centers) who have been delivering skills training courses at the central, provincial and local levels. Based on this fundamental Procedures and Guidelines, the CDAF General Secretariat in close coordination and cooperation with the JICA experts designed and set up a Pilot Skills Training to be implemented in two provinces, namely Takeo and Kompong Speu provinces. Starting from June to September 2003, the above-mentioned Pilot Skills Training Project was smoothly and successfully implemented in both two provinces in which demobilized soldiers 136 demobilized soldiers received the training course on animal raising and other 21 veterans received training on vegetable growing.

After completion of the above-mentioned training courses in both provinces, the CDAF General Secretariat with the technical assistance from the JICA expert conducted the follow-up surveys in order to assess and evaluate the usefulness of the above skills training. As a result, it was shown that the most of demobilized soldiers satisfied with provided skills that enable them to use it to earn daily extra income and made better their living conditions.

B. On Design, Preparation and Implementation of First Full Scale Skills Training Project:

Based on the experiences and lessons learnt from the successful implementation of the pilot skills training project, the Government of Japan through its JICA office in Phnom Penh dispatched in September 2003 another long term expert to the CDAF General Secretariat in order to design and establish the Full Scale Training Project to be implemented in 24 provinces where the 15,000 demobilized soldier are settling.

With the technical assistance from the above JICA expert, the CDAF General Secretariat so far prepared and set up a Master Plan on the implementation of the Full Scale Skills Training Project. With respect to this, in one hand, with a view to smoothly, timely and successfully implement the above full scale Project and in other hand, by understanding the difficulties faced by the CDAF General Secretariat because of the initial budget of US\$ 22 allocated to provide skills training per a demobilized soldier was not realistic according the actual costs, the Government of Japan agreed to reallocate the fund of US\$ 683,622 saving the Shelter Construction 's Component to contribute to the implementation of this full scale project.

Since July 2004, the CDAF General Secretariat in close coordination with the JICA expert had laid the groundwork at the provincial levels in order to cooperate with the local NGOs and provincial vocational training centers to move forward the implementation of the full scale skills training project, as planned.

Furthermore, as agreed in the Master Plan between the CDAF General Secretariat (GS) and the JICA expert, the first full-scale **Skills Training Project** for the 15,000 demobilized soldiers was to implement in first six provinces, (i) Takeo, (ii) Kampong Speu, (iii) Kampong Cham, (iv) Prey Veng, (v) Siem Reap and (vi) Battambang. In close consultation and coordination with the JICA expert, since September 2004, the CDAF/GS, the Executive Secretariat (ES) of the Provincial Veterans Committee (PVC) and the local authorities of provinces (districts and communes) have been implementing the following activities at the community levels in order to lay the ground work for the STP process:

1. Conduct of Pre-Survey of the Potential Service Providers

The information related to the possibility of the existing service providers and the local market demand at the district levels were necessary requirement for smooth, successful and timely implementation of the Project. Prior to the Project start-up, the JICA provided fund from its own budget to the CDAF/GS three reintegration teams who went down to disseminate the STP Master Plan to the potential service providers in the three provinces, namely (i) Kampong Cham, (ii) Battambang, and (iii) Siem Reap.

Based on the results received from the above dissemination' field trip and prior to the undertaking of the provincial workshops in the below six provinces, the pre-survey for gathering the potential skills trainers, as shown in the below Table 1, was conducted by the GS three teams in close cooperation with the ES staff, during which the teams

went down to ask for the relevant information and to disseminate the STP implementation at some districts in each province in order to request the local authority, the involved Government institutions as well as the NGOs who are capable to provide vocational and skills trainings at the every district for good cooperation during the STP implementation.

Table 1: Pre-Survey Activities conducted by Provinces

GS Team	Provinces	Districts	Period
Team 1	Kampong Cham	8 districts: Kompong Cham, Kompong Siem, Memut, Pognear Krek, Oraing Ov, Tbong Khmum, Kang Meas, and Chamkar Leu	5 days
	Prey Veng	5 districts: Prey Veng, Kompong Leav, Peam Ror, Kompong Trabek, and Bar Phnom	5 days
Team 2	Kampong Speu	8 districts: Chbar Mon, Somrong Tong, Kong Pisey, Borseth, Phnom Srouch, Oudong, Tpong, and Oral	3 days
	Siem Reap	10 districts: Ankor Thom, Ankor Chum, Pourk, Bantheay Srey, Prasat Bakong, Srey Snom, Svay Leu, Sou Nikum, Krolanh, and Chikreng	3 days
Team 3	Takeo	8 districts: Trang, Daun Keo, Som Rong, Tram Kok, Kirivong, Kos Andeth, Bati, and Prey Kabass	4 days
	Battambang	5 districts: Battambang, Sangke, Bavel, Thmor Kol, and Maung Reusey	5 days

2. Undertaking of the Provincial Workshops

After having gathered the preliminary information on the possibility of the vocational and skills training from the on-going trainers and on the local market demand in each of the district, the CDAF General Secretariat arranged the provincial workshops in order to discuss and share the above received information among the involved stakeholders and to come up with further necessary information which were not yet made available to the teams during the conduct of pre-survey at the district levels.

The above-mentioned provincial workshops as shown in the below Table 2, were arranged and taken place in six provinces from September to November 2004. The three GS Reintegration Teams held the provincial workshops in close cooperation with the ES staff and invited the local authority's staff and representatives of the potential training institutions who were capable to provide their vocational and skills training with regard to the topic of the workshop so as to find out the local market demand in each district and

the skills training's ability of the Government institutions and NGOs and then to match each other between these two information.

"Skills Training based on Local Market Demand" was a topic for discussion during the workshops. As a result, the employment market on agriculture that was top preference and the next were techniques and services, were decided at the workshops to submit to the demobilized soldiers for selection during the undertaking of needs survey before the actual skills training courses would take place.

Table 2: Provincial Workshops held by the CDAF/GS in close cooperation with PVC/ES

GS Team	Provinces	Number of Participants		Period
		From NGOs	From Local Authority	
Team 1	Kampong Cham	21	56	1 day
	Prey Veng	11	31	1 day
Team 2	Kampong Speu	43	25	1 day
	Siem Reap	38	25	1 day
Team 3	Takeo	9	49	1 day
	Battambang	18	57	1 day

3. Conduct of the Needs Survey with Demobilized Soldiers

Based on the results received from the above-said provincial workshops, the CDAF General Secretariat in close cooperation with the JICA expert, took and compiled all subjects of employment with market demand and with the possible provision of skills training courses at the district levels to be prepared and established as the Questionnaire on Skills Training Requirement to be submitted to the demobilized soldiers for selection according to the particulars of each district where they are settling.

The interview on the skills training requirement of the demobilized soldiers called "needs survey of the demobilized soldier" as shown in the below Table 3, was conducted by the ES staff at the localities from October 2004 to March 2005 in six provinces under the full scale STP implementation. The purpose of the above needs survey wanted the demobilized soldiers to select the subject of skills obtained from the provincial workshops. The training of the ES staff on the procedures and on how to set up the interviewing plan was conducted by the CDAF/GS teams in close cooperation with the JICA expert after the workshop at the provincial level. The demobilized soldiers were required to select the first choice and second choice (in case the first choice could not be arranged for training course the second one will be included in the course). The GS three teams' staff and the JICA expert went down to monitor and evaluate the interviewing process performed by the ES staff at the district levels except the Takeo province.

As it turned out, the 74% of all demobilized soldiers came and interviewed even though they faced some difficulties, such as their living conditions were poor, their health were not good or they were busy with their daily income generation.

Table 3: Undertaking of Demobilized Solders' Needs Survey by Provinces

Province	Target districts	Survey Period
Takeo	Kirivong, Baty, Somrong, Prey Kabass, Angkor Borei, Koh Andeth, Borei Chulsar, Tram Kok, Daun Keo, Traing	4/10/2004-9/10/ 2005
Kampong Speu	Phnom Srouch, Kang Pisey, Boseth, Somrong Tong, Chbar Mon, Oral, Tpong, Udong	2/11/2004-11/11/2005
	Phnom Srouch (Re-conducting)	11/01/2004-18/01/2005
Kampong Cham	Kang Meas, Steung Treng, Krouch Chmar, Pogneak Krek, Tombe, Kampong Cham, Prey Chhor, Cheung Prey, Srey Santhor, Memot, Kompong Siem, Batheay, Oraing Ov, Koh Sotin, Tbaung Khmum, Chamkar Leu	18/10/2004-29/10/2005
Prey Veng	Kompong Leav, Kanh Chreach, Pear Raing, Prey Veng, Sithor Kandal, Peam Chor, Peam Ror, Preah Sdech, Kampong Trobek, Me Sang, Kamchay Mear, Ba Phnom	01/12/2005-07/12/2005
Siem Reap	Siem Reap, Prasat Bakong, Sonikum, Svay Leu, Chikreng, Banteay Srei, Angkor Thom, Pourk, Kro Lanh, Srei Snom, Angkor Chum, Varin	15/11/2004-28/11/2004
Battambang	Banan, Battambang, Sang Ke, Maung Reusey, Ek Phnom, Thmor Kol, Bavel, Kah Kralor, Phnom Preuk, Komrieng, Sompau Loun, Somlot, Ratanak Mondul	20/01/2005-13/03/2005

4. Data Processing and Analysis

The staff of the CDAF/GS Computer Center attended several meetings in order to discuss and revise the Questionnaire to be used for interviewing the needs survey of the demobilized soldiers. After the final version of the above Questionnaire was reviewed and revised, the CDAF/GS Computer Center designed and set up the database system by using the "Microsoft Access Program". The system is to store database, to detect for any mistake in the interviewed Questionnaire, and to safeguard other errors to be incurred from the data entry into the system. In case, the interviewed Questionnaire was not contained sufficient information and unacceptable, that Questionnaire will not be automatically run into the system, accordingly.

After the data from the above needs survey of the demobilized soldiers were captured into the system, the Computer Center's staff had cross-checked and verified it by

using different methodology in order to ensure that the captured data was accurate and reliable. After the cross-checking process, the above-said data had been analyzed according to the request and requirement of the JICA expert and the GS three teams. The data analysis was run by the "SPSS" program and it is more feasible in analyzing and quickly producing the tables and graphics as needed.

The results of the above analysis on the requirement of the vocational and skills training by provinces in each district were printed out as per the needs of the GS three teams so as to set up the action plan for conducting the skills training courses to the demobilized soldiers. After, the GS three teams would have discussed about the preparation of the name lists of trainees who will receive the skills in the near future by districts in each province according to their choices selected by the demobilized soldiers and their representatives, then the Computer Center staff will revise and print out the name lists of the trainees as per the requirement of the GS three team, accordingly.

The Questionnaire of the needs survey that had already been imputed into the database system consisted of the above-mentioned 6 provinces were presented below:

Table 4: Numbers of Interviewed Trainees and Their Representatives

Name of Provinces	Interviewed Trainees								Total
	No answer	Parents	Spouses	Demobilized Soldiers	Relatives	No attendants	Nep hew	Children	
Prey Veng	1	2	26	202	10	8	1	113	363
Siem Reap	0	12	79	770	25	20	0	156	1062
Kompong Cham	1	10	63	461	73	12	0	179	799
Kompong Speu	0	3	52	388	14	23	0	194	674
Takeo	0	1	15	117	18	4	0	63	218
Battambang	1	5	106	1014	52	28	0	300	1506
Total	3	33	341	2,952	192	95	1	1,005	4,622

5. Short-Listing of Potential Service Providers

Based on the results obtained from the above-mentioned provincial workshops regarding the availability and its capacity of the potential service providers to attend the bidding process in order to deliver the skills training to the demobilized veterans, the CDAF/GS Teams and the JICA expert had several discussions so as to establish the Short-List Table of Potential Service Providers by the districts levels who are capable to provide various skills training to the demobilized soldiers. From February to March, 2006, the short-listed potential service providers by districts and by subjects of skills training in first three (3) provinces, namely (i) Kampong Cham, (ii) Kampong Speu, and (iii) Takeo were made available to be used for inviting those service providers to compete among themselves for bidding and conducting the skills trainings.

6. Preparation for the TORs on Skills Training Courses

In order to provide the standardized skills training toward the demobilized soldiers, the CDAF General Secretariat in close cooperation with the JICA Expert had many meetings to prepare and establish the TORs to be implemented by the winning trainers. The CDAF General Secretariat had already TORs of some kinds of skills under the pilot phase, such as skills of pig, chicken raising and vegetable growing. However, under the full scale skills training implementation, the CDAF General Secretariat revised the existing skills training courses in order to adapt to the actual requirements under the full scale phase in terms of skills to be taken place at districts levels and budgetary availability and prepared new TORs with other skills, namely (i) cow raising, (ii) fish raising, (iii) mushroom growing, (iv) motorcycle repairing, (v) small machine repairing, (vi) sewing, (vii) electronic repairing, and (viii) computer training.

7. Preparation for the Technical and Financial Proposals

Upon the availability of the above-mentioned Tables of short-listed Service Providers by districts and TORs in place, the CDAF/GS Teams and the JICA expert moved to the next step of preparing bidding documents called “**combined Technical and Financial Proposals or TFPs**” to be sent to those short-listed Service Providers for fulfillment and submission in order to compete among themselves in the transparent bidding process. The above TFPs which are the standard forms of bidding documents were so far established and made available for launching the bidding invitation.

8. Invitation of Potential Service Providers for Bids

Upon the completion of undertaking the needs survey at the localities with the demobilized soldiers regarding the selection of subjects of vocational and skills training; based on the result of analyzing the data on selection of subjects of skills training by districts levels; and with the availability of the above-mentioned TFPs in place, the CDAF General Secretariat had sent in February, 2005 the bidding documents to the short-listed service providers in three (3) provinces (Kampong Cham, Kampong Speu and Takeo) for their submission of TFPs. As at March, 2005, some of the above invited service providers in those three provinces were already submitted their TFPs for evaluation and selection pending the finalization of revising flexible Selection Procedures.

9. Revision of Trainers’ Selection Manual

The Trainers Selection Manual which prepared in the pilot phase was based on the World Bank Procedures and Guideline for selection of the consultants. The CDAF General Secretariat in close cooperation with the JICA expert reviewed the existing Guideline in order to revise areas of a bidding method including the scoring criteria and trainers’ minimum qualification in terms of simplification of procedures and small scale contact at district levels.

There was no existing formula of such selection Guideline prepared and implemented by the Cambodian Government in its public sector while the donors financed Projects, such Guideline was prepared by different donors according to their Projects requirement and status. The sample was learned from ILO/JAPAN ASIAN

REGIONAL PROGRAMME FOR EXPANSION OF EMPLOYMENT OPPORTUNITIES FOR WOMEN (EOW) CAMBODIA CHAPTER IMPLEMENTING PARTNERS (IPs) SELECTION PROCEDURES.

As it turned out, the above-mentioned Trainers' Selection Manual was finalized by the management of the CDAF General Secretariat and also submitted in June, 2005 to the involved stakeholders (JICA Office, Embassy of Japan and Ministry of Economy and Finance) for comments and approval. As it turned out, the above Manual was approved for implementation.

10. Proposals Evaluation for Contract Award to the Potential Service Providers

Following the result of the full meeting of the Selection Committee, the final evaluation reports for awarding contracts to the lowest evaluated proposals of the potential service providers were prepared by the Bids Evaluation Committee of the CDAF General Secretariat including the JICA expert in April, 2006 and then submit to the EOJ for non-objection. But, the JICA expert informed that the EOJ can not provide its non-objection and suggested the CDAF General Secretariat to move to the next step of awarding the Contract to the lowest evaluated trainers so that they could start up and deliver the skills training to the long-awaited demobilized soldiers.

11. Result of STP Implementation in Nine Provinces

As of January 31, 2007, the implementation of the Skills Training Project had been successfully completed in six main provinces, namely (i) Kampong Speu, Takeo, Kampong Cham, Siem Reap and Battambang; and is being implemented in other three provinces, such as Svay Rieng, Udon Meanchey and Banteay Meanchey. In these nine provinces, 5,347 out of the 9,167 veterans representing 61% of the total first full scale 15,000 demobilized soldiers have been receiving the short term and long term skills training at their localities where they are settling.

Based on periodic evaluation and monitoring that were separately and/or jointly conducted by the General Secretariat's reintegration teams, services providers and JICA experts, have shown that most of the veterans who received the above skills can use them in order to generate additional income and to improve their living conditions in the sustainable ways.

In summary, following the successful discharge of 15,000 first full scale demobilized soldiers from the army since 2001 and even though there was disruption of the Demobilization and Reintegration Project with the World Bank in 2003; the CDAF General Secretariat has been continuously implementing until now the reintegration component of the Project. As such, it is clearly indicated that the sustainability of this first full scale demobilization and reintegration project does exist in response to the planned objectives and goals.

**Summary of the Result of the Training Program for Soldiers by Provinces
From August 23, 2003 to December 31, 2007**

No	Provinces	Number of Soldiers	Skills Training Chosen by the Demobilized Soldiers										Total soldiers Trained	%
			Mushroom Growing	Vets Skill	Cow Raising	Animal Raising	Fish Raising	Small Machine Repairing	Motorbike Repairing	Vegetable Growing	Sewing Skill	Computer Skill		
1	Kampong Cham	933	0	0	188	351	0	0	44	0	21	29	633	12%
2	Kampong Speu	980	0	33	0	425	0	0	0	0	0	0	458	9%
3	Takeo	432	0	0	0	137	0	36	0	0	0	0	173	3%
4	Prey Veng	411	0	0	0	288	0	0	0	0	0	0	288	5%
5	Siem Reap	1760	0	0	0	872	6	0	0	8	0	0	886	17%
6	Battambang	2,272	30	0	449	650	0	0	0	146	0	20	1,295	24%
7	Svay Rieng*	458		10		307			68				385	7%
8	Oddor Meanchey*	1038		207		502							709	13%
9	Banteay Meanchey*	883	29		22	448				21			520	10%
Total		9,167	59	250	659	3,980	6	36	112	175	21	49	5,347	100%
%			1%	5%	12%	74%	0%	1%	2%	3%	0%	1%	100%	

Note: * The skill trainings are on-going process in the provinces of Svay Rieng, Udor Meanchey and Banteay Meanchey. Thus, the figures in the above three provinces may be changed because the absences of demobilized soldiers in the training courses.

Annex C. Reply to Borrowers Comments

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 473-1000
Cable Address: INTBAFRAD
Cable Address: INDEVAS

March 5, 2008

H.E. Keat Chhon
Senior Minister and Minister of Economy and Finance
Street 92, Khan Duan Penh
Phnom Penh, Cambodia

**Re: CAMBODIA - Technical Assistance Project (Credit 2664KH);
Structural Adjustment Credit (Credit 33230KH);
Demobilization and Reintegration Project (Credit 35640KH)
Draft Project Performance Assessment Report**

Your Excellency:

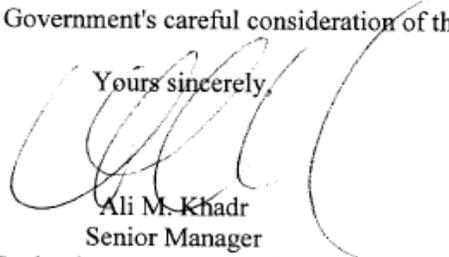
Thank you very much for the Government's comments which we have received on the above-referenced Project Performance Assessment Report. We note that your Ministry did not have comments regarding the Technical Assistance Project or the Structural Adjustment Credit. We have also given very careful consideration to the letter and attachments regarding the Demobilization and Reintegration Project, which were received from H.E. Svay Sitha, General Secretary of the Council for the Demobilization of the Armed Forces.

In addition to clearly stating the Government's position on the issues surrounding the outcome of this project, these attachments provided information on retraining programs for demobilized soldiers that our team had been unable to obtain during our visit to the country. We have incorporated additional information in our report based on these Government submissions and have lowered our assessment of "Risk to Development Outcome" from *Significant* to *Moderate*.

The Government's letters and attachments will be included in the final report which is distributed to our Board of Executive Directors. We will provide you with copies of the final report when it is distributed.

We thank you for the Government's careful consideration of this report.

Yours sincerely,



Ali M. Khadr
Senior Manager
Country Evaluation and Regional Relations Group
Independent Evaluation Group

H.E. Keat Chhon

2

March 5, 2008

cc:

The Government Counterparts

H.E. Dr. Aun Porn Moniroth, Secretary of State

H.E. Dr. Hang Chuon Naron, Secretary General

H.E. Vongsey Vissoth, Deputy Secretary General

H.E. Svay Sitha, General Secretary of the Council for the Demobilization of the Armed Forces

The World Bank

Mr. James Russell Hagan, Executive Director

Ms. Cheryl Gray, Director, Independent Evaluation Group

Mr. Ian Porter, Country Director for Cambodia

Ms. Nisha Agrawal, Country Manager for Cambodia

Annex D. List of Persons and Organization Met

A. Royal Government of Cambodia

H.E. Sok Chenda Sophea	Secretary General, Council for the Development of Cambodia
H.E. Hang Chuon Naron	Secretary General, Ministry of Economy and Finance
Vongsey Vissoth	Deputy Secretary General, Ministry of Economy and Finance
Dr. Pen Siman	Director General, Customs and Excise Department
Dr. Youk Sambath	Deputy Director General for Administration and Finance, Ministry of Health
Lay Huorn	Director, Finance Department, Ministry of Economy and Finance
Pen Thirong	First Deputy Director, Department of Investment and Cooperation, Ministry of Economy and Finance
Uth Chhorn	Auditor General, National Audit Authority
Luk Nhep	Secretary General, National Audit Authority
Chhay Vuth	Director, Department of Public Procurement
Huot Vathna	Deputy Director, Department of Public Procurement
Seng Sreng	Director, Economic and Finance Institute
Dr. Sok Saravuth	Director, Budget Department, Ministry of Economy and Finance
Svay Sovannrith	Director, Remuneration and Redeployment Policy, Council for Administrative Reform
Chea Sam Ang	Deputy Director, Forest Administration, Ministry of Agriculture, Forestry and Fisheries
Hang Sun Tra	Forest Industry and Trade Development Department, Ministry of Agriculture, Forestry and Fisheries
Suy Mong Leang	Director of Project Management Unit, Council for Legal and Judicial Reform
Michael Dabadie	Advisor, National Bank of Cambodia

B. Donors

Douglas Gardner	Resident Representative, UNDP
Roger Bednall	Program Manager, AusAid (Australia)
Clare Moran	Country Manager, DFID (UK)
Eric Illes	First Secretary, Embassy of Sweden
John Nelmes	Resident Representative, IMF
Robert Hagemann	Former Resident Representative, IMF
Jeremy Carter	Advisor, Asia and Pacific Department, IMF
Michael Kuhn	IMF
Thomas Rumbaugh	IMF
Dr. Andrew Wardell	Counsellor, Development, Royal Danish Embassy
Dr. Angelika Fleddermann	GTZ (Germany)
Mahiko Tada	JICA (Japan)

C. NGOs/Private Sector

Chhith Sam Ath	Executive Director, NGO Forum on Cambodia
Chan Sophal	Senior Research Manager, Cambodia Development Resource Institute
Eng Netra	Research Manager, Cambodia Development Resource Institute
Kurt A. MacLeod	Country Representative, Pact Cambodia
Kem Sokha	President, Cambodian Center for Human Rights

Dr. Ken Loo	Secretary General, Cambodia Garment Manufacturers Association
Bretton G. Sciaroni	Partner, Sciaroni and Associates

D. World Bank

Ian Porter	Country Director
Nisha Agrawal	Country Manager
Ngozi Okonjo-Iweala	Former Country Director
Zafar Ahmed	Former Country Economist
Agnes Albert-Loth	Senior Financial Officer
Ahsan Ali	Senior Procurement Specialist
Gillian Brown	Former TTL, Demobilization and Reintegration Project
Guy Darlan	Former TTL, Technical Assistance Project
Cyprian Fisiy	Sector Manager, Social Development, EAP
Chea Huot	Economist
Peter Jipp	Senior Natural Resource Management Specialist
Homi Kharas	Former Chief Economist and PREM Sector Director, EAP
Markus Kostner	Former member of Post-Conflict Unit
Kazi Matin	Former Lead Economist, EAP
Terry Matthews	Senior Institutional Integrity Officer, INT
B. Mbida-Essama	Former Country Manager
Barbara Nunberg	Sector Manager, Public Sector Management, EAP
Michael Richards	Lead Institutional Integrity Officer, INT
Denis Robitaille	Former Regional Procurement Adviser and Operations Manager, EAP
Juan G. Ronderos	Senior Institutional Integrity Officer, INT
Seilava Ros	Advisor to the Executive Director for Cambodia
Steven Schonberger	Lead Operations Officer
Robert Taliercio	Senior Country Economist
Jennifer Thomson	Senior Financial Management Specialist
Thang-Long Ton	Economist
Tom C. Tsui	Former Country Coordinator
Clay Wescott	Consultant
Albert Zeufack	Senior Economist

E. Other

Dr. Toshiyasu Kato	Senior Consultant, IC Net Limited
Yasuo Konishi	Managing Director, Global Development Solutions, LLC