World Bank Group in Cambodia

WORKING FOR A CAMBODIA FREE OF POVERTY

The World Bank is one of the world’s largest sources of funding for the developing world. Its primary focus is on helping the poorest people and the poorest countries. It uses its financial resources, its staff, and extensive experience to help developing countries reduce poverty, increase economic growth, and improve their quality of life.

July 2007
We are pleased to bring you this brochure about the World Bank Group and its activities in Cambodia. It is intended to provide information about the World Bank Group, what it does and how it works globally, as well as to provide specific information about World Bank-supported projects and activities in Cambodia.

The World Bank is a committed partner in the effort to help Cambodia overcome the tragic and devastating impact of violence and conflict in its recent history and bring about growth, good governance, and poverty reduction for the people of Cambodia.

The World Bank’s activities in Cambodia are designed to help attain Cambodia’s Millennium Development Goals (MDGs) through the implementation of its National Strategic Plan (NSDP) for 2006-2010.

The World Bank brings three things to this effort:

♦ Global knowledge and expertise to undertake research and provide policy advice;
♦ Financing for investment projects and support for recurrent expenditures (such as textbooks and teachers’ salaries) through policy-based lending;
♦ Donor coordination, as Lead Donor Facilitator for the Cambodia Development Cooperation Forum (CDCF) as well as for several of the Technical Working Groups (TWGs).

Our Country Assistance Strategy (CAS) that laid out our program of support for Cambodia for the next four years (2005-2008), was endorsed by the World Bank Board in May 2005. Our CAS is based on two pillars:

♦ Removing the governance constraints to attaining high growth and poverty reduction
♦ Supporting the strategy and investments needed to attain Cambodia’s Millennium Development Goals (CMDGs)

As part of this effort, we are working to build a much broader development partnership in Cambodia that includes not just the Government and other donors, but also the more active engagement of the private sector, NGOs, the media, and local communities to ensure that development activities reach the country’s poorest.

We encourage you to visit our Public Information Center which has a large collection of publications on development issues in Cambodia and around the world, as well as detailed information about all World Bank-supported projects or visit our Khmer website at http://www.worldbank.org.kh or English website at http://www.worldbank.org/kh

Nisha Agrawal
Country Manager
World Bank Office in Cambodia
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PART I: INTRODUCING THE WORLD BANK GROUP

Working for a World Free of Poverty

President - Robert B. Zoellick

The World Bank works to reduce poverty worldwide. It does this by promoting growth to create employment opportunities and by working to empower poor people to take advantage of these opportunities. It supports governments of member countries in their efforts to invest in schools and health centers, provide water and electricity, fight disease, and protect the environment.

In the East Asia and Pacific region, the World Bank’s work focuses on improving the investment climate and revitalizing the business environment; empowering the poor and enhancing social stability; and addressing global priorities including environment, trade, and assisting countries to meet their goals for poverty reduction and improving education and health.

The World Bank is not a “bank” in the common sense; it is an international organization owned by its 184 member countries. The World Bank was established in 1944 by a conference of 44 governments in Bretton Woods, New Hampshire, USA, as the International Bank for Reconstruction and Development. It now comprises five agencies that together constitute the World Bank Group:

♦ The International Development Association (IDA) plays a key role in supporting the Bank’s poverty reduction mission. Its assistance is focused on the poorest countries (where income per person is $875 a year or less) to which it provides interest-free loans and grants. Countries generally have 35 to 40 years to repay the loans, with a 10-year grace period. The IDA depends on contributions from its wealthier member countries for most of its finance. Website: www.worldbank.org/ida

♦ The International Bank for Reconstruction and Development (IBRD) provides loans and development assistance to middle-income countries, where annual income per person is less than $5,185. The IBRD offers these countries loans with better terms and longer repayment periods than they would be able to borrow from the private markets. The IBRD obtains most of its funds through the sale of bonds in international capital markets. Website: www.worldbank.org

♦ The International Finance Corporation (IFC) promotes growth in the developing world by financing private-sector investments and providing technical assistance and advice to governments and businesses. In partnership with pri-
vate investors, the IFC provides both loan and equity finance for business ventures in developing countries. Website: www.ifc.org

♦ The Multilateral Investment Guarantee Agency (MIGA) encourages foreign direct investment in development countries by providing guarantees to foreign investors against loss caused by noncommercial risks. The MIGA also provides technical assistance to help developing countries promote investment opportunities and uses its legal services to smooth possible impediments to investment. Website: www.miga.org

♦ The International Center for Settlement of Investment Disputes (ICSID) provides facilities for settlement – by conciliation or arbitration – of investment disputes between foreign investors and their host countries. Website: www.worldbank.org/icsid

People sometimes confuse the World Bank with the International Monetary Fund (IMF) which was also founded at the Bretton Woods conference in 1944. Although the IMF’s functions are complementary to those of the World Bank Group, it is completely separate. The World Bank provides assistance to developing countries, whereas the IMF works to stabilize the international monetary system and acts as a monitor of the world’s currencies.

The World Bank is run like a cooperative, with its member countries as shareholders. The number of shares a country has is based roughly on the size of its economy. The United States is the largest single shareholder, with 16.41 percent of votes, followed by Japan (7.87 percent), Germany (4.49), Britain (4.31) and France (4.31). The Bank’s president is elected for a five-year renewable term. The president chairs meetings of the Board of Directors and is responsible for overall management of the Bank. The current president is Robert Zoellick, who took office on July 2, 2007. Like all previous World Bank presidents, he is an American citizen.

The shareholders are represented by a Board of Governors. Generally, these are government ministers who meet once a year. The rest of the time they delegate specific duties to their Executive Directors, who work on-site at the Bank. Every member government of the World Bank Group is represented by an Executive Director. The United States, Japan, Germany, Britain and France each appoint an executive director, and another 19 directors represent all other member countries.

These 24 Executive Directors normally meet twice a week to oversee the Bank’s business, including approving loans and guarantees, new policies, the administrative budget, country assistance strategies, and borrowing and financial decisions.

The World Bank employs approximately 10,000 people from 160 countries in its headquarters in Washington DC (USA) and around the world.

In Cambodia the World Bank has a Public Information Center at 70 Norodom Blvd, Phnom Penh. Its websites are http://www.worldbank.org/kh (in Khmer) and http://www.worldbank.org.kh/ (in English). Contact: Sam Ouem Sophinith, e-mail: ssamoeun@worldbank.org

MILLENNIUM DEVELOPMENT GOALS

Most of the world’s nations committed themselves to working together to dramatically reduce poverty by half by the year 2015, when they signed the Millennium Declaration at a United Nations meeting in 2000. The World Bank uses the declarations’ eight goals as targets to help set its priorities – they are its roadmap for development. These goals are:

1. Eradicating extreme poverty and hunger
2. Achieving universal primary education
3. Promoting gender equality and empowering women
4. Reducing child mortality
5. Improving maternal health
6. Combatting HIV/AIDS, malaria, and other diseases
7. Ensuring environmental sustainability
8. Developing a global partnership for development
USEFUL CONTACTS

WHERE CAN I GO TO GET MORE INFORMATION ABOUT THE WORLD BANK?

The World Bank’s website www.worldbank.org has a great deal of information about the World Bank Group. It is a good starting point for getting information about the Bank.

WHERE CAN I GET MORE INFORMATION ON WORLD BANK PROJECTS?

The World Bank has a database on its projects in developing countries, which contains summary information on loans and technical assistance (http://www.worldbank.org/projects/).

WHERE CAN I GO TO GET MORE INFORMATION ABOUT THE WORLD BANK ACTIVITIES IN EAST ASIA AND PACIFIC?

The World Bank’s East Asia and the Pacific region website is a good place to start. From the main portal, you can access our country-specific websites. There is also a link to sign up for periodic updates by email on World Bank activities and research in the region or in a specific country. See the web page for details.
(http://www.worldbank.org/eap)

ARE THERE ANY GRANTS I CAN APPLY FOR?

There are various grant/funding opportunities offered by the World Bank. Here are some examples.

InfoDev - Provides funding for the dissemination of information communications technology (ICT) and/or improving ICT use for social and economic development and poverty reduction, in partnership with international development organizations, governments or private sector organizations (http://www.infodev.org/).

Post Conflict Fund - Supports planning, piloting, and analysis of reconstruction activities by funding governments and partner organizations. Non-governmental organizations (NGOs) and other civil society institutions, governments, regional and international organizations in any country that is currently in conflict or is emerging from a recent conflict are eligible to apply for funding (http://www.worldbank.org/conflict).

Indigenous People Fund - Supports projects that address four critical areas: resources for sustainable development, indigenous rights, institutional strengthening and training, and culture and identity (http://www.worldbank.org/indigenous).

Social Funds - Finance small community-managed projects to help empower the poor and vulnerable populations in developing countries (http://www.worldbank.org/socialfunds).


Technical Assistance Trust Funds - Through this program, IFC conducts a broad range of technical assistance activities, from helping entrepreneurs develop project proposals to assisting with private-sector institution building (http://www.ifc.org/about/contacts/support/ta/ta.html).

Critical Ecosystem Partnership Fund - Creates strategic alliances for a comprehensive, coordinated approach to conservation challenges, such as managing protected areas and coordinating biodiversity corridors; training; and cross-border planning, among others. Civil society organizations, community groups, private-sector partners in the biodiversity conservation field are eligible to apply for funding (http://www.cepff.net/cepff).

I’M AN INVESTOR. CAN THE WORLD BANK HELP ME SELECT GOOD COMPANIES AND PROJECTS TO INVEST IN?

There are various resources on the World Bank’s website where you can explore opportunities for investors.

IPAnet - Operated by MIGA, this portal for international corporate investors provides information and analysis on the investment environment and business opportunities (http://www.ipanet.net/).

FDI Xchange - This free e-mail service provides profiles of new investment opportunities and business environment analysis from emerging markets worldwide (http://www.fdixchange.com/).

Privatization Link - This service features profiles of enterprises slated for divestiture in emerging markets (www.privatizationlink.com).

Development Gateway Foreign Direct Investment Topic Page - MIGA, in cooperation with the Bank’s Foreign Investment Advisory Service and the United Nations Conference on Trade and Development, moderates this page, which catalogs and disseminates the most recent information on foreign
direct investment, international business, and multinational enterprises (http://www.developmentgateway.org/fdi).

Private Equity and Investment Funds - IFC has helped to develop, structure, and implement a number of private equity funds to target various sectors. These specialized investment vehicles are designed to provide equity and quasi-equity financing to private enterprises that meet certain criteria (http://www.ifc.org/about/contacts/sectors/funds/funds.html).

Rapid Response Unit - Knowledge resources specializing in policy advice, investment climate, and privatization in developing countries (http://rru.worldbank.org/).

HOW MUCH DOES MY COUNTRY WIN IN PROCUREMENT CONTRACTS? HOW CAN I PARTICIPATE?
The procurement contracts awarded to individual countries can be seen on the Contract Awards Search page (http://www.worldbank.org/projects). Additional information on development programs and projects can be found on the Development Gateway’s AiDa site (http://www.developmentgateway.org/aiDa).

The following websites contain information on invitations to bid or express interest for contracts under World Bank-financed projects:

Development Gateway (dgmarket) (http://www.dgmarket.com/).


ARE THERE SPECIAL OPPORTUNITIES FOR JOBS AND SCHOLARSHIPS FOR MY COUNTRY?
Joint Japan/World Bank Graduate Scholarship Program (http://www.worldbank.org/wbi/scholarships/)

Robert S. McNamara Fellowships Program (http://www.worldbank.org/wbi/scholarships/)


WHERE CAN I GET MORE INFORMATION ON BANK RESOURCES FOR KIDS?

There are several sites with information tailored for a younger audience. Kids DevNews is a monthly news bulletin for children that covers various topics of interest in developing countries (http://web.worldbank.org/WEBSITE/EXTERNAL/NEWS). There is also information on the website for kids and schools to use (http://www.worldbank.org/html/schools/).

HOW CAN MY SCHOOL OR COMPANY ARRANGE A VISIT TO THE WORLD BANK?
The Speakers Bureau at the World Bank provides briefings for visiting groups on selected days throughout the year (http://web.worldbank.org/WEBSITE/EXTERNAL/NEWS/).

HOW CAN I FIND OUT WHAT THE BANK IS DOING WITH MEMBERS OF PARLIAMENT?
The Bank, through the Vice Presidency for Europe, has supported the creation of the Parliamentary Network on the World Bank to forge closer ties between the Bank and parliaments worldwide (http://www.pnownb.org).

WHERE DO I GO FOR INFORMATION ON BANK PUBLICATIONS AND DOCUMENTS?
The World Bank has a number of Public Information Centers in the region, where members of the public can request information and documents from the World Bank. These documents are made available to the public under the World Bank’s public information disclosure policy (http://www.worldbank.org/html/pic/cas/).

World Bank publications are available on-line on our website and at various distributors worldwide (http://www.worldbank.org/publications).

Kingdom of Cambodia
Public Information Center
70 Norodom Blvd., Phnom Penh, Cambodia Contact: Sam Ouem SophinithE-mail: ssamoeun@worldbank.org Website: http://www.worldbank.org/kh (Khmer language site) http://www.worldbank.org.kh
THE WORLD BANK GROUP IN CAMBODIA

The World Bank started operating in Cambodia in 1992 to support the development of the country. The Government has received a total of $728.95 million in loans and grants from IDA, and $103.45 million in grants from Trust Funds. The following sections describe 33 policy studies, as well as 13 projects for $262.6 million which are under implementation. The results of the 10 most recently implemented projects are also presented in this brochure. Youth and Small Grants Programs, and the programs implemented by IFC and the Mekong Private Sector Development Facility (MPDF) in Cambodia are also described here.
PART II A
WORLD BANK GROUP COUNTRY ASSISTANCE STRATEGY
Governance issues are identified as the primary obstacle to sustainable poverty reduction in Cambodia in the World Bank’s Country Assistance Strategy for the financial years 2005 to 2008. Cambodia has made significant achievements since the United Nations-supervised peace process of 1991-1993. However, after decades of war and authoritarian government, the Kingdom is in many ways still a post-conflict society and political system. It is at peace, increasingly integrated with the region and the world, and has enjoyed a decade of largely unbroken macroeconomic stability and growth. But the threefold transition that began in the late 1980s from civil war to peace, from one-party rule to multi-party democracy, and from economic isolation to integration has given rise to complex and often negative forms of state-society relationships, and weak accountability for the management of public resources.

A poor governance environment (weak capacity, the strong blocking influence of vested interests operating through a system based on patronage, weak legal protection for the poor, and a private sector impeded by high levels of bureaucratic intervention and unofficial charges) has been the primary impediment to greater impact, both of the program of the World Bank Group and of development policies more generally.

Strong economic growth during the last decade has been narrowly based in a few sectors and has had only moderate impact on poverty. Around 35-to-40 percent of the population remain below the poverty line, with 15-to-20 percent in extreme (food) poverty. And the poverty is overwhelmingly rural, ranging from 10-to-15 percent in Phnom Penh to 40-to-45 percent in rural areas, reaching 70-to-80 percent around the Tonle Sap Basin.

During the initial part of the last decade, inequality grew rapidly, but this has stabilized in recent years as more of the country has become accessible. Growth in agriculture (on which the majority of the population depends) has averaged far below the growth rate of the economy as a whole. High and sustainable growth and stronger linkages to poverty reduction will require urgent action to improve competitiveness and diversify the sources of growth, particularly in regard to smallholder agriculture and other rural economic activities.

The World Bank’s Country Assistance Strategy is intended to help implement the Government’s Rectangular Strategy, which provides a sound diagnosis of Cambodia’s development challenges – particularly the central importance of good governance – and a comprehensive list of actions to tackle these problems. The World Bank, in partnership with other donors, has supported the formulation of the Government’s new five-year plan for 2006-2010, called the National Strategic Development Plan (NSDP), and is now supporting its implementation, and monitoring and evaluation.

Over the last decade, uncoordinated and donor-led aid has often slowed or even undermined the evolution of good governance. Increasing recognition of this problem led in 2004 to a Government-donor consensus on an agenda for harmonization and alignment, to which the World Bank Group has contributed actively. It is a central principle of the Bank’s Country Assistance Strategy to work through strategic partnerships to reduce transaction costs, improve accountability, and support the development of core state capacities. To these ends the Bank is collaborating closely with the Asian Development Bank (ADB), the UK Department for International Development (DFID), the UN Development System (UNDS) and with Japan. The CAS reflects three main lessons learned:
Lessons learned

♦ The need to focus on governance throughout the country program. Poor governance has been the primary constraint on the impact of the World Bank Group and of development policies generally.

♦ The need to improve donor coordination and partnerships. Poor governance and poor donor behavior have been closely related. Poor governance has encouraged donors to adopt short-term approaches to development effectiveness and help provide rationale for uncoordinated aid; insufficient donor coordination or outreach to civil society has accentuated the problems of weak governance.

♦ The need for a clear focus on results. This requires greater criteria-based selectivity and a clear definition of the expected relationship between inputs, activities, progress indicators and outcomes.

Poor governance is the fundamental brake on World Bank Group effectiveness and the achievement of development in Cambodia. The focus on governance is thus the primary filter to guide the selection of issues and instruments.

√ First, the Bank should choose to work in those sectors in which governance constraints are the critical limiting factor, and in which these governance constraints have significant strategic importance for the overall national agenda.

√ Second, the Bank should differentiate between sectors (in terms of the level and form of resources allocated), based on an assessment of the strength of government commitment to reform. Where commitment is apparent, the Bank will support a defined reform agenda and identified champions for reform with significant loan and grant resources, including fast-disbursing Poverty Reduction and Growth Operations (PRGOs). Where such commitment has yet to develop, the Bank will seek to foster a momentum for reform primarily through the deployment of analytical and advisory services, donor coordination, and well-designed technical assistance. Choosing to focus on sectors in which there appears to be evidence of government commitment clearly makes good sense in terms of a results-based CAS; those sectors with domestic champions are more likely to move ahead than those without champions.

CAS Objectives and Results
The Country Assistance Strategy has six objectives, clustered under two “pillars”.

**Pillar 1** comprises activities intended to help implement improvements in governance needed if Cambodia is to meet the Cambodia Millennium Development Goals (CMDGs) – nine goals integral to the halving of poverty by the year 2015 envisaged in the UN Millennium Declaration of 2000. To this end, the CAS establishes four objectives:

- First, it will tackle aspects of economic governance that raise the cost of doing business, deter investment and trade, and hold back strong, broad-based private-sector development (PSD);
- Second, it will seek to support policy and institutional reforms that help the rural poor achieve more say in and receive more benefits from sustainable natural resources management (NRM), by improving transparency and accountability in the governance of natural resources and land in particular;
- Third, it will address core issues of public financial management (PFM) as a fundamental backbone for improved service delivery. It will do so by supporting the Government’s comprehensive timetable for PFM reform and the formulation of strategies for reform of pay and human resource management; and
- Fourth, it will promote accountability – between elected officials and those responsible for delivering services; between citizens and the state; and between those who deliver services and the citizens who receive them – by supporting decentralization and promoting citizens’ partnerships for better governance.

**Pillar 2** allocates World Bank activities and resources to supporting the strategy development and investments needed to attain the CMDGs. To these ends, the World Bank Group will:

- First, encourage the emergence of holistic, poverty-focused approaches to the formulation and implementation of public policy by supporting the implementation of the National Strategic Development Plan (NSDP 2006–2010); and
- Second, where there are clear gaps in critical infrastructure and human development sub-sectors, the World Bank Group will support the emergence of a “nationally owned” vision and strategy through the provision of analytical and investment services.

Focusing on key governance issues and supporting efforts to attain the CMDGs defines what the World
Bank will do in the next CAS period; working through strategic partnerships and promoting the development of national “ownership” defines how results will be achieved. The World Bank Group will undertake more active communication of goals and activities and more systematic engagement with civil society and the private-sector stakeholders within Cambodia. And it will contribute to improving Government-led coordination of external assistance, either working through or helping to promote the evolution of coordination structures such as sector-wide approaches (SWAps).

**World Bank Group Assistance**

A mix of loans, grants and analytical services will be used in pursuit of these goals. Annual, single-tranche Poverty Reduction and Growth Operations (PRGOs) will be introduced to support priority reforms in PFM, PSD and land management. Increasing attention will be given to portfolio quality, with annual reviews of performance contributing to improved fiduciary controls. Analytical and advisory activities (AAA) will support the focus on addressing governance impediments to poverty reduction and on meeting strategy and investment needs in sectors critical to attaining the CMDGs. Wherever possible, analytical work will be approached in partnership with the Government, other donors, and civil-society stakeholders, in order to facilitate consensus-building, donor coordination, and government ownership of policy recommendations. The World Bank will seek to ensure that analysis is commissioned and managed in such a way that it contributes to the long-term accumulation of national capacity for policy-oriented economic and social analysis.

Poor governance indicator scores in the Country Policy and Institutional Assessment (CPIA) for Cambodia reduced the World Bank base case lending envelope from US$70 million per annum in 2002 to US$45 million in 2004. Allocation of Bank resources for Cambodia have since stabilized at an average of US$ 50 million per annum for the IDA 14 period (FY06-08).

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The World Bank Country Assistance Strategy is intended to support the Government in choosing and following a path of systematic reform, and in its efforts to improve its CPIA ratings and thus gain access to more International Development Association (IDA) resources. It is intended to build on the lessons the Bank has learned and to support positive developments in Government commitments and in improved donor behavior. In doing so, it aims to bring the World Bank’s lending and knowledge instruments to bear on the problems that face Cambodia in its long-term transition from post-conflict to “normal” development. Implementation of the CAS will be evaluated during the second half of 2007 and a Progress Report will be sent to the Board of Directors by December 2007. Feedback will be sought from all stakeholders (Government, donors, civil society and private sector) on whether the CAS remains on track or whether it needs some adjustment going forward.
PART II B

CAMBODIA:
THE FIGHT AGAINST CORRUPTION
CAMBODIA: THE FIGHT AGAINST CORRUPTION

Cambodia has achieved great progress in the past decade, however, the three-fold transition that began in the late 1980s—from civil war to peace, from one-party rule to multi-party democracy, and from economic isolation to integration—has given rise to complex and often negative forms of state-society relationship and weak accountability for public resources. This has resulted in weak governance and high levels of corruption, documented, for example, in a number of indicators such as the “Governance Matters” Indicators produced by the World Bank, the Corruption Perception Index produced by Transparency International (TI); the Investment Climate indicators reproduced in World Development Indicators; and the Country Policy and Institutional Assessment (CPIA) ratings done by the World Bank. Cambodia’s government, civil society, and public alike recognize weak governance and high levels of corruption as a major impediments to lasting growth and poverty reduction.

As a result, three years ago the World Bank focused its program in Cambodia on improving governance and fighting corruption. As part of this, the Bank has undertaken several high-profile analytical pieces that identified and publicized the extent and the nature of the problem of weak governance in Cambodia. These included the Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER) in 2003; the Country Procurement Assessment Report (CPAR) in 2004; the Investment Climate Assessment (ICA) in 2004; and the Cambodia at a Crossroads report on strengthening accountability. These analytical pieces have been instrumental in advising Government to develop a comprehensive set of reform programs.

The World Bank also developed, in partnership with the Asian Development Bank, DFID of the United Kingdom and the United Nations System, a new Country Assistance Strategy (2005-2008), endorsed by the World Bank’s Board last year which is based on a two-pronged approach: (1) supporting governance and anti-corruption reforms, particularly reducing the costs of doing business, improving management of natural resources, strengthening public financial management, and supporting decentralization and the demand-side aspects of governance; and (2) reducing the fiduciary risk for Bank-financed operations in Cambodia and more systematically in government systems.

1. Supporting Governance and Anti-Corruption Reforms:

The current CAS focuses on assisting the Government in building long term institutions of reform in four areas that are deemed to be critical for higher growth and faster poverty reduction:

♦ Promoting private sector development by reducing the costs of doing business—shortly after the CAS was endorsed by the Board, a $10 million IDA grant for Trade Facilitation and Competitiveness (FY05) to improve the business climate was approved and is now under implementation; and regular monitoring of impact through investment climate assessments will be carried out.

♦ Improving the management of natural resources, especially land and forests—the proposed program consists of a $10 million IDA grant for a Land Allocation for Social and Economic Development Project (scheduled for FY07) which would aim to provide land and/or greater security of tenure and agricultural services to the poor and landless. The World Bank has also been engaged in a Land Management and Administration project (LMAP), which aimed to reduce poverty by giving secure land ownership rights to families across the country, and establishing more efficient land administration institutions. The Bank’s work in improving the management of natural resources is also being complemented by analytical work on land, forestry and agrarian structure issues and aims to build consensus among all concerned stakeholders (government, donors, civil society, and communities) on the way forward.

♦ Strengthening public financial management—a $14 million IDA grant for a Public Financial Management and Accountability Project was approved by the World Bank’s Board of Executive Directors on June 27, 2006, and is seen as a key component of the Bank’s approach to helping improve governance and fight corruption. The project will help implement the first phase of a 10 year program of reforms in this area that is supported by 11 donors.
Supporting decentralization and promoting citizen’s partnerships for better governance—the proposed program consists of three projects, one for supporting the supply of good governance at local levels and two for creating a stronger demand for good governance amongst the citizens of Cambodia. The supply side project will be a $30 million IDA grant for a Rural Investment and Local Governance Project II (RILGP II, FY08) that would strengthen commune level governments and would be a follow on to the current RILGP (approved in FY03). In addition, a $10 million IDA grant for Demand for Good Governance (DFGG) (FY07) will aim to catalyze and channel the demand for good governance in a manner that accelerates the pace of governance reforms and increases the likelihood of pro-poor outcomes from the implementation of the Government’s reform program. Another IDA Grant for $15 million for Empowerment of the Poor in Siem Riep Province will aim to improve the livelihoods of the poor by linking them to the tourism engine of growth in Siem Riep Province. The project work will be complemented by analytical work on creating a more enabling environment for civic engagement.

2. Reducing Fiduciary Risk

As part of the efforts to reduce the fiduciary risk in Bank operations, a joint World Bank-Government Fiduciary Review was undertaken as an input into the preparations of the Country Assistant Strategy (CAS) to detect weaknesses in systems, help Government develop an action plan to address these, and reduce the opportunities for corruption. As a follow up to this, an investigation by the Bank’s Institutional Integrity Department (INT) uncovered sufficient evidence to substantiate allegations of fraud and corruption in contracts—found in 49 contracts under 7 projects in the Cambodia portfolio (4 on-going and 3 closed projects). Following a detailed review, the World Bank declared misprocurement on 43 contracts in 5 projects (2 closed and 3 active). The total value of contracts where misprocurement was declared is approximately $12.2 million. Bank funds amounting to about $8.25m were used to finance these contracts:

The Government responded promptly to the results of the investigation—the Ministry of Economy and Finance (MEF) issued a letter of suspension on 3 of the 7 projects—Land Management and Administration, Provincial and Rural Infrastructure, and Provincial and Peri-Urban Water and Sanitation. They also announced their full commitment to an investigation, headed by MONASRI (Ministry of National Assembly Senate Relations Investigation), and to developing Action Plans for the 3 suspended projects to fix weaknesses, improve governance, and enable the valuable work of the projects to continue.

The suspensions of all three projects were lifted in February 2007 after the Bank and the Government reached mutual agreement on ways to improve governance in the implementation of these projects, and the agreed initial actions were taken, including adoption of Good Governance Frameworks (GGFs). The GGFs include measures to strengthen procurement procedures, financial management processes, staff conduct, complaint mechanisms and disclosure and internal controls. One of the key measures is the delegation of procurement for World Bank-financed projects to an international procurement agent (IPA) firm. The Government further decided to establish GGFs for all active and future World Bank financed projects.

The Bank and the Government also agreed on a proposal for (i) refund (accelerated repayment) of $2.89m (35 percent) of the IDA-disbursed funds against the misprocured contracts over a period of three months starting July 2007; (ii) the adoption and implementation of anti-corruption action plans (GGFs) for all ongoing projects; and (iii) the establishment of a government anti-corruption team to identify, promote and implement anti corruption measures in close partnership with the Bank, in accordance with TOR satisfactory to the Bank. The first refund installment of $1m has already been paid to the Bank. Recently approved new projects have included GGFs in the original design while other ongoing projects with closing dates beyond December 31, 2007 are being legally amended to also incorporate the GGFs.

The Bank is also responding to the Government’s request for technical support to the Ministry of National Assembly and Senate Relations (MONASRI) for reinforcing its capacity to deal with cases of fraud and corruption. A Bank-led training for MONASRI staff is planned for the last quarter of 2007.

The World Bank believes that transparency is a key ingredient to fighting corruption in Cambodia, and is working with Government, donors, and others in Cambodia to improve systems of accountability and transparency at the project level as well as through reforms at the national level. In October 2006, the Government passed a new procurement sub-decree followed by the adoption of improved Implementing Rules and Regulations, including Standard Procurement Documents, in January 2007. The Government also raised the stature of the Standard Procurement Manual for Externally Financed Projects from a Prakas to Sub-Decree in February 2007.

The World Bank recognizes the Government’s desire to improve governance in the country, and has provided assurance of its full support for the development of Cambodia and its people.
PART II B
MORE THAN MONEY:
WORLD BANK ANALYZES DEVELOPMENT ISSUES

While the World Bank is best known as a financier, one of its most important roles is providing analysis and advice to client countries for policy improvements that can make greater inroads into poverty reduction.

The Development Economics Vice presidency, led by the World Bank’s Chief Economist, undertakes the research that informs the World Bank global work on broad issues such as the environment, poverty, trade and globalization, while in each member country, Bank staff undertake economic analyses that underpin the Bank’s policy advice and program support for a country. These studies examine, for example, a country’s economic prospects, its banking or financial sectors, the investment climate, the nature and extent of poverty, or social safety nets, to help provide countries with good data and analysis on which to formulate policy and pro-poor growth strategies.

In Cambodia, the following studies have been either recently completed, are on-going, or are about to start.

**Studies recently completed:**
2. Civil Service Reform for Teachers, June 2007
3. Cambodia: Sharing Growth, June 2007
5. Environment and Social Safeguards, December 2006
7. Justice For the Poor? June 2006
13. Social Protection Strategy Note, June 2005
15. Private Participation in Infrastructure June 2005
16. Quality Basic Education for All, June 2005
17. Corporate Social Responsibility in the Apparel Sector, April 2005
18. Corruption and Cambodian Households March 2005
19. Social Accountability in Cambodia February 2005
20. Cambodia at the Crossroads, Dec. 2004
22. Poverty and Social Impact of Cambodia’s Proposed Social Land Concession Program June 2004
23. A Fair Share for Women: Cambodia Gender Assessment April 2004
25. Integrated Fiduciary Assessment and Public Expenditure Review August 2003
26. Value Chain Analysis June 2003
27. Cambodia Environment Monitor 2003 April 2003

**On-going studies**
1. The Role of Agrarian Structure in Support of Cambodia’s Growth and Employment Objectives
2. Cambodia Environment Monitor 2007
3. Cambodia Health Sector 2015
4. Investment Climate Assessment 2008
Public Expenditure Tracking Survey Report for Health

Health expenditure in Cambodia in 2005 was estimated at US$37 per person. Of this $25 was out-of-pocket, $7 donor-financed, and $4 from the Royal Government of Cambodia (RGC). Cambodia’s public health funding is low and the effectiveness of government health services limited.

Only 22 percent of those who sought health care did so in the public sector. Cambodia’s essential health service delivery is predominantly public and provided through 915 health centers serving about 10,000 people each, and 69 referral hospitals intended to serve 100,000 people each.

The objective of the World Bank-funded Public Expenditure Tracking Survey (PETS), which was conducted in 2005-2006, was to help the government diagnose issues and propose directions for improving effectiveness and efficiency of public financing in the health sector.

The PETS found that financial resources that actually reach the “front line” health services fall short of what is needed to make the services work. In 2003 only 36 percent, and in 2004 only 32 percent, of the government health expenditures was spent for providing services in government health centers and referral hospitals. The other two-thirds was spent on various levels of health administration and national programs. Government spending on essential health services was $1.23 per person in 2003 and $1.20 in 2004.

Government spending per person thus declined from 2003 to 2004, while the government health budget actually increased by 11 percent and the total actual government health expenditure by 19 percent. These funding increases did not make it to the “front line” health services: government expenditure at provincial level, where all district health services are located, actually fell both in value and as a proportion of the total.

Non-salary operational expenditures dominate government health expenditure. Only 14-to-15 percent of total government health funds were spent on staff. This reflects the very low level of salaries, which are not sufficient to provide staff with performance incentives. PETS found that 38 and 44 percent of doctors and medical assistants were absent from government services as they have better earning possibilities in the private sector.

Disbursement delays are significant. At the operational district level delays of more than four months are typical, and can be up to seven months. “Facilitation” fees to obtain release of funds are widespread. User fees play an increasingly important role in financial incentives for staff and nonsalary operation costs of government health facilities. In 2004, the user fees accounted for 13 percent of health center and 22 percent of referral hospital expenditure.

The survey found that misaligned authority, bureaucratic red tape, limited institutional capacity and ineffective checks and balances are serious constraints for effective public expenditure.

The survey concludes that front-line health services need more resources and more transparent budget expenditure and management. Making health services work may require doubling or tripling expenditure. It would be important to ensure that any increases are allocated to front-line health services, and not absorbed into the bureaucracy. Effective channels and financial management mechanisms need to be identified. Health services providers need more transparent budgets. The parallel budgeting processes run by the Ministry of Health and the Ministry of Economy and Finance need to be linked and streamlined. User fees need to be integrated into budgeting and monitoring.

Innovative public finance management modalities need to link with performance, improved incentives and strengthened institutional capacity to be effective. Financing health services should be linked to performance. Urgent measures are needed to improve incentives for health services staff. Financial management capacity-building is sorely needed. And a comprehensive approach is needed to target the various factors creating the environment that enables the leakage of government funds that is perceived to be occurring.
CIVIL SERVICE REFORM FOR TEACHERS

A June 2007 survey sponsored by the World Bank and the Ministry of Education, Youth and Sports finds that teachers in Cambodia are too few, poorly paid, often poorly educated and lack incentives to do their job well.

Though there is great demand for admission into Provincial and Regional Teacher Training Colleges, central planning efforts to limit the growth of the civil service result in a continuing shortage of teachers.

Cambodia has the largest student-teacher ratio in East Asia: 65:1 in primary schools and 31:1 in secondary.

Teachers receive on average lower earnings than other state servants or an average worker in all other economic sectors.

Remote area teachers are paid larger total salaries than rural or urban teachers, due to additional salary components and allowances, such as double shifting and multigrade teaching. Teachers in Phnom Penh earn approximately 1.8 times the per capita poverty line, but teachers in remote areas earn 3.7 times.

Cambodia still has a flat teacher salary structure and salary increase scheme. After 15 years’ service, a primary teacher salary increases from 0.43 percent to 0.58 percent of gross domestic product per capita, while a lower secondary teacher salary increases from 0.64 percent to 0.77.

The report argues that unless teachers can earn a living wage, it will remain difficult to attract and keep qualified educators in the profession, especially in rural areas. The government has promised teachers 15 percent salary rises every year. But in the long run, the salary scale needs decompression.

Teachers are more likely than other government workers to live in the village where they were born. Two-thirds of primary teachers work in their district of birth and 90 percent in their own province. Approximately one quarter of lower secondary teachers and 30 percent of principals were born in the commune where they work.

Staff redeployment efforts to rural and remote areas have not succeeded. Despite allowances, low pay makes it difficult for teachers to work in remote areas without support of an extended family, existing housing or land for subsistence farming.

Lower secondary teacher absenteeism is troubling. On the day of a surprise visit 15.6 percent of teachers were absent. Student attendance falters when teachers are frequently absent. Lower secondary teachers prepare weakly for class. Only half had lesson plans readily available on the day of an announced visit.

Teacher levels of education are low. About a quarter of primary teachers hold an upper secondary certificate, and about two-thirds a lower secondary certificate. Almost two-thirds of secondary teachers had completed at least grade 12, and 18 percent had some post-secondary education. Younger teachers tend to be better educated.

A draft Teacher Standards Framework has been developed that could:

♦ Be a guiding light to review pre-service and in-service teacher training programs to satisfy performance expectations and prepare teachers to meet these.
♦ Help strengthen the substance of existing peer mentoring and cluster development networks.
♦ Be an instrument to assess teacher training college graduates and ensure they meet minimum standards as a condition for accreditation.
♦ Lay down the path for meritorious teacher placement and career advancement.
♦ Tie teacher pay to observable teacher performance, both through salary banding tied to skill rankings as well as through specific incentives tied to participating in professional development, improvements in teaching skill or enhancing student performance.

The Teacher Standards Framework ought not to be conceived of as an instrument of “rewards and punishment” but rather as a tool for the identification of teacher strengths and weaknesses that can be linked to a capacity development plan to enhance teacher performance.
SHARING GROWTH:
Equity and Development Report 2007

Cambodia has achieved high rates of economic growth and significant poverty reduction over the past 15 years. The number of people below the poverty line fell from 47 percent in 1993/4 to 35 percent in 2004. However, the benefits of growth have been spread unevenly, resulting in a rise in consumption inequality. The report, Sharing Growth, prepared in June 2007 by the World Bank for the Cambodia Development Cooperation Forum, says that in 2004 the living standards of the poorest fifth of the population were 8 percent higher than they were a decade earlier, whereas the living standards of the richest fifth were 45 percent higher. The report concludes that the rise in inequality occurred early on, between 1994 and 1997, and only in rural areas. It found no significant further rise in inequality between 1997 and 2004.

The report examines how expansion in service delivery and the provision of infrastructure have begun to reduce inequalities in human development outcomes and increase equality of opportunity; but also how increased concentration of land ownership, together with insecure land tenure, risk creating the conditions for widening inequality in the future.

Looking at the roles of institutions in shaping economic and social development processes, the report describes ongoing reforms in public financial management and discusses the potential for using public spending to promote equity and poverty reduction.

It finds that practices in the legal and judicial sector fail to meet the ideal of providing equality before the law; and it analyzes how gains have been achieved on several fronts by adopting a flexible approach to institutional reform.

The report says the state can influence national economic and social development through several channels. The first is through raising revenue and directing public spending. It says Cambodia’s public financial management (PFM) system has serious problems, but a reform program over the past two years has begun to make headway. These reforms open up possibilities for more effectively and efficiently directing public expenditure towards poverty reduction. Priorities would include:

♦ Increasing revenue collection (particularly through improved tax administration).
♦ Putting in place strong, transparent measures for the effective use of the revenue expected to flow from offshore oil and gas within a few years.
♦ Reallocation of spending towards priority goals (shifting spending from general administration to priority sectors; changing the balance of official development assistance (ODA) from technical assistance to capital spending).
♦ Increasing capital spending with emphasis on economic sectors (roads, irrigation, energy) that shape the distribution of opportunities and the pattern of growth.
♦ Increasing recurrent spending, both on maintenance (to sustain the value of capital investments), and on public sector salaries. Better pay for state servants, combined with better management, is essential to create strong state institutions that can formulate and implement national development strategy.

Based on the findings from national household surveys, qualitative studies and opinion polls, the report concludes that policies that directly tackle poverty will also reduce inequality. Several policy priorities are proposed:

♦ Continuing economic reform to promote investment and sustain growth. The report says maintaining the economy’s openness and global outlook will be the best strategy for continued growth and sustained poverty reduction.
♦ Investing more in building and maintaining basic infrastructure to connect up remoter parts of the country to economic opportunities and improved social services; and improving water supply and sanitation in rural areas.
♦ Protecting land tenure through systemic titling, and addressing landlessness-related poverty through various measures (social land concessions, nonfarm employment).
♦ Further improving the quantity, quality and affordability of schooling and healthcare.
♦ Underpinning service delivery reforms with stronger and more responsive state institutions through continued reforms of public financial management and merit-based civil service pay.
TOWARDS INSTITUTIONAL JUSTICE?

A Review of the Work of Cambodia’s Cadastral Commission in Relation to Land Dispute Resolution

When the Khmer Rouge took power in Cambodia in 1975 private property was abolished. During the course of the 1980s ownership of residential property was allowed and a redistribution of collective land ordered. A 1992 Land Law was followed by the Land Law of 2001, which formalized private ownership rights to residential and agricultural land, established systematic titling of land under a single authority, created a dispute resolution system, and ended the possibility of legally entering into possession of vacant state land. However, land tenure remains insecure for many, and it is estimated that only 15 percent of Cambodia’s 6.5 million plots of privately owned land are titled.

The multiple transformations which Cambodia has experienced over the past 15 years, economic, social and political have led to various types of land disputes:

♦ between the state and citizens, either where villagers occupy land that theoretically belong to the state (such as forests) or has been put aside for public use; or land the state is appropriating for public purposes.

♦ between citizens and state representatives acting either in their own interests or as intermediaries for others.

♦ between private parties, either people trying to reclaim property owned before the Khmer Rouge, or small disputes over boundaries, inheritance and occupation.

In June 2002 the Cadastral Commission (CC) was established, with three levels: district/khan, provincial/municipal, and national. It is mandated at district and provincial level to conciliate all disputes involving unregistered land except those involving inheritance or contract, which belong to the jurisdiction of the courts.

In December 2002, the CC began conciliating cases. By April 2006 it had received 3,949 cases. Of these 1,146 had been resolved, 773 dismissed, 70 withdrawn, and 1,960 remained pending. In response to concerns at the backlog of cases, in June 2005 GTZ, the German Technical Cooperation, financed a pilot project compensating CC personnel for working on cases. The rationale was that land dispute resolution work was not being prioritized by CC staff because, unlike land titling, there was no remuneration.

This review, commissioned by GTZ and prepared by the Center for Advanced Study and the World Bank’s Justice for the Poor team focuses on the pilot project, and generally examines the functioning of the Cadastral Commission. The report finds that the CC has resolved few cases involving powerful people or multiple parties. The median land size in cases coming before the CC has been less than one tenth of a hectare. A reduction in the backlog of cases between 2005 and 2006 has been attributed less to the successful resolution of cases than to (a) a reduction in new cases coming to the CC; and (b) the rejection of numerous cases which are judged to be outside the jurisdiction of the CC. One provincial CC officer said that generally people who want conciliation have no money while the rich are happy to wait or go to court.

Only at national level does the Cadastral Commission have the power to make binding decisions, but figures suggest it fails to adjudicate in cases involving powerful persons, and refers these back to provincial CCs for further conciliation.

The report finds that the pilot scheme had a positive impact on dispute resolution by CCs, and recommends a scaled-up phase II pilot with a focus on whole districts. It also recommends support for broader engagement around issues of land dispute resolution, especially at commune and village level; enhancement of the decision-making capacity of the land dispute resolution system; improvement of the availability of information and support to parties; clarification of issues surrounding dismissal and referral of cases; enhancement of management and information systems; simplification of case documentation at district level; and an increase in resources.

The full report and others on land and dispute resolution are available at: www.worldbank.org/justiceforthepoor
ENVIRONMENTAL AND SOCIAL SAFEGUARD REVIEW

This review aims to provide guidance on a forward-looking approach to address the environmental and social safeguard issues related to the World Bank’s portfolio in Cambodia.

It seeks to identify the strengths and weaknesses of the safeguard policies and institutional context in Cambodia, assess the scale of environmental and social impacts in the Bank’s existing and future lending portfolio, identify challenges in the implementation of safeguard work, and recommend measures to improve the quality of the Bank portfolio performance and the capacity within the country to enhance the planning, design and implementation of safeguards.

Of 13 current projects, only the Provincial and Rural Infrastructure Project had significant implications: large road clearance had environmental consequences and appropriate actions were taken.

The impacts and risks of the Bank’s future portfolio are mainly small. Sensitive projects are related to the Natural Habitat, Forestry and Indigenous Peoples policies and should be seen in the complex ecological and cultural context in Cambodia, with sensitive ecosystems (Tonle Sap and the Mekong River), cultural properties (particularly the Angkor region) and the few but highly vulnerable indigenous peoples, mainly in the northeast.

Issues arise in Cambodia from generally weak national safeguard policies and institutional framework, and from governance issues related to social safeguards. While some good practices are emerging, there is room for improvement to enhance the World Bank’s monitoring and supervision of agreed safeguard measures.

National legislation and institutional framework is still incomplete and this hampers effective implementation of the country’s safeguard policies. Environmental policies are in place, but legislation and institutional frameworks concerning involuntary resettlement and indigenous peoples are incomplete. Cambodia does not have policies and institutional structures related to dam safety and international waterways. This could, however, be addressed through the Mekong River Council (MRC).

The country is at a stage where there is increasing understanding of safeguard issues, but more capacity building is needed. It is important to develop national technical tools and guidelines for areas such as environment and social impact assessment, stakeholder consultations, public participation and information disclosure mechanisms.

Capacity is a major constraint, and should be further developed to enhance the implementation of safeguard policies. The safeguard review team recommends the following assistance efforts for the near future:

- Develop joint capacity building program with the Inter-Ministerial Resettlement Committee on land acquisition and involuntary resettlement, targeting all ministries and provincial governments, covering all technical aspects of resettlement planning and implementation.
- Assist the Department of Ethnic Minority Development to develop a long-term strategy and work program for the development of indigenous peoples.
- Continue assistance with the Ministry of Environment concerning environment-related safeguard policies through the active Institutional Development Fund grant program.
- Develop and conduct a series of thematic training workshops in the country to raise awareness and promote good practices in safeguard areas.

Assistance in policy development would enhance implementation of certain safeguard policies. It is proposed that the Bank continue to support the Asian Development Bank’s leading technical assistance role concerning voluntary resettlement. For indigenous peoples, it is proposed that the Bank work with relevant ministries to push forward the legal provision for determining communal land as stipulated in the National Land Law and the finalization of the National Policy for Indigenous People Development.

The review team recommends improvements in the World Bank operations concerning safeguard measures, and looks for improved donor coordination and harmonization.
URBAN WATER SUPPLY POLICY

Phnom Penh and its suburbs are now served by one of the better performing water utilities in East Asia, the PPWSA (Phnom Penh Water Supply Authority), rebuilt from virtually nothing in the early 1990s. Only about half of the population in Phnom Penh had access to network water in 1997; now virtually the whole city enjoys a 24-hours-a-day water service, of quality meeting international standards.

However, efforts to reform public utilities in Cambodia’s other large towns and provincial capitals have been mixed, and Cambodia is lagging behind its Millennium Development Goal of 68 percent urban coverage with access to safe water by 2005. Estimates of access in 2005 to piped water supply for urban areas are in the area of 40 percent, reaching to 70 percent if safe water is more broadly defined to include rain water and wells. As the population largely lives in rural areas, expanding access to urban settlements constitutes only a slice of the larger challenge. Wide gaps persist across different income groups: only 4 percent of the poorest nationwide have access to piped water, and only 36 percent even among the richest households.

Outside the capital, the Government has pursued, with various levels of success, a policy of fostering private sector initiative to expand water supply in small towns, building on the entrepreneurship of local firms. The Government prepared the Urban Water Supply Strategy Framework in 2004 and sought assistance from the World Bank in formulating an implementation strategy to jumpstart the growth needed in the sector to service the rest of the country and to ensure that this growth is sustainable over the long term, including pursuing investments that are cost effective.

The key recommendations in the World Bank report for the development of urban water supply are to:

♦ Initiate a capacity-building ‘top-runner catch-up’ program for public utilities to learn from the success of the PPWSA; for private utilities, implement a capacity-building plan likely to be supported by the Water and Sanitation Program.
♦ Establish by decree the autonomy of public utilities and the corporate governance mechanism – both by means of a supervisory board and an explicit (multi-year) agreement as to performance targets of the utilities.
♦ Formalize a medium-term expenditure framework (MTEF) for the sector, based on rolling three-year projections by the Ministry of Industry, Mines and Energy (MIME) for fund transfers to private providers when services are contracted to private providers in small towns. The MTEF should then become part of the Commune Development Priority Plan prepared every three years.
♦ Review regulatory practice with a focus on information quality (both financial and quality of service information) and practice of public disclosure of such information for financial information. In particular, highlight the use of forward-looking information with regard to projected capital expenditure, definition of a relevant asset base and streamlined procedures in awarding licenses/contracts to private providers, to relevant parameters for service quality and access.
♦ Establish a formal mechanism for donor coordination through a Technical Working Group.
♦ Expand the role of Clean Water Groups to include the monitoring of public utilities as to their performance agreements.
♦ Design a comprehensive approach to government funding in the sector and coordinate with development partners their contributions to this funding mechanism through a Sector-Wide Approach.
♦ Establish as a backbone for a network of facilities a small dedicated training center with the PPWSA, and establish the Cambodia Waterworks Association as a center of learning.
♦ Pursue the establishment of a dedicated regulatory authority.
JUSTICE FOR THE POOR?
An Exploratory Study of Collective Grievances over Land and Local Governance in Two Provinces

In pursuing legal and judicial reform, the Cambodian government and donors have focused on establishing “model institutions” or drafting laws that measure up to “international standards”.

But there is increasing evidence that newly created or reformed institutions of justice in the liberal mold are prone to failure if they are not supported by the transformation of the power relations that preceded and precipitated their development in the West. Institutional reform conducted without engaging with issues of power risks building institutions that find themselves sidelined or undermined by corruption and capture by the elite.

The Cambodian judicial system displays continuing weaknesses, including endemic corruption, that present major barriers to access to justice. Constraints to reform, including the legacy of an unreconstituted communist judiciary and the continued strength of the executive, indicate a state with little room for institutions of justice responsive to the needs of the poor.

Disputes over land and natural resources are among the country’s most serious social problems. As part of Cambodia’s post-conflict transition, natural resources have been divided up among national elites as the spoils of war, using the global stress on privatization to integrate former enemies into a structure of wealth and power-sharing.

The past 10 to 15 years have seen privatization of significant areas of state land within a weak regulatory framework. This has allowed officials, particularly at provincial and district level, to conduct more or less formal land transactions over state land without the need for consultation, transparency or accountability.

At the same time, villagers have expanded their agricultural activities on to unused land. Numerous disputes have arisen between villagers and more powerful and well-connected people who have bought from government officials tracts of state land that villagers perceive to be theirs.

A survey by Oxfam GB in 2005 of land disputes found that there were at least 160,000 families nationwide involved in a dispute in which more than two families were in conflict with a “powerful person”.

Villagers are unable to get a sympathetic response from the courts, or from the Cadastral Commission. Their only hope is to draw their case to the attention of higher-level decision-makers, and their only hope is to organize as a group. They need to be able to attract the attention of higher-level decision-makers, and their success hinges on their ability to persuade sufficiently influential decision-makers of their merit of their case.

The report concluded that with pressure on land and natural resources increasing, there exists a willingness for villagers to pursue claims, even against people who are rich or powerful. The state is not impervious to these claims. Where villagers acted collectively, they were able to achieve more achieve more equitable outcomes than might otherwise have been the case.

This supports the argument that political mobilization will be a necessary precursor the success of rights-based strategies. In the absence of equitable, rule-based systems for allocating resources and resolving disputes, it seems that collective action is a crucial mechanism for improving the responsiveness of the state to the needs of the poor.

Three key factors were identified as enabling villagers to make effective claims. They need to be able to organize as a group. They need to be able to attract the attention of higher-level decision-makers, and their success hinges on their ability to persuade sufficiently influential decision-makers of their merit of their case.
GETTING GIRLS INTO SCHOOL: EVIDENCE FROM A SCHOLARSHIP PROGRAM IN CAMBODIA

Increasing the schooling attainment of girls is a challenge in Cambodia, as it is in much of the developing world. Although most Cambodian children attend school for a while, many complete very few grades. A 2000 survey showed that although 85 percent of 15-to-19-year-olds had completed grade 1, only 27 percent had completed the first year of lower secondary school, grade 7. These percentages were lower for rural areas (83 and 21 percent respectively), and lower yet for rural girls (78 and 17 percent).

This study evaluated the impact of a program by the Japan Fund for Poverty Reduction (JFPR) that gives scholarships to some Cambodian girls moving from primary school to their first year of secondary school.

Although the JFPR program is known as a “scholarship” program, it does not directly subsidize the fees paid by parents for the education of their daughters; rather, families receive cash transfers, so long as their daughter is enrolled in school, maintains a passing grade, and is absent without “good reason” for fewer than 10 days a year. The JFPR program therefore functions much like a “conditional cash transfer” (CCT) program.

JFPR selected 93 lower secondary schools (out of the 698 in Cambodia in 2003/04). Within each of these schools, approximately 45 girls who were beginning grade 7 were awarded scholarships of $45 each. The value of the scholarship is considerable: in 2002 mean per capita gross domestic product (GDP) in Cambodia was approximately $300. Once a girl is selected for a JFPR scholarship she is automatically eligible to continue receiving a scholarship for the three years of lower secondary school.

Application forms were handed out at the primary “feeder schools” to the 93 lower secondary schools included in the scholarship program. The application form contains 28 questions about parental education, demographic composition of the household, ownership of various assets, housing materials, and distance to the nearest secondary school. These forms were completed by girls in class or at home, and there was provision for teachers to verify the accuracy of data provided. The forms were then forwarded to the local management committee (LMC) of the relevant JFPR secondary school. Each LMC chose the 45 applicants identified from the applications as the most needy, and awarded them scholarships.

The study shows that the scholarship program improved participating girls’ school enrollment and attendance by between 30 and 43 percent. Scholarship recipients were between 22 and 33 percent more likely to be enrolled at any school (not just schools that were part of the program).

The impact of the JFPR program appears to have been largest among girls with the lowest socioeconomic status. Generally, girls of low socioeconomic status, or whose parents have low levels of education, and girls living in more remote areas are less likely to be enrolled in and attending school. These differences declined and even disappeared among girls who received the JFPR scholarships.

There is much evidence associating improved female education with a variety of social outcomes, including lower fertility, decrease in child mortality, improvements in child health and nutrition, and better education and child cognitive development.

This study found greatly improved enrollment and attendance at secondary school of girls from poor families who participated in the JFPR scholarship program. The approach gives cause for optimism.
CHILDREN’S WORK IN CAMBODIA: A CHALLENGE FOR GROWTH AND POVERTY REDUCTION

This report arises from Understanding Children’s Work, a cooperative project of the International Labor Organization, UNICEF and the World Bank, in collaboration with the National Institute of Statistics, concerned government ministries and local research institutes.

The report is intended to improve information on child labor to assist policy and program design, to promote policy dialogue on child labor and accelerate progress towards national child labor reduction targets, and to build national capacity for regular child-labor data collection and analysis.

Child labor constitutes a key obstacle to achieving universal primary education and other Millennium Development Goals in Cambodia. Children’s work is a key factor behind the two most important and interrelated challenges to the basic education system in Cambodia: late school entry and substantial dropout starting in upper primary.

Children forced out of school and into labor to help their families make ends meet and are denied the opportunity to acquire the knowledge and skills needed for gainful future employment, thereby perpetuating the cycle of poverty.

A substantial reduction of child labor will boost human capital accumulation, raise the country’s growth potential, and ease the burden that an unqualified work force will pose on the economy in vulnerability to poverty and inability to adapt to a changing production environment.

In 2001 in Cambodia 52 percent of 7-to-14-year-olds, more than 1.4 million children, were working in economic activity. This percentage is very high relative to other countries with similar levels of income.

Involvement in economic activity starts very early and rises sharply with age, inducing late school entry and early school dropout. 43 percent of boys and 42 percent of girls are already working by ages 10-12 and the time devoted to it and its contribution to household livelihood are substantial. The report shows that child work is a key factor explaining late school entry, work reduces the probability of boys entering school by age 6 by 17 percent and of girls entering at age 6 by 9 percent.

School enrolment peaks at 91 percent at the age of 11; thereafter attendance declines as children begin leaving school and working exclusively. The proportion of children studying exclusively, unhindered by having to work, peaks at 49 percent of nine-year-olds.

Involvement in work specifically deemed injurious, negative or undesirable for children is also high. Over 750,000 working children are below the absolute minimum working age of 12 years, 500,000 12-to-14-year-olds work at non-light economic activity for which the minimum age is 15, and more than 250,000 15-to-17-year-olds are in the seven (of 16) nationally identified hazardous sectors for which data are available, or are working 43 or more hours per week.

Most child laborers (75 percent) work on farms for their families. About 90 percent of child laborers work for their families without pay. Of the rest 7 percent are casual day laborers, and fewer than 2 percent paid employees in formal entities, the only category covered by the provisions on child labor in the Cambodian Labor Law.

Family-based agriculture and domestic service are not covered by legislation. The law does not define what constitutes child labor in terms of type or conditions of work, or work hazards. And the government lacks the capacity to enforce its labor laws.

Economically active 7-to-14-year-olds work an average of 22 hours a week. This rises to almost 31 hours a week when non-economic activity such as housework is added.

Working delays school entry, or prevents it altogether, and this reduces the probability of completing primary school. Work also reduces children’s ability to learn while they are at school: a study of fourth-graders showed that working every day before going to school reduced both literacy and numeracy test scores by 9 percent.

Sustainable reductions in child labor cannot be attained without addressing the factors causing children to enter work in the first place. By changing the economic and social environment, mainly of the household, preventive policies should aim at changing the “equilibrium” or long-run levels of child labor and school enrollment.
Cambodia’s electricity prices are among the highest in the world, and its electrification coverage one of the lowest in Asia, despite considerable expansion of both capacity and coverage in recent years. Its power supply relies heavily on imported fuels, and increases in international fuel prices have created a new challenge for the electricity industry.

The government is exploring new sources of energy, including hydro-power, offshore and onshore oil and gas, and renewable energy. There is a consensus between the government and international development agencies that a coherent energy sector strategy is needed and that its formulation should be based on careful assessment of various energy sources and the policy and institutional framework for their development.

The Energy Sector Issues Paper completes the first phase of a three-year program to create a strategic framework to govern the systematic development of the energy sector and to formulate a coherent energy sector strategy and implementation plan. The program is being led by the government, with technical and financial resources being provided by the Asian Development Bank, the World Bank, the Japan International Cooperation Agency, and Japan Bank for International Cooperation.

**Electric Power**

A priority is development of national high-voltage and extra-high-voltage grids and associated generation sources. Until Cambodia develops a reasonable HV/EHV network (enabling exploitation of economies of scale and facilitating import of low-cost power from Vietnam and Thailand and eventually export of power to them) it will not be able to achieve a significant reduction in electricity costs.

Numerous hydro-power projects are also planned to diversify electricity generation away from dependence on fuel oil. Terms of reference for hydro-power have been drafted, ranking the various projects and discussing public/private financing possibilities.

While the main transmission grid is evolving, Cambodia must rely on diesel and heavy fuel oil. Cost reduction measures are important, such as moving from light diesel to heavy fuel oil, and moving to lower-cost independent power producers through competition.

Losses of electricity in the course of distribution, both technical and nontechnical, have been reduced from highs of 30 percent to about 12.7 percent, but now seem to have plateaued. Loss reduction should be an ongoing activity.

The 2001 Electricity Law lays the foundation for the future unbundling of the power sector, and the creation of a transmission company (TRANSCO), a dispatching entity, and a competitive wholesale power market through which generators could contract directly with distributors; however no clear policy or plan has yet been defined. The Electricity Law also allows for the promotion of private participation in the electrification of Cambodia; however, the processes and mechanisms have not been formulated.

It is imperative that the government articulate its plan for the evolution of the industry so that steps taken in the near to medium term are in concert with the ultimate goal.

**Rural Electrification**

The government has put rural electrification at the forefront of its poverty reduction strategy and to improve the standards of living in rural areas, where almost 85 percent of the population lives. However, rural electricity enterprises need to expand their scale of operations and reduce costs and prices, yet are constrained in development by the Cambodian banking system, which operates mostly on short-term capital with high interest rates.

In sparsely populated areas significant capital is required for electrification by grid extension. In such areas, renewable energy is an option, of which solar energy is the most promising to electrify small, scattered villages and households. High solar irradiation is almost uniformly available throughout the country.

Assessments place the demand for solar home systems at between 250,000 and 450,000. There is an upfront capital cost for household solar energy, and no financial mechanisms have been developed by the government. So far, only donor-funded projects have been implemented.

Mini and micro hydro technologies, biomass energy and wind power are also being explored.

**Petroleum Industry**

In the wake of Chevron-Texaco’s offshore oil discovery in December 2004, petroleum revenue management is likely to be an issue. International experience suggests that if revenues are not managed appropriately, Cambodia could face major governance and macroeconomic implications.
HALVING POVERTY BY 2015?

Poverty Assessment 2006

The World Bank aims to support the government’s planning process by contributing to evidence-based policy making through the timely provision of updated poverty statistics and analysis. The Cambodia Poverty Assessment 2006 was produced to ensure that the National Strategic Development Plan (NSDP) 2006-2010 policy package appropriately addresses the factors that cause and perpetuate poverty, that it identifies the poorest areas and groups so that scarce resources can be targeted accurately to those most in need, and that it establishes an accurate baseline for monitoring and evaluating the implementation and outcomes of the NSDP over the next five years.

The report is based on a number of recent and diverse sources of quantitative and qualitative data including the 2004 Cambodia Socio-Economic Survey (CSES) and specially-commissioned case studies by EIC. The poverty assessment builds on the basic CSES poverty profile with more detailed analysis of the CSES data. The Cambodia Development Resources Institute (CDRI) contributed significantly to the Poverty Assessment with participatory field studies including the Moving Out of Poverty Study and the Tonle Sap Participatory Poverty Assessment.

The Poverty Assessment presents for the first time comparable estimates of household consumption and poverty between different years in Cambodia, and identifies the key successes, lessons, and innovations emerging from Cambodia, as well as the remaining challenges in reducing poverty in the country. In the past decade, Cambodia has made significant progress in reducing poverty: the proportion of the population living below the national poverty line fell form an estimated 47 percent ten years ago to 35 percent today. Improvements in non-income indicators-includ-
PUBLIC EXPENDITURE TRACKING AND SERVICE DELIVERY SURVEY

In response to weaknesses in its public expenditure management system, the Royal Government of Cambodia initiated implementation in 2000 of the Priority Action Program (PAP), which was intended to deliver resources to front line service delivery units in the priority sectors in a timely manner. To assess the impact of that system a Public Expenditure Tracking Survey was carried out for PAP 2.1 (school operating budgets) and for Chapter 11 (operations and maintenance). The survey covered 200 schools in seven provinces in 2004.

The survey found that reported leakage in PAP 2.1 is low, but also found that the PAP system is characterized by low quality record keeping, thereby limiting the robustness of the empirical findings on leakage. The survey also collected data on “facilitation fees”—informal cash payments to secure funds release—which were found to be widespread though relatively small. Though the findings suggest that schools may receive most of the funding to which they are entitled, they do not, however, receive it in either a timely or predictable manner, which has negative implications on operational efficiency.

The survey also found that compliance with key record-keeping requirements has been poor, especially at district and school levels, resulting in a system characterized by high fiduciary risk. The survey discovered that the social accountability mechanisms established at schools to monitor PAP spending are not very effective, particularly in small schools. Field inspections and follow-up activities to monitor PAP implementation are of limited reliability. Though the PAP reporting system is fairly well designed, the lack of incentives to comply with record keeping, reporting, and inspection activities has frustrated Government’s attempt to reduce fiduciary risk. With no apparent penalties for non-compliance, and no reports of disciplinary sanctions applied, with no external oversight, and with extremely low wages and a lack of meritocratic promotion practices, civil servants do not have strong incentives to comply with the system.

Preliminary analysis also found that PAP had an impact: the allocation of PAP 2.1 funds is pro-poor and poorer schools are supposed to and do get more funds, though they suffer from the same problems as other schools in the lack of timeliness in the disbursements of funds. Moreover, there have been significant improvements in the basic education sector over the past five years, particularly in terms of primary net enrollment rates, and it appears that PAP 2.1 has contributed to this important outcome.

The survey also confirms the hypothesis that nearly all Chapter 11 resources are spent and consumed at the provincial level, despite the intention that Chapter 11 resources be used to complement PAP 2.1 funds in schools. From the fiduciary angle, there are serious concerns about spending controls, reporting, and oversight. The picture of Chapter 11 that emerges from the surveys is thus of a system that on all counts—timing and predictability of resources, results-oriented focus, and fiduciary risk—performs less well than PAP.

With the launch of the RGC’s Public Financial Management Reform Program (PFMRP) in December 2004, the challenge of making the budget credible has taken on a new momentum. The challenge for MEF is to mainstream PAP, building on the lessons learned thus far, into the cornerstone of a medium term financial deconcentration program. However, at the same time, MEF recognizes that improvements in the design of PAP are necessary before it is mainstreamed.
SOCIAL PROTECTION STRATEGY NOTE

The problems of risk and vulnerability in Cambodia are pervasive and compounded by the weakness of available safety nets. Over two decades of conflict have left the country one of the world’s poorest, with extensive damage to its physical, social, and human capital. A large proportion of the population is considered vulnerable to shocks that can push them into extreme poverty. Safety nets that could help the poor manage such risks remain weak, and their lack is manifested in extreme coping mechanisms such as trafficking of women and children. NGOs and donors attempt to help fill the gaps in the Government’s social protection resources, but their efforts are uncoordinated.

The Cambodia Social Protection Strategy Note (SPSN) provides an analytical and strategic basis for addressing these issues, taking into account changing country needs as well as the social protection activities being undertaken by the Government and its partners. It is the World Bank’s first attempt at addressing social-protection-related information gaps for Cambodia, and at developing a systematic approach to social protection.

The SPSN takes stock of existing knowledge on risk and vulnerability, examines coping strategies employed by the poor and vulnerable to deal with risk and dampen the effects of shocks, reviews existing social protection mechanisms, and lays out priority areas and a proposed action agenda for support by the World Bank and other partners in the social protection sector.

The SPSN seeks to foster dialogue on vulnerability and social protection among all partners and provide a basis for improved coordination of activities in the sector. It is directed at a wide audience, extending beyond the Bank to include national and local government, civil society, multilateral and bilateral donor agencies, and academics.

The SPSN comprises four major elements:

♦ **Stocktaking of existing knowledge on risk and vulnerability**, exploring the sources and dimensions of vulnerability, the types of shocks Cambodians face, and which groups and areas are most vulnerable to these shocks.

♦ **Examination of coping strategies**, using qualitative household-level research to explore what types of coping mechanisms are used, to what extent the various mechanisms are used by the poor and vulnerable, which groups resort to negative coping mechanisms and whether reliance on negative coping mechanisms has increased or decreased.

♦ **Review of social protection expenditures and programs**. Limited analysis has been done of Cambodia’s public expenditure on social protection. And while donors and NGOs have directed large resources toward social protection, no overall analysis of these efforts has been done. A better understanding of how resources are being channeled would help improve targeting and highlight gaps in coverage.

♦ **Identification of social protection priorities and strategy for World Bank involvement**.

Based on analysis of the issues outlined, this would explore what lessons could be derived from past Bank experience in social protection for Cambodia, what the possible priorities for action might be, what opportunities there are for advancing the social protection agenda across the new Country Assistance Strategy program, and what the remaining gaps in support are, and how they should be handled.

The focus and design of the SPSN draws on a series of cross-sectoral discussions within the World Bank. It was also developed in consultation with other donors and NGOs. Staff from the Asian Development Bank (ADB) and UK Department for International Development (DFID) were consulted, and the social protection background note was shared as part of a tripartite collaboration with the Bank on cross-cutting issues for the three organizations’ country assistance strategies. Numerous donors and local and international NGOs were also consulted.
Cambodia has enjoyed sustained 6 percent economic growth over the past decade. But the growth has been concentrated in urban areas and in a few, vulnerable activities, principally garment manufacturing and tourism. Agriculture, predominantly consisting of subsistence rice production, has experienced only modest growth, with productivity of land and labor well below neighboring countries.

But the broader agriculture sector, including direct harvesting of natural resources such as fish and forest products, is still the single most important source of employment and livelihoods for about 70 percent of Cambodia’s population, and the country’s progress will depend on achievements in rural areas, where 90 percent of Cambodia’s poor live, and where gross domestic product per capita is only $119 a year.

The Second Socio-economic Development Plan (SEDP II, 2001-2005), the National Poverty Reduction Strategy (NPRS 2003-2005) and the Government’s Rectangular Strategy provide general directions to agencies involved in rural development.

The World Bank was asked to contribute through analytical work leading to its Rural Sector Strategy Note. This provides an overview of the performance of the rural economy, reviews key issues affecting the rural sector, proposes elements of a pro-poor agriculture and rural development strategy, and discusses cross-cutting issues affecting the delivery of results.

The Bank study says a robust rural economy and the income growth and employment that it will generate are paramount for achievement of Cambodia’s economic and social goals. If population continues to grow at around 2.5 percent annually, and rapid growth in employment opportunities outside the agriculture sector does not occur, most of the 250,000 people added to the workforce each year will have to be supported by the broad agricultural sector.

But rural livelihoods face risks that limit incomes and result in the predominance of subsistence agriculture. The incidence of shocks and crisis is high: of floods, crop and animal losses through disease, health crisis, land-grabbing by the powerful.

The study says increased transformation of the smallholder agricultural sector away from subsistence towards greater commercial orientation will be essential to improve productivity and incomes of farmers. But this will depend on improved land tenure security, better management of natural hazards, reducing the burden of informal road passage and market access fees, and deepening markets through cost-reducing infrastructure investment and market competition. Improvement in basic social services and infrastructure, as well as the broader business environment, will also support the development of off-farm activities, contributing to rural economic growth. Rural producers will need improved access to information and technology to increase productivity and to specialize.

The study recommends reforms, in policy, institution capacity and reorientation of public investment, designed to stimulate on-farm and off-farm development. It points to the need for improvement in basic services and infrastructure: banking, education, health, roads, electricity, and potable water. It says laws governing land, forestry, fisheries and water are incomplete, limiting the security rural households, adding to the uncertainty of the business environment, and impeding implementation of even the existing regulatory framework.

The Bank study envisages a Cambodian rural sector in which there is good local governance, with communities are involved in development and resource allocation decisions, access to natural resources is fair and transparent and activities involving their use are sustainable; credit is available for investment and can be secured by fixed assets including land; development of labor-absorbing activities in industry and services improves farm household incomes through off-farm employment, reducing dependence on subsistence farming; farm productivity and farm incomes increase; the incidence of catastrophic household shocks is reduced; farmers diversify crops and products in response to changing market prices and unbiased incentives; farming diversifies regionally according to differing potentials; and economic development is more evenly spread through the country.
PRIVATE PARTICIPATION IN INFRASTRUCTURE

The Cambodian Government is developing a capacity building plan to support the development of the Private Participation in Infrastructure (PPI) Governance Framework. The assignment is being funded by the World Bank as part of the preparation for the Trade Facilitation and Competitiveness Project (TFCP). It is being overseen by the Council for the Development of Cambodia (CDC) and the Investment Climate and PPI Sub-Committee of the Steering Committee for Donor Participation in Private Sector Development.

It is expected that elements of the final capacity-building plan will be funded under the TFCP and be included in the Project Appraisal Document (PAD) submitted to the World Bank's board.

The PPI Governance Framework was drafted by a team during 2003-04. It consists of four main elements: a PPI Policy Paper, setting out the Government’s policy and principles for PPI and describing the framework; a Law on Concessions, providing the legal basis for the framework; a Sub-Decree on the Implementation of the Law on Concessions, which functions as the implementing regulations; and Guideline Notes.

The framework establishes processes for the identification, appraisal, tendering and evaluation of PPI projects, as well as the management of unsolicited bids. Key to the framework is the distinction drawn between those entities responsible for sponsoring and promoting PPI projects (line ministries, provincial and municipal authorities, communes, sangkats, the CDC) and those that act as “checks and balances”, monitoring and approving proposed projects (National Assembly, Council of Ministers, MEF, National Audit Authority, sector regulators).

Awareness of the PPI governance framework is mixed. Some ministries and agencies are preparing for its introduction (the MEF, the CDC); others appear to have little understanding of it.

No ministry appeared to have a strategy for identifying and developing potential PPI projects; most appear to rely on unsolicited approaches.

Ministries and agencies appear to have adequate skills in-house to develop and appraise technical aspects of proposed PPI projects. However all identified weaknesses in financial analysis and, particularly, legal skills. Lawyers are few, and only recently qualified. Low salaries mean staff who acquire financial and legal skills tend to leave government employment and work in the private sector. This does not mean they are lost to government: they can be employed as advisors, but at greater cost.

The limited training and experience with PPI and lack of skilled staff in the central ministries and agencies is magnified at provincial and municipal level. With decentralization, these local governments will have responsibility for investments of less than $2 million, likely to represent a substantial proportion of PPI projects.

The proposed capacity building plan has four main components:

♦ **A core training course on general PPI principles and processes**, for all those involved in the implementation of the PPI Framework. This will provide a basic understanding of PPI, terms and definitions and the PPI process. It will be delivered at both central and provincial/municipal level.

♦ **Raising awareness of the PPI Governance Framework.** This will describe how the framework will operate, the legislation implementing it, and the role of each ministry and agency. A model contract will be prepared assuming a concession arrangement and be suitable for implementation at province/municipality level. It will be consistent with Cambodian law, be available in Khmer, and not rely on dispute resolution and other mechanisms unsuitable for the financial resources and needs of provincial governments and small-scale domestic and international private investors.

♦ **Support to specialized agencies**, helping those with roles as promoters (the CDC) and those providing checks and balances (the MEF).

♦ **Support in the identification, preparation and negotiation of pilot PPI projects.** This will provide advisory services to sector ministries at the central level to pursue promising projects. It will help with the development and documentation of processes that can subsequently be introduced to other ministries and agencies, as well as providing on-the-job training to ministries involved in the pilot projects.
QUALITY BASIC EDUCATION FOR ALL

Central to the Cambodia Government’s strategy to promote new and sustainable sources of economic growth and improve living standards are the diversification and deepening of the low human resource base, and it is recognized that the foundation for this will be the provision of quality basic education for all.

The Government’s education sector program has two key objectives. The first is to achieve universal enrollment and completion of primary education and expand access to and completion of lower secondary schooling. The second is to improve all nine years of basic education. The Ministry of Education, Youth and Sport (MOEYS) sought participation from the World Bank and other international partners and NGOs as it revised its Education Strategic Plan (ESP) 2004-2008. The Bank has produced the report Quality Basic Education for All as its contribution to the discussion. (This report should be seen in the context of other Bank studies and projects: Civil Service Reform for Teachers, and the Education Quality and Improvement Project.)

Even though almost nine out of 10 children spend some time in primary school, 55 percent drop out before completing primary school. This drop-out is severest among children from households in the poorest two quintiles, and worse for girls and for those in rural areas.

Late school entry is widespread, and is associated with high dropout rates: children who begin school at a young age are likely to stay in school longer. Overage enrollment is pervasive, and is due either to late school entry or slow progress through the school (with grade-repetition or dropout and subsequent re-entry both endemic). According to the Cambodian Child Labor Survey (CCLS) only 30 percent of children began school by the age of 6; the most common entry age was 7 and 40 percent entered at 8 or older. This overage continues right through the school years: the average age of an upper secondary student is 18.1. School participation peaks among children aged 12 to 14, then declines significantly.

Surveys suggest that policies that attract children to school at the right age, and a fostering school environment, are the keys to reducing primary school dropout rates.

Efforts are needed to assure the school-readiness of children through the provision of preschool education. The primary school environment must be conducive to learning (a library is important) and be healthy (providing drinking water and latrines).

The school must offer the full primary education: schools that do not go all the way to grade 6 are associated with high dropout. The presence in an area of a lower secondary school provides expectation of schooling opportunities and has been shown to increase early entry to school and reduce dropout.

The quality of teachers is a key to retaining children in primary school: teachers’ educational background and pre-service training is very diverse and unevenly distributed across Cambodia; the quality of pre-service training is low and opportunities for professional development limited.

Child labor, ill-health and stunting through poor nutrition have been identified as external causes of overage entry among children from the poorest two quintiles, and similarly associated with high dropout rates later. For the poor, in particular, the private costs of schooling (transport, pocket-money, fees both formal and “informal”, supplementary tutoring) may be prohibitive. (Supplementary tutoring, which can consist of the same teacher lecturing the same pupils in the same seats on the core curriculum for private fees outside school hours is also touched on in the World Bank discussion on corruption.) School incentive schemes that provided cash or in-kind subsidies to poor children and were conditional on school attendance might encourage early enrollment and reduce dropout rates.
COPORATE SOCIAL RESPONSIBILITY IN THE APPAREL SECTOR

The Multi-Fiber Arrangement governed world trade in apparel and textiles for 30 years till it expired at the end of 2004. Its quota system inflated the number of countries manufacturing garments for export by restricting the output of the most competitive countries, and importers sourced from one country or another primarily because of quota availability. This led to the development of garment industries in otherwise uncompetitive countries, with global over-capacity and inefficiency.

Cambodia’s garment export industry began in 1995 with US$20 million of exports. The United States, in a 1999 Trade Agreement, agreed to consider annual quota bonuses if Cambodia could demonstrate improvements in labor standards. The Cambodian Government, the Garment Manufacturers Association of Cambodia, the US Government and the International Labor Organization agreed on a project to improve labor standards, monitor improvements, and report on them. Over five years the project succeeded in improving compliance of exporting factories with labor standards and in gaining quota bonus for Cambodian garment manufacturers. (However, there remain serious areas of labor standards violations and deficiencies in governance, with anxieties about the conditions in factories not subject to monitoring, such as those subcontracted by exporting factories.)

By 2004, Cambodia was exporting garments worth $1.6 billion for brand names such as The Gap, Banana Republic, and Polo. Cambodia’s garment industry has become the biggest hard-currency earner in the country, representing 80 percent of export earnings. The scheme, rebranded by the International Labor Organization as Better Factories Cambodia, aims to assist the garment industry to move away from its past focus on quotas towards a market-led and sustainable strategy. The project was co-financed by FIAS and the Agence Francaise de Developpement (AFD).

The project set about redesigning the monitoring and reporting system in a way that integrated international best practice and retargeted activities to directly meet the information needs of the industry’s international buyers. The system should be sector-wide, covering all firms including small non-exporting subcontractors, it should be transparent, have a shared governance structure, involve international buyers, reduce inefficiencies, measure productivity effects, and achieve market-based incentives.

The hope is that there is an ethical export market niche based on the labor standards achieved under the now-defunct US trade agreement, combined with the normal criteria of price, quality and speed to market. A survey of Cambodia’s key US and European buyers confirmed the existence of this niche. Labor standards was the only area where buyers believed Cambodia outperforms its regional competitors, and most said auditing of standards would remain a priority. However, buyers were insistent that compliance with labor standards is not sufficient for the Cambodian garment industry to survive and grow: 75 percent of those surveyed said that red tape, corruption and high energy costs must be tackled if production costs are to be competitive.

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CORRUPTION AND CAMBODIAN HOUSEHOLDS

The World Bank worked with the Center for Social Development (CSD) in Cambodia to produce a study on the impact of corruption in Cambodia, and attitudes towards it. According to the National Poverty Reduction Strategy 2003-2005, one of the biggest problems for Cambodia’s further development is corruption: it is a threat to democratic institutions and fundamental rights and freedoms, it undermines socio-economic development and deepens poverty, it provokes irrational decision-making, disrupts the development of the private sector, and undermines the environment for sustainable development.

The CSD study, which began in November 2003 and ended in January 2005, took two forms. One was a quantitative analysis, published as Corruption and Cambodian Households: Household Survey on Perceptions, Attitudes and Impact of Everyday Forms of Corrupt Practices in Cambodia. The other, a qualitative analysis, was published as Living Under the Rule of Corruption: An Analysis of Everyday Forms of Corrupt Practices in Cambodia.

These reports find that although corruption is widespread, Cambodians are reluctant to accept it as a “fact of life”. Those surveyed overwhelmingly regarded the priority action against corruption as being to rid administrations of corrupt officials. This marks a change from the CSD’s 1998 survey, in which a high number of respondents accepted corruption as the normal way of doing things, and thought raising civil servants’ salaries was the way to end it.

Courts, tax, customs, and the police are perceived as the most dishonest institutions, along with public schools and public hospitals. Government, at all levels, is distrusted. The influence of political parties is a concern, with respondents saying they are forced to join the ruling parties to gain access to services.

The most trusted institutions are all private: NGOs, private schools, private health clinics and the pagoda.

Citizens in urban areas, the higher educated and the wealthier are more negative about many institutions than others, perhaps because wealth, education and urban location all provide greater access to institutions where corruption may be experienced.

The surveys found that the bribe required for a particular service varied little between rich and poor. Corruption effectively prices some services beyond reach of the poor.

Corrupt practices are institutionalized and paid up through a pyramid. Money flows from ordinary citizens to lower civil servants, then from them to patrons and high-ranking officials.

Schools, hospitals, and the local police station are the chief arenas where the poor routinely encounter corruption. Schools are a major transmission of cultural values. That the school system is perceived as among the most corrupt institutions teaches a negative lesson early in life. Teachers possess power as the gatekeepers of education, knowledge, and qualifications. Corruption in the education system serves as an illustration of the general problem:

Corrupt payments are made when a child is enrolled in school, and when students have tests to sit: payment may influence marks. Teachers sell snacks and drinks that parents feel obliged to have their children buy to avoid discrimination. And teachers supplement their income by covering the official curriculum in private lessons after school hours. Annual corrupt payments per child range from $3 in a remote rural area to $44.50 in an urban area.

Teachers, in turn, make corrupt payments to enroll in the teacher training school and pass its exams, and between $300 and $500 (about a year’s salary) to the Department of Education to get a job after graduation at a desirable school (one close to family, or one in an urban and potentially more lucrative area), or transfer to such a school. Teachers also pay for promotion.

Among numerous recommendations of a CSD workshop in November 2004:

Strengthen the enforcement of laws at all levels of society and apply them equally to all; adopt an anti-corruption law; publish official budgets and documents; foster public committees to control projects; create an independent committee to deal with corruption; strengthen official procedures to make informal methods more difficult; pay civil servants on time, increase their salaries and require them to declare their assets; and have civil society organizations monitor civil activities.
SOCIAL ACCOUNTABILITY IN CAMBODIA

Good governance is at the heart of the Cambodian Government’s Rectangular Strategy and is highlighted as a requirement for the country to achieve poverty reduction and sustainable development. Achieving good governance, however, requires that the institutions that guarantee accountability and transparency become effective.

Social accountability is based on three key relationships: between citizens and the state; between elected officials and those employed to deliver services; and between those employed to deliver services and the citizens who receive and consume them.

Cambodia today is characterized by weak accountability and rife corruption as well as poor enforcement of the rule of law. The highly centralized nature of the Cambodian state reduces the ability of citizens to influence issues that directly affect their lives. The distance between local protest and national government is vast.

Members of parliament tend to act with little independence, voting along party lines. Parliament does not constitute a strong check on the power of the executive. At the local government level the commune councils stem from authorities devised as a local arm of central government and display little scope to report upwards. Public confidence in judicial process is close to zero, and the Government appears unwilling to honor neutrality in the judicial system.

This report, written for the World Bank and the United Kingdom Department for International Development (DFID), focuses on identifying and assessing opportunities in Cambodia to strengthen accountability by enhancing bottom-up or external mechanisms of accountability through civil society groups, the media, and parliament, among others. It aims to assess the capacity and interest of Cambodian civil society organizations in promoting accountability and transparency; and to assess the legal and administrative environment. And it endeavors to ascertain the operational entry-points for such activities in Cambodia and present donors, particularly the DFID and the Bank, with options for possible programs.

NGO and other civil society bodies believe that donors are able to exert more influence on the Government than they can. Donors have a critical role in listening to and channeling information from civil groups to the Government, but also in strengthening the interaction of civil society, citizens and government so that in the long term donors become peripheral.

Civil society is gradually galvanizing at a local level. But local or national structures through which issues can be raised remain weak. Much donor involvement lends itself to accountability initiatives. In many sectors, work is going on already, including gradual development of grassroots structures, local committees, civil society networks, research bodies, media awareness, entry points into national government, and civil engagement in common donor planning. This provides a basis for action.

Key next steps for the DFID and the World Bank include building joint or internal resources to promote social accountability through sectoral or policy-based work, build links with civil bodies, and set up good practices for donors to follow. Further donor collaboration would help strengthen the power of civil groups to raise issues with the Government. Some civil involvement might be possible through a common donor framework, within one sector or more widely. It could be linked to more accessible donor working group processes, or faciltiated through a common resource center.

Donors could also provide support to civil bodies more directly, taking account of existing programs and expertise and the difficulties involved in providing external resources to emerging civil groups.

Though the judicial system does not provide a channel, legal frameworks do provide a basis for taking issues up through other channels: to donors, through popular protest, directly to senior figures including the King and the Prime Minister, or to news media. Positive pro-poor laws are a valuable tool for civil society even in the absence of a functioning judiciary. International and ideally national law form bases for reasoned and justified social action. Forthcoming examples include a Freedom of Information Law, an Anti-Corruption Law, laws on rights to protest and laws on broadcast media.
In December 2004 the World Bank co-chaired with the Cambodian Government a two-day meeting of the Cambodia Consultative Group of donor countries and agencies. It was the first meeting for two years of this group, composed of the representatives of 17 bilateral donor countries, a dozen United Nations agencies, together with the World Bank, the Asian Development Bank, and the International Monetary Fund.

The Bank, in collaboration with the IMF, prepared a report in readiness for the meeting titled *Cambodia at the Crossroads: Strengthening Accountability to Reduce Poverty*. It focused on the key governance challenges facing Cambodia, and sought to provide an analytical foundation for facilitating debate and discussion.

The report notes that the Government had just adopted its *Rectangular Strategy for Growth, Employment, Equity and Efficiency*, and that the strategy rightly describes governance as the “most important pre-condition to economic development”. But the report argues that it will take more than the policies set out in the Rectangular Strategy to transform governance in Cambodia so that it is supportive of and not destructive to the development process. What is needed, the report says, is a concrete effort to strengthen, and in many cases to build from scratch, the foundations of a modern chain of accountability.

Cambodia has enjoyed a decade of strong but imbalanced growth averaging 6.7 percent a year. But this progress masks three challenges. First, growth is threatened in the short to medium term, possibly falling to 2 percent in 2005, recovering gradually by 2009 only if the Government presses ahead with reforms to improve competitiveness and the climate for investment. Second, income poverty levels are stagnant, with the market failing to absorb most of the 200,000 entrants annually entering the labor force, 36 percent of people suffering from hunger and the country unlikely to meet most of its Millennium Development Goals. Third, governance remains a serious challenge. In two areas, control of corruption and the rule of law, Cambodia ranks among the bottom quartile of performers among all countries.

Corruption can be administrative (where civil servants derive “rents” during the implementation of policies), or it can involve the capture of the state by vested interests to influence laws, regulations and policies to their advantage. State capture usually involves corruption of politicians, but also usually requires collusion between politicians and bureaucrats.

In Cambodia, corruption is endemic, reflecting a breakdown of the system of accountability. There is an inadequate legal framework to guide the behavior of civil servants and by failures of enforcement. There is no modern civil, criminal, and commercial procedural code, nor an Anti-Corruption Law. And law enforcement officials and the courts do not enforce the laws that do exist.

The state fails to ensure that civil servants have the capacity or the incentives to deliver the tasks assigned to them. They are poorly managed and underpaid: category A employees with four years’ post-secondary education earn $40 a month.

The culture of the bureaucracy is yet to become one where the bureaucrats see citizens as their masters and themselves as servants of the people. And a culture of transparency is needed among Cambodia’s civil servants where information held by them should be easily available to the public unless overriding public interest justifies secrecy.

The failures of accountability and transparency and slow progress towards the rule of law represent a serious failure of governance for which Cambodia’s poor pay a heavy price in physical insecurity and lack of access to justice and to essential services.

Poor governance leads to inequality in land holdings, which weakens future economic growth, and it contributes to misuse of the country’s natural resources. And corruption, inefficiency and the inability to enforce contracts and property rights impose a high cost on domestic and foreign investors.

Strengthening the chain of accountability in Cambodia will require strengthening checks and balances, in particular through a competent, honest and independent judiciary. To stop the plunder of the nation’s financial and natural resources will require strengthening financial accountability, enhancing accountability and transparency in resource management, and decentralization. And governance impediments to private sector growth and competitiveness must be removed to enable the diversification urgently needed in light of the threat to the country’s garment exports.
SEIZING THE GLOBAL OPPORTUNITY

The World Bank is helping the Royal Cambodian Government identify policy reforms to achieve three related objectives: to enable the private sector to lead growth, to help diversify the economy, and to increase the role of the private sector in public service delivery.

The Bank’s report, Cambodia: Seizing the Global Opportunity: Investment Climate Assessment and Reform Strategy, looks at ways of removing impediments to productivity and employment growth, and supporting the efficient delivery of public services.

The report says that in spite of Cambodia’s rapid growth and recovery in recent years, productivity is low in comparison with countries that Cambodia must compete with in international markets. Key reasons are corruption, weak rule of law, informal practices and complex and costly regulation. The corruption and governance problems are seen as so acute that they overwhelm visible deficiencies such as finance, infrastructure and skills.

A draft of the analysis was presented to the Government in February 2004. As a result, the Government established a Special Inter-Ministerial Task Force on Trade Facilitation and Investment Climate. The reform measures agreed are many: establishing a Single Administrative Document and Single Window process, automating information flows across agencies, streamlining business registration procedures and recognizing ethical behavior in the private sector. They are scheduled for initiation in mid-2004 and implementation by December 2005.

The second challenge of private sector development is to broaden the base of economic opportunity and jobs. The private sector is narrowly based: the garment sector contributes nearly four-fifths of Cambodia’s total official exports. Yet the garment industry now faces the prospect of lower prices as it contends with the liberalization of the world garment trade at the end of 2004.

However, employment and the great majority of enterprises numerically are concentrated in agriculture and agro-industry, which does not export much and has a labor productivity less than half that of the garment sector. Cambodia has a comparative advantage in agro-industry. If value added can be raised, agro-industry can contribute to diversifying the economy by shifting more rural employment to manufacturing.

The vast majority of agro-industry manufacturing firms are small, informal, and serve local markets or middlemen. For instance in Battambang, which has a large number of rice millers, 70 percent of output is sold directly to consumers, and the balance to small local businesses. To support diversification, the focus is on integrating agro-industry and other rural firms into urban, and ultimately, international markets. This will require removing impediments in such areas as trade facilitation, inspections, and exclusive licensing, and building trade-supporting institutions including dispute resolution, product quality and standardization, and market information systems.

The third challenge of private sector development is to play a role in improving access to efficient and affordable water, electricity, transport, and telecommunications services. There is a growing recognition that the private provision of infrastructure offers “efficiency” advantages over public service delivery – so long as there is an appropriate contractual and regulatory framework. But to date, contracts awarded in Cambodia for public infrastructure have typically lacked transparency in negotiation and management.

The report suggests some guiding principles for reform with a particular focus on easing the burden on business by a shift from a culture of control to a culture of facilitation, focusing on reforms shown to relate to improving competitiveness and productivity, and injecting competition and transparency in private participation in infrastructure.
POVERTY AND SOCIAL IMPACT OF CAMBODIA’S PROPOSED SOCIAL LAND CONCESSION PROGRAM

Cambodia passed a new Land Law in July 2001 creating the conditions for a reform of land management and the opportunity for the distribution of land. The reform is going forward with systematic land titling that will involve issuing titles to all owners of this land. This will probably take between 10 and 15 years.

A Social Concessions Sub-Decree was adopted in March 2003 that creates a mechanism for the transfer of state private land into the possession of poor, landless people for family farming and residential purposes.

The land distribution appears to have broad support within government, donor and NGO circles. However, only when decisions have been taken regarding the amount and type of land to be distributed will it be clear who are likely winners and losers, and therefore the likely supporters and opponents of the program.

Progress in classification and mapping of land has been limited: it is proving difficult to establish the legal and institutional arrangements required to determine what is military land, forest land, economic concessions and state private and state public land.

Following the March 2003 sub-decree, the World Bank undertook a Poverty and Social Impact Analysis of Cambodia’s Proposed Social Land Concession Program, in a joint effort with Oxfam GB, the Ministry of Land Management, Urban Planning and Construction (MLMUPC) and GTZ-Land Management Administration Project (GTZ-LMAP).

A draft report of the study was presented to a workshop in Phnom Penh in May 2004.

The analysis studied villages in four representative zones in the country: Mekong, North-East, Tonle Sap, and Coastal. It surveyed the extent of landlessness, the potential land availability, the potential impacts of land distribution, the required support services and infrastructure, and institutional issues that would arise.

Landlessness – not having enough land and not having the means to purchase land – is increasing. Every year 200,000 young Cambodians enter the labor market in search of livelihood. The most affected population group are young unmarried couples who cannot be supplied with agricultural land.

No land was reported available in the Mekong zone, but large tracts were reported vacant in the Northeast and Coastal zones. However most areas reported “available” are not suitable for agriculture. The most suitable land for social concessions will have to come from revoked concessions, holdings by the military, and other illegally claimed land. A clear method to identify these areas and the claimants has to be applied.

The study found that villagers dependent on communal grazing land and forests for their livelihood are concerned about its possible conversion to social land concessions. However, villagers indicated they would accept outsiders to receive land in their community, provided surplus land exists and long-term residents get preference. And the survey found that 50 percent of landless people would migrate long distances to resettle if provided with sufficient land for livelihood.

The analysis concludes that social land concession implementation will, as a precondition, require sub-decrees on state land identification and mapping, and on reduction of economic concessions, together with coherent enforcement of the existing land law.

The quality and amount of land distributed must be sufficient to provide a family with sustainable food security. The area of land to be distributed should not be fixed, because the minimum size necessary will vary according to potential productivity. That depends on numerous factors, principally fertility and availability of water. Very small land-holdings would yield below their potential, limiting the poverty reduction effect of land distribution.
World Bank research has shown that where there is gender inequality, the economic growth of the whole society is impeded.

The importance of recognizing and overcoming the inequality of women as an essential step in the reduction of poverty and promotion of growth has been identified in Cambodia’s National Poverty Reduction Strategy (NPRS).

To help Cambodia in its efforts to reduce gender disparity, and find more effective ways to integrate gender-responsive actions into public policies, the World Bank conducted a gender assessment, in collaboration with UNIFEM (the United Nations Development Fund for Women), The Asian Development Bank, the United Nations Development Programme, and Department for International Development/United Kingdom. This provided input for the Ministry of Women’s and Veterans’ Affairs’ contribution to the National Poverty Reduction Strategy.

The diagnosis and identification of gender-responsive action forms an integral part of the World Bank’s Country Assistance Strategy (CAS), which outlines the Bank’s program of support for each country.

The work on gender resulted in a report, A Fair Share for Women, which finds that gender inequalities are endemic in Cambodia’s labor markets. Traditional attitudes towards girls’ education and “appropriate” occupations for women and men have shaped existing inequalities and continue to perpetuate disparities in employment.

Women make up 52 percent of the workforce and 82 percent of Cambodia’s women work. But 53 percent of economically active women, compared with 32 percent of economically active men, work in unpaid family labor, and almost all of them are agricultural workers.

Rural women are responsible for 80 percent of food production, and more than 65 percent of women are farmers. Yet most of Cambodia’s women farmers do not have access to the resources that would help them reduce poverty and ensure food security.

In education, almost equal numbers of boys and girls are enrolled in preschool and primary school, but only 63 girls are enrolled for every 100 boys in lower secondary school, and in upper secondary and tertiary education fewer than 50 girls for every 100 boys. Illiteracy rates are very high: 25 percent of men and 45 percent of women are completely illiterate, and 71 percent of women and 50 percent of men functionally illiterate.

Outside agriculture, employment options for women are largely limited to the garment industry or the informal sector.

Among its recommendations, the Cambodia Gender Assessment Report looks for: increasing girls’ enrollment in secondary school, developing strategies for upgrading the literacy and skills of women in the labor force, ensuring the social protection of female migrant workers, expanding monitoring of labor code compliance, developing ways to provide agricultural services and information to women, and providing them with improved and secure access to land and natural resources.

Measures to break down the persistent barriers and constraints to women’s active and equal participation in social and economic development need to be implemented.

Social, legal, and political institutions perpetuate gender discrimination and vulnerability. Social norms, behaviors and cultural factors influence the transmission of HIV, and the incidence of gender-based violence, such as trafficking, domestic violence, rape, and sexual exploitation.

Boys traditionally have been encouraged to go to school to qualify for desirable positions in government, hence the dominance of men in the public service and decision-making positions.

The report finds that for Cambodian social norms and accountability for gender equality to change, women’s representation must be dramatically increased in government, in parliament, in the judiciary and at the commune and village level.
After nearly three decades of conflict and turmoil, Cambodia's economic, legal and institutional framework remains underdeveloped. Progress has been made in re-establishing the rule of law, but corruption pervades public-sector activities and is a disincentive to foreign investment.

There is no basic law on public procurement. ADB gave technical assistance in 1994-95, resulting in proposed legislation, rules and guidelines designed to create a sound procurement framework in line with good international practice.

The ADB draft in 1995 was promulgated as a sub-decree by the Council of Ministers, one tier below basic law. Through executive decisions over the ensuring years, implementation of the framework has deviated from the intentions, resulting in a fragmented approach and leaving considerable decision-making power with the Ministry of Economy and Finance.

The basis in law for the sub-decree is an article in the 1994 State Budget Law, which states that: "Expenditures from the general budget and special treasury account are ruled by public procurement procedures which are defined and organized by decree issued by the Council of Ministers based on proposals by MEF."

The Country Procurement Assessment Report (CPAR) team believe this is inappropriate, and that efficient and transparent public procurement is a vital component of economic growth, deserving of its own sovereign law to safeguard the interests of all parties, including national and international investors.

The CPAR focuses on actions that need to be taken by the Government to resume the direction intended by the 1995 framework for developing a transparent public procurement environment with monitoring carried out by a single agency. The report has been produced in line with World Bank guidelines and has involved public and private agencies, the Government and the Asian Development Bank.

A particular focus of the report is the existing Build-Operate-Transfer Sub-Decree of February 1998, which regulates private-sector participation in the delivery of public services and infrastructure projects.

The CPAR team believes that the sub-decree is inadequately framed, and contains one major loophole that permits direct negotiation and the awarding of privatized concessions and BOT projects when the concessionaire is required to have "special qualifications".

Most BOT/concession projects to date have been single-sourced through direct concessions. Contractual terms and conditions are unavailable for public inspection, and there is no provision for a regulator to protect state interests. Many concessions involve public end-user charges that have not been "tested" through open competitive bidding. The business community has protested that these charges are adding to the already high official and unofficial costs of doing business in Cambodia.

The CPAR team believes that the 1998 BOT Sub-Decree needs to be revised, the loophole permitting direct awards eliminated, the selection of concessionaires made competitive and transparent, risks equitably shared between Government and concessionaires, provision made for a regulator, and different forms of contracts for various types of concessions covered.

The team also seeks correction of gaps and weaknesses in the present legal framework pertaining to procurement in key areas such as company law, bankruptcy law, contract law, and commercial arbitration law.

The CPAR recommends that the 1995 Sub-Decree be strengthened quickly, then a sovereign procurement law enacted.
INTEGRATED FIDUCIARY ASSESSMENT AND PUBLIC EXPENDITURE REVIEW

Since 1999 Cambodia has made significant headway in reforming public expenditure policy and management, yet to implement its development agenda it will have to speed up the pace and extend the scope of reform in four key areas: increasing revenue collection, reforming public expenditure and financial management, reallocating resources to its highest priorities, and undertaking comprehensive civil service reform.

This is the conclusion of the Cambodia Integrated Fiduciary Assessment and Public Expenditure Review, a joint report of the World Bank and the Asian Development Bank. Titled Enhancing Service Delivery through Improved Resource Allocation and Institutional Reform, it focuses on both policies and institutions in the delivery of poverty-reducing services, and its principal finding is that in Cambodia both the reorientation of policies as well as the reform of institutions are required to improve the impact of services provided by the public sector.

Cambodia’s fiscal revenue ratios, especially, remain among the lowest in the world. Cambodia’s revenue to gross domestic production ratio stood at 11.7 percent in 2001, with tax revenues accounting for only 8.4 percent. Without significant increase in revenues, there are serious risks to macro-fiscal sustainability and the Government’s medium-term poverty reduction program.

The Government plans to raise revenues to 14 or 15 percent of GDP by 2007. Improved tax administration and improved tax policy will help towards increasing revenue. However, tax administration reform cannot depend on civil service reform in the short term, and the IFAPER report suggests the Government should investigate options for rapid improvement through establishment of a semi-autonomous revenue authority.

Weaknesses in the public expenditure and financial management system have high efficiency costs and create fiduciary risk to public funds. The cash-based payments system has emerged as a major constraint. The system is plagued by “gate-keeping” and deficient accounting, leading to a weak control environment and increasing opportunities for corruption.

The government will need to focus on improving budget execution, cash management, and the control environment. An important first step will be out-posting financial controllers with adequate commitment authority to line ministries. A program of reform to strengthen cash management will have to focus on increased use of the banking sector, integration of local and foreign exchange operations under a unified Treasury system, improved planning in cash management, and improved information systems for tracking commitments.

A sound control environment will require appropriate legal framework and the development of an enhanced public accounting system, a culture of compliance with the law, adequate ethical and professional standards, and appropriate oversight. The National Assembly should be strengthened so that it can promote greater accountability for the use of public funds.

The report suggests that the Government needs to rationalize public expenditure policy and management, and reallocate resources away from non-priority sectors, to further its Second Socioeconomic Development Plan (SEDP) and its National Poverty Reduction Strategy (NPRS).

The Civil Service is in acute need of reform, the report says. Afflicted by low pay, low skills, and thus low capacity, the civil service needs accelerated reform. With the exception of a very few high-level staff (700 out of 168,000 in 2003) median civil service salaries range from $40 a month for someone with four years tertiary education down to $21 a month.

The reform program must look at every possible avenue for improving pay, to attract skilled staff, rationalizing employment to ensure that resources are wisely deployed in priority sectors, and strengthening management, to guarantee that hiring and promotion expenditures are subject to controls.
VALUE CHAIN ANALYSIS

It is widely known that a variety of administrative and market-based barriers impede the development of the private sector in Cambodia, but little baseline data exists, particularly regarding the performance of the private sector, to help guide the Government in making sound policy decisions.

Private-sector-led economic growth faces formidable challenges: the need for strengthening the business environment and improving governance, deepening the supply chain, improving the competitiveness of infrastructure services, and improving productivity.

The Government is developing a private sector growth strategy to meet the opportunities offered by accession to the World Trade Organization. Accession will improve market access for producers, but opportunities afforded by the WTO will not result in growth of productive employment unless business environment constraints are removed and market-supporting institutions built.

The World Bank has provided the Government with a Value Chain Analysis to help quantify both production and administrative costs associated with operating a business in Cambodia. The use of this technique resulted in a detailed breakdown of costs which were then selectively benchmarked against costs incurred in similar enterprises operating in other countries.

The administrative barriers identified were then matched against specific laws to help the Government focus on policy reforms.

The exercise yielded detailed information that points to the need for substantial policy reform, investment in support services, and strengthening of public-private partnership.

Key issues impeding business include lack of enforcement of existing regulations; weak legal framework, particularly to safeguard rural businesses; poor infrastructure and support services; high official and unofficial public sector administrative costs; limited availability and high costs of inputs, including energy and finance; poor or nonexistent public services; poor labor skills; quasi-monopolies, and closed agreements between public and private, which discourage investment in support services and impede natural evolution of market linkages.

A channel mapping exercise was conducted for six distinct products – rice, garments, cotton and textiles, motorcycles, tobacco, and canned milk – to identify impediments to development of each industry.

The channel mapping exercise was accompanied by a customs clearance “roadmap” which shows the complexity of the existing customs clearance procedure for each product, and also an itemized list of undocumented fees imposed on enterprises operating in Cambodia.

The value chain analysis estimated that the potential annual losses across the six products because of the identified impediments totaled $226 million in gross domestic product and $27 million in public sector revenue.

The channel mapping exercise, customs clearance maps, and lists of undocumented fees published in the report provide statistical evidence that points to the need for a range of government reforms.

Specific reforms recommended include reducing the number of signatures and stamps required for import/export clearance, to reduce processing time and opportunities for rent-seeking. Some enterprises must process as many as 37 documents and collect 15 signatures and stamps per container. Approximately 50 percent of the customs clearance fees charged are unofficial – principally cash transactions while the container is being moved.

The Value Chain Analysis finds that the Cambodian market will require stronger and more transparent public-private partnerships, as well as coordinated effort between the private and public sectors and the donor community, to systematically tackle selected market and administrative distortions strategic to stimulating growth and competitiveness in the economy.
CAMBODIA ENVIRONMENT MONITOR 2003

The Cambodia Environment Monitor 2003, prepared by a World Bank team in collaboration with the Ministry of Environment, presents a snapshot of environmental trends across a range of issues. Its purpose is to engage and inform interested parties of key environmental changes as they occur.

Cambodia is confronted with a dynamic situation with regard to environmental challenges. Forest management policy, land accessibility and productivity, water resource management, air and water quality issues, and sustainable development of basic infrastructure such as energy alternatives, roads, and growth of cities and towns are among the most important environmental challenges faced by Cambodia today.

The environment monitor is divided into three “agendas” – Green, Blue, and Brown.

The Green Agenda discusses declining forest cover, loss of critical habitats and biodiversity, and land degradation. It says between 70,000 and 100,000 hectares of forest are lost every year because of incorrect policies, poor technical and infrastructure support for sustainable logging regimes, increasing domestic demand for fuel-wood and timber, and land clearing for agriculture and human settlements.

Bamboo forests and savannah are increasingly replacing dipterocarp and evergreen forests, resulting in loss of critical habitats and biodiversity. And land degradation because of inappropriate practices, land clearing and natural disasters is resulting in increasing soil infertility, shortened rotation in swidden agriculture, and decreasing agricultural holdings.

The Blue Agenda finds that the water supply is unable to keep up with demand, and points to increasing sedimentation and overfishing.

The trends are increasing seasonal variations in water flows, falling groundwater tables, growing fishing lot operations, and rising seasonal migration to the Tonle Sap areas.

Causes include fragmented water resources management, limited and worn-out infrastructure, and urbanization.

The Brown Agenda says there is declining air quality in Phnom Penh and other urban centers because of industry-sourced increasing levels of sulfur dioxide and nitrogen dioxide. As a result, increasing numbers of children suffer respiratory diseases.

It says there is declining water quality in major rivers. This is caused by rising pollution from small and medium enterprises, including toxic and hazardous waste. Domestic sewage also contributes to the decline in water quality, with increasing access to sanitation.

Solid waste generation has increased over the past 10 years with urbanization: the average annual urban solid waste generation is now 650 tonnes. There is also an increase in generation of toxic and hazardous waste. The report says there is improper management, an absence of toxic and hazardous waste disposal facilities, and a general lack of public awareness.

The report says its environmental scorecard of the green, blue and brown agendas will be the basis to record future improvement or deterioration of environmental quality.
THE ROLE OF AGRARIAN STRUCTURE IN SUPPORT OF CAMBODIA’S GROWTH AND EMPLOYMENT OBJECTIVES

The Cambodian Government’s Rectangular Strategy seeks to “improve agricultural productivity and diversification, thereby enabling the agriculture sector to serve as the dynamic driving force for economic growth and poverty reduction”.

The agricultural sector accounts for about a third of gross domestic product. Farms are generally small: an average of 1.5 hectares, with roughly 70 percent of them smaller than one hectare.

The proportion of farms smaller than one hectare decreased from 77 percent in 1997 to 72 in 2004. The decrease was accompanied by an increase in rural landlessness from 12 to 18.6 percent. Land distribution is highly uneven compared with Thailand and other East Asian and South Asian countries.

A number of Cambodian policymakers believe that concentration of land holdings and rural landlessness is the inevitable consequence of consolidation of land holdings to permit more productive and profitable agriculture.

However, overwhelming international evidence suggests that this dichotomy between growth and poverty reduction is false, and that small- and medium-sized family-run farms are generally more efficient in productivity per hectare than large commercial enterprises. A higher share of small farms is generally associated with higher historic economic growth rates. Countries with greater equity of land distribution have historically grown at twice to three times the rate of countries with highly inequitable distributions, with the dampening effects of inequality extending to the impact of educational and other social policies.

An important consequence of the belief in large farms in Cambodia is the Government’s propensity to grant large tracts of state land for Economic Land Concessions (ELCs), ostensibly in support of commercialization of agriculture. ELCs are large areas of land provided to foreign or Cambodian firms on long-term leases (70 years), typically for plantation agriculture. Among the official purposes for ELCs are developing capital-intensive agricultural and industrial-agricultural activities, increasing employment in rural areas, and generating state revenues through land-use fees, tax, and other charges.

Apart from ELCs managed by the Ministry of Agriculture, Forestry and Fisheries (MAFF) there are numerous concessions granted by the military, and provincial governors are also now authorized to approve ELCs of less than 1,000 hectares.

After donor pressure, the government has begun to disclose MAFF concessions – 41 concessions covering 800,000 hectares in 13 provinces.

The available information shows that ELCs were generally granted over very large areas (varying from 100 ha to over 300,000 ha), and that with very few exceptions they have failed to achieve any of their purposes.

It is estimated that no more than 10 percent of the concession area is under cultivation. Many concession-holders simply hold the land for speculation or as a means to circumvent the payment of timber royalties or the current logging ban by engaging in “land clearing” within the concession. Even in the few cases of active cultivation, concessionaires have generally imported labor from their home country, Vietnam, or other provinces, generating little if any benefit for local communities.

The ELC policy is of major concern for reasons beyond their poor performance. ELCs are consistently at the heart of disputes with local communities on land access; as ELCs are often granted on forested areas or areas eligible for indigenous communal title, they can result in irreversible environmental and social damage; and the assignment of large areas of land to ELCs comes at the expense of providing land with secure tenure to poor, landless households.

The proposed Economic and Sector Work (EWS) is crucial to advancing the World Bank’s Country Assistance Strategy objective of supporting improved governance and institutions for natural resource management. It will contribute to helping the Government develop a “vision” for the agricultural sector that includes issues of farm structure.

Assuming the evidence from Cambodia is consistent with international experience, this should support stronger emphasis by the Government in pursuing policies, public expenditures and land allocation decisions that support development of the small-holder sector. This may highlight the opportunity cost of the current bias towards large economic concessions and provide further evidence in support of a reallocation of these lands to landless and land poor.
CAMBODIA ENVIRONMENT MONITOR 2007: 
THE PROTECTED AREAS SYSTEM OF CAMBODIA

Nearly 23 percent of Cambodia’s land area is protected under legal instruments dating back to 1993, and managed variously by the Ministry of Environment, or the Ministry of Agriculture, Forestry, and Fisheries, or provincial government authorities.

The protected areas encompass a diversity of natural habitats that provide food and shelter for species of regional and international importance as well as resources for human livelihoods. Many protected areas are recognized for their scenic beauty or essential environmental services such as watershed protection. They are also areas where significant natural resources are found: timber, water, minerals and agricultural land.

However, development and land use trends, coupled with weak management and enforcement, suggest that protected areas are under extreme pressure because of a range of threats such as land development inside and on the periphery of protected areas, wildlife trade, and over-use.

A coherent vision of Cambodia’s protected areas and the wider role of conservation is needed to ensure that biodiversity has a significant and productive place within national development plans.

The Cambodia Environment Monitor 2007 is intended to provide an in-depth assessment of the current trends and status of the country’s protected area system.

The monitor will not attempt to provide the stable, coherent vision of the integration of protected areas and landscape conservation into Cambodia’s national development that is needed; nor will it make policy prescriptions. Instead it will aim to raise the voice and audience for biodiversity concerns within the land-use debate, recognizing that the vision must arise within Cambodia itself.

Cessation of conflict has reinvigorated economic activity in remote parts of the country that are still resource-rich, leading to rapid conversion of natural habitats.

A new Land Law, promulgated in 2001, was designed to regulate this process, but legal mechanisms are being exploited by the rich and influential to dispossess the poor. Meanwhile about 12 to 15 percent of Cambodians are estimated to be landless, and many more have insufficient land holdings to support their households.

Denial of the rights of the poor to natural resources by powerful concessionaires is an issue in forest management and has tarnished the World Bank’s effort to engage in the reform of that sector. Dispossession of local people removes any incentives to invest in sustainable management of biological resources, both where it happens and where it is anticipated. Displacement encourages encroachment into protected and virgin habitats.

The Government has recently announced plans to move from a concession-based system of forest management to one based on annual “coupes”. There has been skepticism that such a move will improve the social and environmental sustainability of forest management. A clear policy is needed to ensure its effectiveness.

There are several key messages for consideration.

• Cambodia has a rich natural heritage and extensive biodiversity values. However, the country faces major development decisions regarding allocation of land and natural resources to which the protected areas system makes a substantial contribution.

• Biodiversity coverage of the existing protected areas appears to be extensive and comprehensive. There may be a case for rationalization in the face of competing land uses and on the-ground realities if carried out within a framework of integrated land use planning.

• A clear understanding of the benefits of conservation-land uses is necessary for rational setting of broad-scale land-use priorities and for successfully defending the protected areas system as currently defined.

• Current management is highly dependent on largely short-term and uncoordinated donor funding. Alternatives need to be developed to provide for long-term, stable investment and the operational expenses required to keep the system functional.

• Greater standardization of management approaches is necessary in most areas although a degree of experimentation is useful.

• Greater clarity on roles and responsibilities is needed for integrated landscape planning, and the benefits from conservation should accrue to those who practice effective control over land-use decisions.
Cambodia Health Sector 2015: Options for Developing an Effective, Equitable and Sustainable Health System

The 2005 Country Assistance Strategy for Cambodia calls for an increased World Bank role in health sector development. It emphasizes the need to support with analytical and investment services those under-funded sectors critical to achieving the Millennium Development Goals.

There have been notable improvements in Cambodians’ health, but several challenges persist and new ones are emerging. The HIV/AIDS epidemic has been reversed, tuberculosis and malaria are on the decline and there is evidence that maternal and child health are improving swiftly. But challenges remain: malnutrition, which affects opportunities later in life, is a continuing problem; essential services are unaffordable for many and the cost of health care can further impoverish people already poor; only 17 percent of people who fall ill turn to government-run services, illustrating concerns about their quality and effectiveness; and there are new public health challenges – new communicable diseases such as bird flu and SARS, and an increase in non-communicable disease and accidents.

The Health Sector Support Project (HSSP) that the Bank is involved in (supported by International Development Association credit and grants, DFID, ADB and UNFPA), has been extended until December 2008. There is need for a comprehensive policy note to guide the preparation of a follow-up operation to the HSSP.

Although many studies have been done on specific issues and single projects, the challenge remains to integrate their findings. Various policy initiatives need to be linked into a coherent whole. The Equity and Development Report (2007), Poverty Assessment (2006) and a report on a 2005 Demographic and Health Survey are three landmark studies that provide new baselines for health policy thinking in Cambodia. The 2006 Poverty Assessment lays out the challenges for making health services accessible to the population and improving their quality, as well as for protecting the poor from unaffordable expenditure.

There is scope and willingness for further improvement of sector-wide management of health, but a plan needs to be developed.

The development objective of the new study is to contribute to the Cambodian government and development partners’ efforts to improve health system performance to achieve and sustain improved health outcomes and ensure affordable access to essential health care. The study will take a 10-year perspective and discuss comprehensive and consistent policy framework scenarios for improved performance by 2015.

The report is targeted at multiple audiences: the government for health policy development, the World Bank management to guide lending and sector work, and international development partners and NGOs active in the health sector.

The report will be a synthesis building on existing health sector and cross-sectoral studies and initiatives.

It will study recent health trends in Cambodia. AIDS, tuberculosis and malaria have declined but chronic diseases are increasingly affecting people’s welfare. And there is evidence that injuries are becoming the top reason for hospital admissions.

The report will also study health-sector financing. Cambodia may soon have to decide whether to invest more in demand-side financing to provide effective financial protection for the poor (user fees, equity funds, community and social insurance) or whether to strengthen supply-side financing. The report will discuss options for future development, including discussing possible “side-impacts” of increased role of demand-side financing on the management of health-care institutions (autonomy) and incentive packages for government health workers.

The report will discuss policy options to better integrate private providers in the health system, harnessing them to contribute towards public policy goals and providing effective regulation and oversight by the government.
INVESTMENT CLIMATE ASSESSMENT 2008

In 2004 the World Bank produced an Investment Climate Assessment (ICA) for Cambodia titled Seizing the Global Opportunity. This concept note discusses a second Investment Climate Assessment beginning in August 2007 which has three objectives:

♦ Updating the findings of the 2004 ICA. This will include analyzing trends in the business environment, reconciling major investment climate constraints with recent sustained economic growth, and assessing the impact of recent reforms on the investment climate.

♦ Deepening the understanding of constraints to productivity and investment. This will include a more detailed analysis of performance and constraints to diversification.

♦ Deriving an updated reform agenda for private sector development, which could form the basis for a sector-wide program.

The new ICA will also serve as a key building block for the report on sources of growth, diversification, and the impact of oil production, which will be prepared for the Second Cambodia Development Cooperation Forum (CDCF) planned for December 2008. In particular, the ICA will include preliminary analysis about diversification, which will be complemented by further analysis, notably on the rural sector, for the CDCF.

Among key issues to be explored is that Cambodia, despite rapid growth, continues to have low domestic investment, low productivity, and little diversification. Over the past decade growth of 9 percent per year has been the result of rapid development of industry (mainly garment manufacturing and construction) and services. Foreign Direct Investment (FDI) has been strong, especially in the garment and tourism sectors. But of concern for Cambodia’s future growth prospects is the fact that domestic investment, both public and private, is weak. Productivity has also not been increasing fast in the industry sector, and has recently even decreased in the services sector. Finally, the economy is not diversified: agriculture remains largely subsistence, with half of its added value coming from crops (and half that from rice) and a quarter from fisheries; the industry is mainly composed of garments (56 percent of the value added) and construction (24 percent); and service activities are dependent on cultural-heritage tourism.

Actions have been taken since 2004 to improve the investment climate. To facilitate trade, a single administration document was adopted in 2006 and implementation is imminent. The government has agreed in principle to a “single window”, and has agreed to establish a Trade Information Gateway to reduce transaction costs and increase transparency. The government is committed to introducing a WTO-compatible flat fee for services. It promotes Special Economic Zones. A Customs Law was passed in 2007, decrees to implement the investment law issued in 2004, a law on commercial enterprises in 2005, and a law on commercial arbitration in 2006. Cambodia has also benefited from a favorable external environment, with very strong growth in the region, favorable terms for the garment industry, and a good year for agriculture in 2005.

Nevertheless the reform agenda remains unfinished. A number of laws and decrees are still being drafted. Enforcement lags behind the legal framework. Slow or uneven progress is often attributed to institutional issues: lack of leadership because of fragmented mandates and insufficient coordination, overreach of public institutions, focus on control of the private sector rather than facilitation, and insufficient monitoring mechanisms and results orientation. Also, some potential future sources of growth - in the oil, gas, and mining sectors - are not without risks in terms of macroeconomic management and governance.

The ICA will discuss progress in these various areas and their impact on the investment climate. It will propose an analytical framework to prioritize various, and it will consider the institutional requirements necessary to accelerate progress.
PART II C

WORLD BANK - FINANCED PROJECTS

UNDER IMPLEMENTATION
# WORLD BANK-FINANCED PROJECTS UNDER IMPLEMENTATION

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Implementing Agency</th>
<th>Board Date</th>
<th>Closing Date (Revised)</th>
<th>Amount ($m)</th>
<th>Total Disbursed to Date as of 06/30/07 ($m)</th>
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* Project is likely to be extended by two years
RURAL INVESTMENT AND LOCAL GOVERNANCE PROJECT--ADDITIONAL FINANCING

Goal of the project: To contribute to rural development and poverty reduction through supporting provision of priority public goods and services at the commune level, as well as to promote good local governance through support of decentralized participatory local governance systems at the commune and provincial levels.

Description: There are two major components of this four-year project: The proposed Project will support, through Phase II of the National Seila Program, the newly decentralized planning process at the commune level, as well as the provision of grants for priority rural infrastructure and related public goods identified through that planning process. More specifically, the proposed Project will support: (i) integration of the National Seila Program into the new local government institutional structures and development planning, budgeting and implementation processes at the commune level established as part of the recent decentralization reforms; and (ii) technical assistance for strategic studies to inform the ongoing dialogue on deconcentration reforms, as well as to review and strengthen the regulatory framework for decentralization.

Geographic area: 23 provinces and cities

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</table>

For more information:

Contact the Project Implementation Unit:

H.E. Chhieng Yanara  
National Committee for Decentralization and Deconcentration  
Ministry of Interior

World Bank Task Manager: Ms. Louise F. Scura  
E-mail: Lscura@worldbank.org
**Goal of the project:** To provide support for the implementation of the “good governance” reform program laid out in the Royal Cambodian Government’s National Strategic Development Plan (NSDP) 2006-2010.

**Description:** The Poverty Reduction and Growth Operation (PRGO) program follows the Royal Government’s strategy by recognizing governance issues as the primary obstacle to growth, poverty reduction and aid effectiveness. The PRGO has three objectives:

1. Higher rates of growth and poverty reduction based on an improving investment climate, higher agricultural productivity, and more effective public service delivery. The primary objective is to support policy and institutional reform required to maintain growth and accelerate poverty reduction by facilitating trade and diversifying exports, guaranteeing land tenure and increasing access to land for the rural poor, and making the budget a credible management tool while reducing fiduciary risk to public funds.

2. A reform dialogue with the government more focused on results, and undergirding momentum where political opportunity exists. The PRGO provides an opening to deepen and accelerate the reform agenda, especially as it pertains to challenging issues of governance in Cambodia, and offers some insurance against backtracking on governance-related reform.

3. Improved harmonization and alignment of development partner policy positions and financial support through the Cambodia Development Cooperation Forum process.

**Geographic area:** Nationwide

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**Project cost:**
Amount of IDA grant: US$ 15.0 million

**Recipient:**
Government of the Kingdom of Cambodia

**Type of Assistance:**
Grant

**Date approved:**
6 July 2007

**Expected completion date:**
6 July 2007

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**For more information:**
Contact the Government counterpart:
H.E. Dr. Hang Chuon Naron, Secretary General, MEF

**World Bank Team Leader:** Stephane Guimbert
E-mail: sguimber@worldbank.org
Goal of the Project: Enhance power trade within the Greater Mekong Subregion with a view to also bringing affordable grid-based electricity to selected provinces in Cambodia through import of power from Laos and Vietnam.

Description:
1. Construction of 115kV transmission systems from Vietnam border to Kampong Cham, and from Laos border to Stung Treng, to bring affordable electricity to these two areas of Cambodia, currently served through expensive local diesel-based generation. National per capita electricity consumption in Cambodia is about 63 kWh a year, electricity access rate is less than 18 percent, and tariffs are among the highest in the world, with grid-based tariffs in the range of 9 to 23 USc/kWh, and tariffs in rural areas in the range of 30 to 90 USc/kWh. With a very small market, and the absence of a national grid, Cambodia does not have the opportunities of benefiting from economies of scale in developing its energy resources in the near term, and has adopted a regionally focused energy strategy. In the longer term, Cambodia has a large unexploited hydropower potential theoretically estimated at around 10,000 MW and has fossil fuel resources of gas and coal yet to be properly assessed and developed. The development of a national grid will enable Cambodia to progressively phase out diesel generation, and ultimately it may be in a position to export electricity to Thailand and Vietnam.

2. Consulting services for project design and management.


Geographic area:
Vietnam border to Kampong Cham province
Lao border to Stung Treng province

For more information:
Contact the project Implementation Unit
Contact person: Yin Nolson, Deputy Managing Director of EdC

World Bank Team Leader: Mohinder Gulati
Email: mgulati@worldbank.org

Project cost:
Amount of IDA grant: US$ 18.5 million
Government financing: US$ 3.7 million

Total project cost: US$ 22.2 million

Recipient:
Government of the Kingdom of Cambodia

Type of Assistance:
Grant

Date approved:
6 June 2007

Expected completion date:
31 December 2011
Goal of the project: Improving the delivery of government services and reducing corruption by increasing tax and non-tax revenues (including oil), by ensuring more reliable budget implementation, by motivating civil servants, and by bringing external auditing up to international standards.

Description: The project support Government’s Public Financial Management Reform Program (PFMRP), launched in December 2004. It has six components:

1. Revenue Management (US$ 3.1 million), consisting of (a) Tax Department modernization; and (b) developing policy and strengthening institutional arrangements for transparent oil and gas revenue management.

2. Budget Formulation (US$ 1.4 million)- strengthening the Government’s to formulate and integrate its budget, including: (a) capturing off-budget revenues and expenditures; (b) strengthening expenditure control; (c) developing a macroeconomic-fiscal framework, including revenue forecasting; (d) strengthening debt forecasting, financing analysis, and payment management; (e) redesigning the budget and accounts classification system; (f) piloting a program-based budget structure; (g) redesigning the budget formulation process and calendar; (h) budget policy formulation; (i) developing an integrated budget formulation information system; and (j) expenditure tracking techniques.

3. Budget Execution (US$ 10.6 million) will embrace (a) guidance on the design and content of a Financial Management Information System and training for it (US$ 8.4 million); (b) procurement (US$ 0.9 million); and (c) Treasury systems and procedures (US$ 1.3 million) including the streamlining of budget execution processes, increasing payment through the banking system, and designing measures to improve budget discipline by limiting payment arrears.

4. Capacity Development (US$ 5.9 million) will cover (a) Internal Audit (US$ 0.2 million) (b) Performance and organizational management (US$0.5 million) (c) Program Management (US$ 1.8 million); and (d) Training (US$ 3.3 million).

5. Merit Based Pay Initiative (MBP) (US$ 7.8 million) Assist the Government to pilot a civil service reform by an accelerated pay enhancement program with the Government eventually assuming the full cost.

6. Building the Oversight Capacity of Cambodia’s National Audit Authority (US$ 1.5 million) to conduct effective audits of the public financial management and administration, and to publish relevant and timely audit reports.

Recipient:
Government of the Kingdom of Cambodia

Type of Assistance:
Grant

Date approved:
27 June 2006

Expected completion date:
15 January 2012

Geographic: Nationwide

For more information:
Contact the Project Implementation Unit:
Contact person: Sok Saravuth, head of Reform Committee Secretariat

World Bank Task Manager: Peter Murphy
Email: pmurphy2@worldbank.org

Project cost:
Amount of IDA grant: US$ 14.0 million
Multi-donor trust fund: US$ 14.75 million
Government financing: US$ 0.33 million

Total project cost: US$ 30.28 million
Goal of the project: To support the Government’s strategy to promote economic growth by reducing transaction costs associated with trade and investment, introducing transparency in investment processes, and facilitating access of enterprises to export markets.

Description: There are four components:

1. The Trade Facilitation Component will finance automation and reform of trade facilitation agencies.

2. The Export Market Access Fund will finance a technical assistance matching grant facility that would cover 50 percent of the cost of achieving market standards, or evidence of compliance with those standards.

3. The PPI (Private Participation in Infrastructure) and Investment Component will finance a program of capacity building to implement the Law on Concessions and the Amended Law on Investment, to improve the organizational capacity of key agencies to manage and deliver PPI transactions that are conducted fairly, transparently, competitively and in the public interest.

4. The Legal Transparency will finance the establishment and maintenance of a website in the Khmer language to make readily available to the public the final judgments of all cases in the Supreme Court and in the Court of Appeal; and the establishment and maintenance of a website to ensure the electronic publication of all Cambodian commercial laws, related regulations and draft legislation.

Geographic area: Nationwide

Project cost:
Amount of IDA grant: US$ 10.0 million
Government financing: US$ 0.33 million
Total project cost: US$ 10.33 million

For more information
Contact Person: Mr. Ly Phanna, Project Director

World Bank Team Leader: Albert G. Zeufack
Email: azeufack@worldbank.org
Goal of the project: To assist the borrower to implement its Education Sector Support Program goals to expand access to educational services by addressing supply, demand, quality and efficiency constraints, with special focus on the poor and underserved communes.

Description: The project will strive to reach the proposed development objectives through a two-pronged strategy.

♦ First, it will seek to enable equitable access to education through a balanced mix of both supply- and demand-side interventions.

♦ Second, it will promote decentralized mechanisms to nurture educational quality enhancements. The former strategy will involve: (a) school construction in areas with incomplete primary or no lower secondary schools as well as (b) reduction of access barriers through targeted scholarships to encourage disadvantaged children to attend school. The latter will entail: (i) the strengthening of decentralized quality education service delivery and (ii) the development of a national assessment monitoring system. In addition, the project will support the implementation of emerging needs under the Education Sector Support Program, to be agreed with the IDA (International Development Association) during project implementation.

Geographic area: Nationwide

Project cost:

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For more information

Contact the Project Implementation Unit:
Ministry of Education, Youth and Sport

Contact Person:
HE Im Sothy, Secretary of State
Telephone: 855 23 217 250

World Bank Team Leader: Omporn Regel
Email: oregel@worldbank.org
RURAL ELECTRICIFICATION AND TRANSMISSION PROJECT

Project Goal: To improve power sector efficiency and reliability and reduce electricity supply costs. Also the project will strengthen electricity institutions framework. And by providing rural electricity the project will improve the standard of living of Cambodians and also foster economic growth.

Description: The project has three main components:
1. To establish a transmission line of 220kV between Cambodia and Vietnam, furnishing low-cost reliable power to industrial users currently employing costly diesel-based self-generation. This includes the construction of a 109 km long double-circuit 220kV line from the border with Vietnam to Phnom Penh and two associated substations and the reinforcement of the 115kV grid around Phnom Penh involving about 20 km of 115kV lines and modifications to three 115kV substations and a 22kV extension.
2. To bring affordable and reliable grid-based electricity within the reach of rural consumers, while continuing to promote a “uniquely Cambodian” private-sector-led, Government-enabled rural and renewable electricity market.
3. To strengthen capacity of the sector institutions and provide operational support and training to implementing agencies in land compensation, resettlement and environmental management.

Geographic area: nation wide
For more information:

Project cost:
- Amount of IDA loan: US$ 40.0 million
- Government financing: US$ 6.33 million
- Other donors: US$15.87 million
- GEF grant: US$5.75 million
- Total project cost: US$ 67.92 million

Contact the Project Implementation Unit: Ministry of Industry, Mines and Energy. H.E. Ith Praing, Secretary of State
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email: energydept@camnet.com.kh
Mr. Ty Norin, Corporate Management Director, EDC
Tel: (855 23) 426 938. Fax: (855 23) 426 018

World Bank Task Team Leader: Jie Tang
Email: jtang@worldbank.org

Borrower:
Government of the Kingdom of Cambodia

Type of credit:
Specific Investment Loan

Terms of financing:
Standard IDA terms

Date approved:
16 December 2003

Expected completion date:
6 June 2009
PROVINCIAL AND RURAL INFRASTRUCTURE PROJECT

Goal of the project: To bring rural areas of Kampong Thom, Oddar Meanchay, Preah Vihear, and Siem Reap safe, year-round access to markets and essential services.

Description: The project has five components:
1. Establishing an effective system for managing the maintenance of roads in four provinces.
2. Rehabilitating and maintaining 300 km of secondary roads and 100 km of tertiary roads.
3. Implementing a training program for MPWT and MRD staff at the central and provincial level to effectively manage their tasks. This includes learning to prioritize maintenance needs and develop efficient and practical maintenance plans. This component also includes support for the development of a local consulting and contracting industry to provide services for the continuous maintenance of roads.
4. Developing and implementing improved policies and strategies for the organization and responsibilities of the various transport agencies with respect to planning methods, budgeting, making financial plans and following a legal framework.
5. Developing and implementing community participation in awareness programs about landmine threats, road safety and HIV/AIDS prevention. This component recognizes the need to understand the social and environmental conditions in communities involved in the project and to assess the potential impact that road development would have.

Geographic area: Kampong Thom, Oddar Meanchay, Preah Vihear and Siem Reap provinces

For more information, contact:
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E-mail: WB_PIU2@bigpond.com.kh

Mr. Tunn Chandara, Ministry of Rural Development (MRD)
Tel: (855-23)884-160 E-mail: mrdesk@camnet.com.kh

World Bank Task Team Leader: Ms. Maria Margarita Nunez
Email: mnunez@worldbank.org

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Borrower: Government of the Kingdom of Cambodia

Type of credit: Specific Investment Loan

Terms of financing: Standard IDA terms

Date approved: 11 September 2003

Expected completion date: 30 September 2007 (likely to be extended for two years)
PROVINCIAL AND PERI-URBAN WATER SUPPLY AND SANITATION PROJECT

Goal of the project: To help the Phnom Penh Water Supply Authority expand the supply of safe water to targeted towns and growing peri-urban communities and improve sanitation services. This project aims also to help low-income communities in urban centers find a way to pay for piped-in water service. Peri-urban refers to areas just outside the urban boundaries.

Description: The project would assist the Government with three issues:
1. Water supply. This involves the construction of new supply systems.
2. Sanitation service. Providing household toilets, sanitation systems and new sewerage systems.
3. Improving the delivery of water and sanitation services. This "in institutional capacity building" involves sending experts to help Cambodian officials form water user groups within communities. The experts would also train government officials and provincial utility staff people on how to better plan and manage the water utilities as well as ways to protect the local environment. The experts will also supervise studies of what needs to be done in preparation for the water supply and sanitation project.

| Project cost: |
| Amount of IDA loan: | US$16.9 million |
| IDA grants: | US$3.0 million |
| Government financing: | US$1.87 million |
| Local communities: | US$0.25 million |
| Other (private commercial): | US$1.35 million |
| Estimated total project cost: | US$23.37 million |

Geographic area: Cities, including Phnom Penh and the peri-urban areas surrounding the city.

For more information:

Contact the Project Implementation Unit:
Phnom Penh Water Supply Authority (PPWSA), Ministry of Industry Mines and Energy (MIME).
Mr. Ek Sonn Chan, Director of PPWSA
Tel: (855 – 23) 724-657
E-mail: PPWSA@bigpond.com.kh

World Bank Task Manager: Jan Drozdz
E-mail: jdrozdz@worldbank.org
Goal of the project: To reform the health services sector and improve its ability to manage resources efficiently. The project aims to focus on primary health care, especially improving health services in rural areas and increasing the utilization of health services among people with low-incomes. Improving health services and people’s access to them, as well as to health information, is intended to aid in the better control and prevention of infectious disease epidemics and malnutrition, especially among people who are poor.

Description: The project includes three components implemented by the Ministry of Health (MoH):

1. Improving delivery of basic health services in rural areas and urban slums. This includes financial support for the rehabilitation and construction of health facilities and hospitals, equipment and maintenance, provision of essential drugs, quality assurance and exemption programs for people who are poor.

2. Improving programs that address public health priorities. This component includes the development of primary healthcare services for prevention and treatment in rural areas and improving the distribution of essential drugs. Medical services covered by this component aim to control infectious diseases such as HIV/AIDS, TB, malaria and dengue. In addition, the services provide a package of preventive and curative nutrition activities aiming to encourage people to change their behavior. Regarding malaria, the project will provide funding for the development of an impregnated bed-net and hammock-net program, address the emerging problem of resistance to malaria drugs, and improve malaria detection. This also includes making environmentally safe insecticides available to the public.

3. Strengthening institutional capacity. This component provides funding to the Ministry of Health, to provincial health departments and to operational districts to increase their ability to carry out key management duties, including planning, monitoring, evaluation, and financial accounting.

Geographic area: Components 1 and 3 take place in 12 provinces; component 2 is nationwide.

For more information:

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E-mail: mengchuor.piu@bigpond.com.kh

World Bank Task Team Leader: Dr. Toomas Palu E-mail: tpalu@worldbank.org

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Total Project Cost: US$ 31.84 million
**ECONOMIC AND PUBLIC SECTOR CAPACITY BUILDING PROJECT**

**Goals of the project:** To train government officials so they can carry out essential development tasks more effectively. Ultimately, these officials should learn to perform their jobs more efficiently. This is what is known as human resource development, or capacity building. The target groups of officials will include many female civil servants to make sure that women and men receive equal access to the training. By helping government officials do their jobs better, the quality of public services will improve and be made more easily available to Cambodian people.

**Description:** There are four components to this project:

1. **Training of Government Officials.** This involves six areas of emphasis: Leadership and management practices, policy development and implementation, public financial management, human resource management, governance and public administration, and poverty reduction.
2. **Institutional Support.** Funding in this area will provide for human resources development, economic and financial policy planning and monitoring, the training of trainers, training materials in Khmer, interpreters, and establishing a library.
3. **Global Development Learning Network.** Funding will finance the opening of this distance-learning center, intended to help build capacity of government staff by giving them access to training programs and the opportunity to learn from colleagues and experts from other countries.
4. **Project Management and Training Coordination Office with Logistics Support Unit.**

**Geographic area:** Nationwide

<table>
<thead>
<tr>
<th>Borrower</th>
<th>The Government of the Kingdom of Cambodia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of credit</strong></td>
<td>Technical Assistance Credit</td>
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<tr>
<td><strong>Terms of financing</strong></td>
<td>Standard IDA terms</td>
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<td><strong>Date approved:</strong></td>
<td>25 June 2002</td>
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<td><strong>Expected completion date:</strong></td>
<td>31 December 2007</td>
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</table>

**For more information**

**Project cost:**
- Amount of IDA loan: US$ 5.50 million
- Government Financing: US$ 0.26 million
- **Total Project cost:** US$ 5.76 million

**Contact the Project Implementation Unit:** Council for Administrative Reform, Council of Ministers

Sar Chanty, Project Manager
Tel: (855-23) 723-903  Fax: (855-23) 362 151
E-mail: tinamus@camnet.com.kh

**World Bank Team Leader:** Mr. Huot Chea
E-mail: huotchea@worldbank.org
LAND MANAGEMENT AND ADMINISTRATION PROJECT

**Goal of the project:** To reduce poverty, stimulate economic development, promote social stability and improve environmental management by improving land tenure security and promoting development of efficient land markets.

**Description:** There are five components to this five-year project:

1. Development of land policy and regulatory guidelines. Included in this is the development of a Council on Land Policy and the forming of policy for land administration and management. In addition, it will include helping Government develop and enforce laws regarding fair and sustainable land distribution.

2. Institutional development. This mostly refers to helping improve the efficiency and capabilities of the Ministry of Land Management, Urban Planning and Construction at all levels. It also includes development of expertise in project management and land management, and development of a private survey industry.

3. Land titling program and development of a land registration system. This involves creating land titling programs and developing a modern land registration system. It also includes developing a system for land transactions. Financing will also fund information campaigns to inform the public about the need for land titles and for registering their land ownership.

4. Improving the system for solving disputes. This provides funding for developing mechanisms in provincial institutions to properly handle disputes over land titling. This component also helps to increase people’s access to services that can help them with land disputes. It includes legal assistance for people who are disadvantaged by lack of money or knowledge but who have a land dispute.

5. Land management. This includes simplifying the procedures for defining the different types of land, such as forest, protected areas, private land and public land. This component includes acquiring aerial photographs and satellite images of the Cambodian territory and preparing a land-classification map.

**Geographic area:** National

**Borrower:** Government of the Kingdom of Cambodia

**Type of credit:** Specific Investment Loan

**Terms of financing:** Standard IDA terms

**Date approved:** 26 February 2002

**Expected completion date:** 31 December 2007 (likely to be extended for two years)

**Project cost:**

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<th>Description</th>
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<td>Amount of IDA loan</td>
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<td>Government financing</td>
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<td>Other donor financing</td>
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<td>Germany (BMZ)</td>
<td>US$ 3.5 million</td>
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<td>Finland: Ministry of Foreign Affairs</td>
<td>US$ 3.5 million</td>
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<tr>
<td>Canada</td>
<td>US$ 8.5 million</td>
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</table>

**Total project cost:** US$ 44.4 million

**For more information:**

- **Contact the Project Implementation Unit:** Ministry of Land Management, Urban Planning and Construction.
- **Contact person:** Mr. Sar Sovann, Project Director, Tel: 215 659 & 215 660 Fax: 215-277.

**Email:** lmap@camnet.com.kh

**World Bank Task Manager:** Peter Jipp, E-mail: pjipp@worldbank.org
BIODIVERSITY AND PROTECTED AREAS MANAGEMENT PROJECT

Goal of the project: To improve the capabilities of people in the Ministry of Environment (MOE) to plan, implement and effectively monitor National Protected Areas. This includes developing and testing proactive measures to minimize unsustainable exploitation and degradation of the biodiversity of national and global significance in the Viarachey National Park. What is learned from the Viarachey program will be used to develop systems for other national protected areas. Protecting environment areas and the variety of plant and wildlife that grow in them are necessary to a country’s long-term development.

Description: There are four components in this four-year project:

1. National policy and capacity building. This component involves funding for consultants to help the MOE develop key elements of a long-term plan for the National Protected Areas system. The consultants will help establish management guidelines, a sustainable financing system, an information system to support management of protected areas, and educational programs promoting public awareness of laws and regulations. They will also review the legal and regulatory constraints. The funding will also provide for park ranger training programs.

2. Park protection and management. This element involves consultants to help the MOE develop and test activities that support the basic management needs of the Viarachey National Park. This includes financing for community education and outreach programs for park protection, staff development, and improvements of park infrastructure. This is necessary in order to build the foundation for a long-term program for biodiversity conservation in Ratanakiri and Stung Treng provinces.

3. Community development. Communities within and adjacent to the Viarachey National Park will be more directly involved in the Park’s management. Many communities rely on the resources of the park for their daily subsistence needs, especially in times of emergencies. This component will include assessments of the uses of natural resources, cultural values and other socio-economic conditions in and around the park. This project also aims to assist communities in the targeted areas to formulate proposals to address their needs while respecting the management goals for the park. Financing is available for small-scale alternative livelihood initiatives.

4. Project management. This involves creating an office in Ban Lung city and a project liaison office in Phnom Penh to support the project management activities mentioned above.

Geographic area: Viarachey National Park in Ratanakiri and Stung Treng provinces

For more information:
Contact the Project Implementation Unit: Ministry of Environment
Mr. Meas Sophal, Project Director
Tel: (855-23) 427-844 E-mail: BPAMP@bigpond.com.kh

Project cost:
- Amount of IDA loan: US$ 1.91 million
- Government financing: US$ 0.25 million
- GEF grant: US$ 2.75 million
- Total project cost: US$ 4.91 million

World Bank Task Manager: Mr. Peter Jipp
E-mail: pjipp@worldbank.org

Borrower:
Government of the Kingdom of Cambodia

Type of credit:
Learning and Innovation Loan

Terms of financing:
Standard IDA terms

Date approved:
8 February 2000

Expected completion date:
31 December 2007
## PART II D.
RESULTS OF RECENTLY IMPLEMENTED PROJECTS

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Implementing Agency</th>
<th>Board Date</th>
<th>Closing Date (Revised)</th>
<th>Credit Amount ($m)</th>
<th>Total Disbursed to Date as of 06/30/07 ($m)</th>
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<tbody>
<tr>
<td>1. Agriculture and Productivity Improvement</td>
<td>MAFF</td>
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<td>12/31/04</td>
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<td>2. Demobilization and Integration</td>
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<td>12/31/04</td>
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<td>3. Social Fund II</td>
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<td>03/31/05</td>
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<td>4. Flood Emergency Rehabilitation</td>
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<td>12/31/05</td>
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<td>5. Northeast Village Development</td>
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<td>6. Education Quality Improvement</td>
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<td>12/20/99</td>
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<td>7. Urban Water Supply</td>
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<td>8. Structural Adjustment Credit</td>
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<td>03/28/00</td>
<td>03/31/03</td>
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<td>9. Disease control And Health Development</td>
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<td>10. Technical Assistance Credit</td>
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THE AGRICULTURE PRODUCTIVITY IMPROVEMENT PROJECT

In June 1997, the World Bank, with the International Fund for Agricultural Development (IFAD), launched a project to improve agricultural productivity in Cambodia, with funding of US$27 million. The borrower was the Cambodian Government’s Ministry of Agriculture, Forests and Fisheries (MAFF).

The Bank’s Staff Appraisal Report (SAR) defined the objective of the Agriculture Productivity Improvement Project (APIP) as “...the sustainable and broad-based improvement of smallholder agricultural productivity as a means to improved food security and increased rural incomes.” However the objective as defined in the Development Credit Agreement (DCA) was completely different: “...to assist the Borrower to implement ... a co-ordinated national program to help improve the quantity and quality of the technical, human and physical resources required to promote sustainable agricultural development improvements throughout the Borrower’s territory”.

The project was very diverse. It had nine components, and five of those had 18 subcomponents. The project originally consisted of a five-year program to improve the quantity and quality of technical, human and physical resources available to the MAFF and (later) the Ministry of Water Resources and Meteorology (MOWRAM) to promote sustainable agricultural development. This was to be achieved via two main initiatives. The first comprised activities grouped by main agricultural subsectors and including knowledge acquisition; the testing, adaptation and demonstration of technology; field development activities and priority investments; and in three subsectors (seeds, water, and livestock) the preparation of development strategies. The second was a major effort to develop both the human resource base and the physical infrastructure and equipment of MAFF.

The project’s implementation period was extended, and finished in December 2005. In hindsight, the quality of the project at entry was considered unsatisfactory, and the overall outcome was likewise deemed unsatisfactory and its sustainability unlikely, although some components and subcomponents were themselves satisfactory. The performances of both Bank and Borrower were considered unsatisfactory.

The physical objectives of the project included physical infrastructure in terms of new and renovated buildings for the MAFF; extensive building, river protection bund, wall, ponds, and fish-feed pelleting plant at the Bati Fish Seed Production and Research Facility; facilities at the Kbal Koh Vegetable Research Station; two complete seed production and processing facilities at Chamka Leu and Tuol Sam Rong; and a large number of small-scale irrigation/drainage structures in Kampong Thom and Kratie provinces. Most of this was achieved, though with varied results.

The institutional objectives of the project were ambitious and aimed to build MAFF into the lead player in agricultural development. The project included a major effort in human resource development in MAFF and MOWRAM which resulted in 1,000 trained staff. However, although there has been some improvement, the level of civil service salaries is not sufficient to allow professional or other staff to dedicate themselves fulltime to their jobs. As a result, since the project closed in December 2005, many of the newly-trained staff have dispersed. The improved institutional status of MAFF and MOWRAM has thus been eroded.

The Animal Health and Production Component (expenditure US$4.63 million) was funded by the IFAD. IFAD’s assessment is that this component was highly successful in its implementation and achieved most of its objectives. Institutional development has been significant, and without it Cambodia would have been in no position to respond as effectively as it has to outbreaks of Highly Pathogenic Avian Influenza (bird flu). The component also produced a National Strategic Plan for Animal Health and Production.
DEMOBILIZATION AND REINTEGRATION PROJECT

The Demobilization and Reintegration Project objectives were (i) to assist the Royal Cambodian Government (RGC) in its effort to demobilize 30,000 soldiers and to promote their successful adaptation to civilian life; and (ii) to contribute to a reallocation of budgetary resources to the social sectors.

The Project ran from July 2002 till December 2004. It was funded from multiple sources including grants from Sweden, the Netherlands, Japan, and the World Food Program. The International Development Association (IDA) credit amounted to SDR 14.7m (US$18.2m) and the RGC was to contribute an amount in riel equivalent to US$7.2m. The total planned budget of the Project from all sources was US$42m. The actual expenditure till 31 January 2005 was $18.5m.

The first component of the project was the establishment of a reliable military personnel database and development of a computerized payroll system, and verification of the accuracy of the list of the “would-be demobilized soldiers”.

The candidates for demobilization were to be identified from the database, and demobilized and helped to reintegrate into civilian communities. Technical assistance to the Implementing Agency (the Council for Demobilization of the Armed Forces – CDAF) was provided at central and provincial levels.

The project was designed to include two phases of discharge and demobilization, with 15,000 soldiers in each. Soldiers were categorized according to their ability to serve. Category I soldiers were healthy and below retirement age, Category II soldiers were either above retirement age, chronically ill, or disabled. The first phase of demobilization included 80% Category II soldiers. The remaining Category II soldiers, and a higher percentage of Category I soldiers would be demobilized in the second phase.

The first phase was accomplished: 15,000 soldiers were demobilized between October and December 2001. The project then foundered on a finding of misprocurement and the second phase of demobilization did not take place.

Soldiers had identified land, cows, and cash as their primary needs for reintegration. However, IDA rules did not permit the financing of land purchases, procurement of so many cows was not possible, and donors were concerned about disbursement of cash effectively in the weak governance environment then prevailing. Goods were therefore identified that would provide demobilized soldiers with a means of generating income. Among those goods were 13,764 motorbikes, which were distributed to demobilizing soldiers.

A complaint was received after the $6.93 million contract for the motorbikes was awarded. It was found that the Bank had been presented with inaccurate and misleading information in order to influence the decision on the awarding of the contract, and that the successful bidder did not meet the prerequisite criteria. A formal declaration of misprocurement was released on 26 June 2003. In consequence five individuals and four firms were barred from World Bank projects. Following the declaration of misprocurement the Bank requested that the sum paid to the supplier be recorded in the Financial Management Report, verified by an audit, and the full amount returned to the Special Account. The declaration of misprocurement was not reflected in the next Financial Management Report sent to the Bank, which was therefore not accepted. The IDA credit was suspended. The subsequent report was not received by the Bank until January 2005, after the Bank had considered suspending its entire portfolio in Cambodia pending resolution of this and other issues in the Demobilization project.

The demobilization project was deemed to have been partly successful: by completion date 15,000 of the intended 30,000 soldiers had been demobilized, though no evaluation of their reintegration into the community was done. The performances of both the Bank and the Borrower in the demobilization project were rated unsatisfactory.
SOCIAL FUND II PROJECT

Continued World Bank support to the Social Fund of the Kingdom of Cambodia (SFKC) was sought by the Royal Government of Cambodia (RGC) as the Social Fund I (SFI) project neared completion. In response the Social Fund II project was approved with a credit of US$25 million in March 1999. The project was to end in December 2002 but was extended till March 2005.

Its aims were to: (1) provide small-scale, community-based subprojects in social and economic infrastructure with emphasis on the poor; (2) create short-term employment opportunities to absorb the increase in unemployment associated with post-crisis reverse migration of workers from Thailand and the demobilization of Cambodian army units; (3) strengthen the capacity of communities to implement development projects and sustain them; (4) improve donor coordination and financing; and (5) improve poverty and district targeting.

In May 2001, one year before the expected completion of the SFII, the Bank approved a Flood Rehabilitation Supplemental Credit of US$10 million, which provided additional resources to the SFKC to address emergency needs in rebuilding small-scale infrastructure damaged in heavy flooding during 1999-2000.

Regarding the first objective of providing small-scale, community-based subprojects, the SFII appears to have delivered substantial benefits. The project financed 1,416 small-to-medium economic and social infrastructure subprojects with a total value of US$31.5 million throughout the country, which benefited over five million people according to SFKC estimates. In the Independent Technical and Beneficiary Assessment (ITBA) completed in late 2004, interviewees reported that subproject benefits included: increased school enrollment, particularly among girls; safer school environments; improved access to schools and markets; decreased impacts from flooding; enhanced trade in agriculture and other local products; and added income from employment opportunities.

In terms of the second objective of creating short-term employment opportunities, the SFKC created nearly 52,000 person-months of short-term employment, of which approximately 84 percent was for unskilled labor. The SFKC focused on providing high-quality infrastructure, which required less labor than more basic facilities but would be likely to last longer, a key consideration given the vulnerability of the country’s infrastructure to devastating floods.

The project appears to have strengthened the capacity of communities to implement and sustain development projects, the third goal. Community contribution averaged 11 percent of total subproject cost over the life of the project and 60 percent of project support committee members interviewed said that after finishing the SFKC subprojects they went on to participate in other community development activities, including health promotion, food security programs, and village action planning.

Improvement in donor coordination and financing was considered satisfactory. But the SFKC did not fully meet objectives for the fifth goal, of improving poverty and district targeting. Per capita targeting resulted in a wide distribution of investments throughout the country (177 out of 183 districts), with nearly 92 percent of subprojects in rural areas. However, though the level of per capita investment was highest in the poorest 10 percent of districts, the next highest level was in the second-wealthiest decile. Targeting was constrained by insufficient socioeconomic data for certain areas of the country and by lack of a coherent targeting mechanism.

From July 1999 till March 2005, the SFKC completed 1,416 subprojects (total value US$31.5 million), including the rehabilitation or construction of 592 schools, 414 bridges and 2,610 culverts, 5,133 wells and 1,290 latrines, and 88 irrigation systems.

Although maintenance problems plague many development projects in Cambodia, sustainability is rated likely for the SFKC projects, given the prevalence of maintenance committees and strong community support for undertaking maintenance.
FLOOD EMERGENCY REHABILITATION PROJECT

The Flood Emergency Rehabilitation Project answered a request by the Cambodian Government for help to rehabilitate economic and social infrastructure damaged by widespread floods in Cambodia in 2000. The floods, the worst in 40 years, affected about six million people. They caused serious damage to the country’s infrastructure and to crops and livestock, and caused many people suffering from displacement, food shortage, interruption of livelihood and disease.

The project, which ran from mid 2001 until mid 2005, had five components: rehabilitation of damaged sections of national primary and secondary roads, of rural infrastructure, of flood control and irrigation systems, and of primary and secondary schools, and assisting the government to develop a long-term strategy to reduce the country’s vulnerability to flooding.

A credit of 27.1 million Special Drawing Rights (US$37.5 million) was allocated, and the Ministry of Planning was the implementing agency.

The project’s main objective of restoring essential infrastructure, facilities, services and projection was achieved rapidly and consistently, and economic production was quickly restored. Through installation and reconstruction of early warning systems and flood protection infrastructure, and a study to enhance strategy on flood mitigation, the project has helped reduce the country’s vulnerability to future disasters.

The project benefited an estimated 5.9 million people and was fully appreciated and highly valued by poor villagers, local governments and general public.

The project has brought increased traffic on national and provincial roads, bringing opportunities for development; it has increased yields of farm products, improving food security for many rural poor; it has increased farm-gate prices and improved access to markets, increasing income generated from agricultural production; and it has improved access to social services and education, increasing student enrollments and promoting community participation.

These changes have all helped to reduce poverty, assure food security and provide a solid basis for long-term and sustainable social and economic development in the project areas.

National Roads: ($12.92 million) Four national primary and secondary roads (3, 31, 33, and 61) were restored to their pre-flood conditions, increasing daily traffic volumes from 6,984 vehicles per day in 2001 to 15,163 in 2005.

Rural Infrastructure: ($8.1 million) This comprised 110 sub-projects restoring 567km of rural roads, 77 bridges and 466 culverts. Most roads can now be used throughout the year. This has benefited 226,541 families in 1,031 villages in 20 provinces.

Flood Control and Irrigation: ($11.63 million) This saw the rehabilitation of 33 flood control and irrigation systems in 30 districts and 15 communes, providing reliable irrigation and flood protection for 42,822 hectares of farmland in 82 communes, benefiting 33,706 families. Production of major crops in has increased. For instance, the yield for wet paddy in the benefiting areas increased by 35 percent between 2000 and 2004, and for dry paddy by 47 percent. The number of irrigation sub-projects was reduced to 33 from an intended 85 because the initial cost estimates were too low. During construction, 33 Farmers’ Water Users Community (FWUC) groups were established and 602 water user groups.

Primary and Secondary Schools: ($9.41 million) This resulted in the rehabilitation of 378 schools with 1,492 classrooms (1,459 new and 33 repaired) benefiting 179,645 students. Most classrooms that had been marked for repair had to be replaced. About 380 toilets and 161 water wells were built for the schools. Because of the need for rebuilding so many classrooms, and building toilets and digging wells, the number of classrooms was well below the intended 3,100.

Community participation in building schools has strengthened the value placed on education in the communities, ensured quality of construction, enhanced the sense of ownership, and ensured that the school built by the community will be well maintained.
NORTHEAST VILLAGE DEVELOPMENT PROJECT

The Northeast Village Development Project (NVDP) had two objects: to introduce decentralized, participatory, poverty-focused rural development approaches in some under-served areas of Cambodia, and to gain the experience in managing such programs needed by the Government for formulating and carrying out a cohesive national strategy for rural development after the project ended.

The project ran from November 1999 till June 2004, with an original budget of US$2 million for institutional strengthening and project management and US$4.3 million for participatory planning and investment. The borrower and implementing agency was the Cambodian Ministry of Rural Development (MRD).

The development objective was consistent with the priorities of the World Bank’s Country Assistance Strategy (CAS) in place in 1999, which included enhancing rural development and natural resource management, improving human resources, reducing poverty and strengthening institutional capacity. It was also consistent with the Government’s first Five-Year Socio-Economic Development Plan (SEDP 1996-2000), which committed the Government to decentralized rural development using a participatory and bottom-up approach.

The project was designed as a Learning and Innovation Loan (LIL). An institutional strengthening and project management component was designed to develop and strengthen the management and development planning, implementation and monitoring skills of the MRD, of NVDP staff, and of Provincial Department of Rural development (PDRD) counterparts and Village Development Committee (VDC) members needed to implement project, and to create capacity for future community development activities outside the scope of the NVDP.

A participatory planning and investment component focused on 120 target villages in the four project provinces of Kampong Cham, Kampong Thom, Kratie and Stung Treng. The core was the Local Development Process (LDP), which entailed activities undertaken by Village Development Committees facilitated by staff from the MRD and PDRD.

The formation of and support for village development committees was consistent with participatory practices of a broad range of international NGOs working in this sector in Cambodia in 1999. Village development committees were elected within the 120 target villages, typically for the first time. Decentralized, participatory, poverty-focused rural development approaches were introduced.

The VDCs, selected through a simple, open election, are civil society organizations and not part of government. There is evidence that VDC members are respected by the community, and often get on well with Government-appointed village chiefs and with the politically elected commune councils. If engaged properly by commune councils, VDCs can be a great asset to ensure the commune development planning process is genuinely inclusive and transparent, and that, in line with basic principles of good governance, commune councils are held accountable by the communities they serve.

While the rural development institutional structures of the country changed as a result of the 2002 Commune Council elections, VDCs remain the grassroots body to advocate village development needs and lead the village engagement with the Commune Councils. Moreover, the village-based participatory process employed under NVDP is sound and can be accommodated within the emerging local government administration under the newly elected Commune Councils.

The outcome of the participatory planning and investment component of the project was satisfactory. The village-based participatory process was proved sound. Much has been learned by the MRD and PDRD staff, and by village development committees and villages in encountering and substantially overcoming difficulties during learning-by-doing bottom-up participatory rural development.

However, the sustainability of project outcomes is rated unlikely, largely due to the lack of follow-up financing to the LIL, rather than to a specific shortcoming of NVDP. World Bank financing for the longer-term and larger-scale follow-on project for the Northeast is now unlikely. This is primarily due to overall International Development Association (IDA) funding limitations in the new CAS. Only late in NVDP implementation did it become clear to stakeholders that the longer-term follow-on development program would not go forward with World Bank financing. As a result no exit strategy for the LIL phase was incorporated.
The Ministry of Education, Youth and Sport's five-year-long, US$5.5 million Education Quality Improvement Project was designed to develop and put into practice “a participatory approach to school quality and improvement-based resource management.” EQIP provided grants to school clusters in three Provinces for priority interventions determined at the local level for the purpose of developing a demonstration model to improve school effectiveness.

Through EQIP, teachers, administrators and communities from Takeo, Kandal, and Kampot provinces worked together to identify school enhancement activities such as building new libraries, investing in education materials, providing teacher training, and improving environment around schools.

The project began in 1998-99 with 10 school clusters in Takeo, expanding within the first year to all schools in Takeo province. In its second year it extended to all clusters in two neighboring districts of Kampot and three neighboring districts of Kandal, and by the third year included all schools in all three provinces. The project also benefited from a partnership with the World Food Program, the UK Department for International Development, and Voluntary Service Overseas.

Over time, school development plans showed evidence of improved ability to define priorities and action plans. There are many visible signs of improvement, such as a broadening of the concept of education from one focused on textbook learning to the whole in-school experience. Educationalists at the grassroots level have developed a broader vision of effective schooling, as well as strategies for school management and better quality teaching and learning. They have become increasingly confident in experimenting with new ideas, although innovation has been undermined at times by the imposition of traditional practice.

In-service teacher training was the most common activity implemented, expending over 50 percent of grant funds. An impact evaluation study showed a robust relationship between funds devoted to teacher development and improvements in student learning. But the high demand for in-service training also revealed a serious lack of qualified trainers at all levels and made visible the need to establish closer links between pre- and in-service professional development through teacher training colleges.

EQIP’s main outcomes at the school level have been lower dropout rates and higher promotion rates. Schools that participated had approximately 30 to 40 students per year per cluster who remained in school but would otherwise have left. Rates of promotion to higher classes improved by between 1 and 2.5 percent. EQIP participation was also associated with significantly higher test scores in literacy and, to a lesser degree, numeracy.

Teachers have adopted more child-friendly approaches to classroom routines, classroom management, and teaching and learning. And there have been improvements to school grounds, classroom environments, libraries, teachers’ stocks of lesson plans and teaching materials. The school-cluster system, combined with significant in-service capacity building, facilitated the exchange of ideas across schools and the sharing of experience across clusters and provinces which created a community of educationalists focused on improving school effectiveness.
URBAN WATER SUPPLY PROJECT

The outcome of the World Bank Water Supply Project for Cambodia has been rated highly satisfactory, its sustainability seen as highly likely, and the institutional development impact substantial. The project, originally to be implemented between 1998 and 2002, had three components:

- **Expansion of the water supply in Phnom Penh** (with a base cost of US$29.17 million). The intention was to expand capacity, extend the network, and improve efficiency. It was to be implanted by the Phnom Penh Water Supply Authority (PPWSA) under a project agreement with the IDA.

- **Expansion of the water supply in Sihanoukville** (with a base cost of US$3.5 million). Capacity was to be expanded by increasing water sources, improving efficiency, and helping the Sihanoukville Water Supply Authority (SWSA) restructure into a commercial enterprise. It was to be implemented by the Ministry of Industry, Mines and Energy (MIME) and the SWSA.

- **Development of a water supply and sanitation policy** (base cost US$2.08 million) to help create institutions that could maintain and expand service efficiently, equitably, and sustainably. The Government has since developed and adopted water and sanitation policies based on global experience, including private sector participation in service delivery.

In the mid-1990s, when the Bank project was designed, it was estimated that only 32 percent of Cambodia’s population had access to safe water, and only 16 percent to sanitation. Half the population of Phnom Penh and its suburbs (estimated at about 1.1 million in 1995) had access to piped water, but for an average of only 12 hours a day. In Sihanoukville, only 13 percent of the population of the central district, estimated at 50,000 in 1997, had access to piped water.

In February 1996 the Government enacted a law providing for greater autonomy for public enterprises, and the PPWSA was established as a public enterprise. The SWSA, with other provincial water utilities, remained a department of the Unit of Potable Water Supply within MIME.

Seven years after the World Bank project began, the Phnom Penh water development (85 percent of the project in terms of financing), is seen as a great success. In Phnom Penh, the coverage of drinking water has far exceeded targets. Virtually the whole inner city of about 750,000 people (excluding sub-
urbs and peri-urban areas) now has access to water 24 hours a day with a quality meeting international standards. Water is no longer a constraint for any activity, domestic or commercial. The PPWSA's technical and financial performance has been remarkable and may be considered as “best practice”, certainly among developing countries. Unaccounted-for water (UFW), which had been 57 percent in 1997, was down to 16-to-18 percent by early 2004; and by June 2004 the PPWSA had pre-paid over 40 percent of its sub-loan to the Government.

The rehabilitation and extension of the Chruoy Changwar water treatment plant, together with the expansion of two other plants with Japanese and French assistance, brought total capacity to 235,000 cubic meters a day, which will satisfy demand till 2006-07. A second-phase expansion of the Chruoy Changwar plant during 2005-06 will add a further 65,000 m3 and should satisfy demand till about 2012-13. In total, 586 km of pipes were laid, and at the end of 2003 the PPWSA had 105,777 connections, exceeding the initial target by 17 percent.

The pilot program for financing domestic connections for the poor has been highly satisfactory, and extremely popular among low-income groups. With the assistance of NGOs 6,708 houses had been connected by the end of 2003. Under the successor project, the program is being extended to reach 30 percent of the estimated low-income population of 430,000 in suburban and peri-urban Phnom Penh.

In Sihanoukville, coverage targets were also exceeded, with 25 percent of the downtown area now having access to good quality water with greater regularity. Total capacity was raised from 2,000 to 6,000 cubic meters a day with two new wells. An increasing number of small enterprises are connected to the network; however, any new large industries will probably have to develop their own water sources. Further improvements will be low, because parts of the transmission lines and the network are 60 years old and water loss (UFW) is between 25 and 30 percent.

The objective of restructuring the SWSA into a sustainable commercial enterprise was not fully achieved because it remains part of MIME, has little flexibility in financial management and is subject to political pressures and influences from local authorities.

The World Bank, disappointed by the SWSA’s continuing lack of autonomy, discontinued its involvement in Sihanoukville in 2000. It has become clear that this was a mistake and that sustainability of benefits is unlikely unless the SWSA continues to be supported by the Bank and other donors. Demand for water is likely to grow rapidly; the imbalance between production and distribution must be redressed if the system is to extend services, particularly to the poor; extension of the network is dependent on rehabilitation of transmission lines; and there is an urgent need to protect the rapidly deteriorating lake catchment area, increasingly being encroached on by both private and public buildings.
STRUCTURAL ADJUSTMENT CREDIT

The government that took office in Cambodia in late 1998 embarked on renewed reform efforts, including the implementation of a value-added tax, curtailing illegal logging and canceling forest concessions that violated their terms of contracts, eliminating ghost soldiers and initiating military demobilization, and amending the Implementing Regulations for the Law on Investments to tighten exemptions. Cambodia also became a member of the Association of Southeast Asian Nations (ASEAN) in 1999. The Government’s program focused on achieving lasting improvements in the structure of public finances and in public resource management, with particular attention to forestry. In the context of the World Bank’s first three-year Country Assistance Strategy (CAS), its Structural Adjustment Credit was the instrument by which it supported the Government’s reform program. The project was to run from March 2000 till June 2002, but was extended till December 2003.

The Bank project had three objectives: assistance to improve public resource management, enhancement of public sector management, and assistance in formulating a strategy on enhancing governance and fighting corruption.

The outcome of the program was moderately satisfactory. A weak government and slow progress on governance meant that World Bank supervision and monitoring were crucial. The overall outcome achieved so far is fragile, with risks for backtracking, especially in expenditure management, forestry sector management, governance, and fighting corruption. There have been Government achievements, however, and they include:

Taxation: The Government passed a subdecree on a value-added tax (VAT). The tax department expanded VAT coverage by the Large Taxpayer Unit to provincial offices, strengthened overall compliance and improved revenue collection across all taxes.

Tax and Customs Administration: Initiation of a transparent and competitive tendering process for pre-shipment inspection (PSI) has helped to improve and speed shipments. However there remain persistent reports of informal charges at customs offices and ports.

Forestry: There has been reduction in illegal logging, but it persists and tension remains within the Government on the pace and specifics of the program. Forest concession areas were reduced from 6.4 to 2.5 million hectares, and concession logging suspended. A program to establish forestry crime reporting and monitoring capacity for the department of Forestry and Wildlife (DFW), the Ministry of Environment, and the Council of Ministers was implemented. A new Forest Law with strengthened enforcement efforts and sub-decrees on Community Forestry and Forest Concession Management have provided an institutional and legal framework for sustainable forest management.

Expenditure Reorientation: A detailed plan to increase expenditures for the key social and economic sectors (health, education, agriculture, rural development) over the following three years led to increases in allocation for the four sectors, from 1.8 percent of GDP in 1999 to 3.3 in 2003 and an estimated 3.5 in 2003.

Expenditure Management: A Budget Strategy and Enforcement Center (BSEC), established at the Ministry of Economy and Finance (MEF to streamline funding and facilitate cash disbursements, was unsuccessful and disbanded. Cash management problems remain. Reform is necessary. The Government initiated an expenditure tracking study on education, to be followed by one on health.

Military Demobilization: The Government completed the identification and registration of soldiers and formulated a pilot demobilization and reintegration program. Public spending on defense and security was reduced from 4 percent of GDP in 1998 to 2.8 percent in 2002 and an estimated 2.3 percent in 2003. Over 15,000 ghost soldiers were removed, 8,000 widows transferred to the Ministry of Women and Veterans, 1,500 soldiers demobilized under the pilot project and 15,000 elderly, sick and disabled soldiers demobilized.

Enhancing Governance and Fighting Corruption: The Government began implementation of a Governance Action Plan (GAP) in 2001. Progress has been made in some areas, such as public finance, but implementation generally has been slow, particularly for legal and judicial reform, and crucial anti-corruption legislation has yet to be passed.
The World Bank’s initial health project in Cambodia ran from June 1997 till the end of 2002. Its goals followed the Bank’s Cambodian Country Assistance Strategy report of May 1995, which called for “support, rehabilitation and expansion of the public health system, with a focus on control of communicable diseases, tuberculosis, and malaria, all of which are prevalent in Cambodia, and of HIV/AIDS, which is in danger of expanding rapidly”.

Health Service Infrastructure:
The Bank allocated US$18.1 million towards the strengthening of the health service infrastructure. This aimed at upgrading basic health service delivery at provincial level and below in accordance with the National Health Coverage Plan. The project supported health strengthening in 11 of the 24 provinces (the Asian Development Bank supported five other provinces and other donors elsewhere). Among Bank disbursements were US$10.2 million for facilities upgrading, including construction and rehabilitation of 26 referral hospitals and 230 health centers, of which 173 were to be new and others rehabilitated; US$2.9 million for equipment and transportation, US$2.3 million for essential drugs, including drugs for TB, malaria and STDs, and US$2.6 million for strengthening the Ministry of Health.

HIV/AIDS: By 1995 HIV prevalence in Cambodia had begun to surge: 8 percent of blood donors in Phnom Penh, 40 percent of prostitutes in Battambang, and 10 percent of military and police tested positive. The Bank project (US$6.5 million base cost allocated) helped move HIV/AIDS prevention to a cohesive national program. On the ground, the Bank helped the Government expand the 100 percent condom use campaign to all provinces, blood safety programs were implemented by the National Transfusion Center, and eight blood transfusion centers were built and equipped, and staff trained to run them.

HIV prevalence for the 19-to-45-years-old population decreased from 3.8 percent in 1998 to 3.2 in 1999 and 2.9 in 2000.

Malaria: The Bank-assisted project (US$3.5 million allocated) aimed to reduce malaria transmission and mortality by supporting the program managed by the National Malaria Center, especially by increasing service access, increasing coverage of “at risk” population with impregnated mosquito nets, and by institutional strengthening and capacity building.

This was achieved through training nearly 1,000 public health staff and 250 military personnel, laboratory training of 475 technicians and 375 from military health services, and 775 staff at health centers in dipstick diagnosis and national treatment guidelines.

Between 1997 and 2001 the total number of malaria cases in Cambodia declined 35 percent, from 170,387 to 115,614 the malaria incidence from 15 per 1,000 to 9.6, and deaths reduced 51 percent from 865 to 420.

Tuberculosis: Cambodia is among the 22 WHO-classified high-TB countries, with an estimated incidence of 540 per 100,000. The Bank-assisted project (US$3 million allocated) joined an international collaborative effort. Cambodia has been making substantial progress in implementing its TB control program. DOTS (directly observed short chemotherapy) has been fully adopted by the Government and the coverage has been significantly growing since its adoption in 1994.

Cambodia has achieved its targets of reaching an 85 percent cure rate (89 percent in 2002) and no more than 5 percent relapse rate. However, case detection of only 57 percent in 2002 indicates real challenges to achieve the national target of 70 percent set for 2005.

Thus the World Bank’s initial health project in Cambodia has made substantial contributions, especially in assisting the Government institution building efforts, and, of critical importance, helping the Ministry of Health design and run national programs as part of national strategies. It has helped Cambodia move the vertical national programs (HIV/AIDS, malaria and TB) and integrate them with the general health system. It has strengthened capacity of the national programs through large-scale training, technical assistance, and resources for program inputs as well as for management.

All these efforts are expected to continue under the Bank’s successor project.
TECHNICAL ASSISTANCE CREDIT

In 1992 the Cambodian Government asked the World Bank and the International Monetary Fund to help develop a program of economic reforms. Institutional weaknesses necessitated external assistance for capacity building to help accelerate Cambodia’s economic recovery and its transition to a market economy.

The Bank’s Technical Assistance (TA) Project was developed in response to this request, with a project concept document in March 1994. The project began in March 1995 with a budget of US$17 million, of which US$16 million was eventually disbursed, and ended in December 2001.

It had two main objectives: (a) improving the management of public sector finance by strengthening the economic management team (EMT), and (b) establishing an enabling foundation for a legal environment conducive to private sector development. A third objective was training, studies, and institutional strengthening.

The umbrella character of the project led to a plethora of activities and a challenge to proper supervision, monitoring and implementation.

In addition, the 1997 coup d’etat led to instability and uncertainty and adversely affected the implementation of the project during 1997-98. The coup affected the very basis on which the project was being implemented, the coalition government consensus to carry out reforms. Sub-components that had been deemed “politically sensitive but necessary” before the coup could no longer be carried out and had to be closed or drastically modified.

In mid-1999, after the appointment of a new task team, an extensive review of the project was undertaken and it was declared a problem project. Subsequently the Government and the Bank agreed to refocus the project on priority areas in the public sector reform program (public sector management and public administration), which was being supported by an IMF Poverty Reduction and Growth Facility (PRGF), and a subsequent International Development Association Structural Adjustment Credit.

Components were adjusted and regrouped: (a) civil service capacity building through support for the Economics and Finance Institute (EFI) in the Ministry of Economy and Finance (MEF); (b) support for macroeconomic management and capacity building of MEF departments (budgetary management and economic policy formulation); public administration reform (civil service: census and registration, design of a military demobilization program, and continuing support for publication of legislation and court decisions); and (d) legal reform (support to the Ministry of Commerce in the development of a commercial code and other related regulatory activities).

When it ended in December 2001 the Technical Assistance project overall was not deemed a success, and the sustainability of its gains was rated unlikely. Neither the Bank’s nor the Government’s performance was rated satisfactory. The Bank designed and became bogged down in a project too broad in its scope, making the project unwieldy to supervise and implement effectively; the Government’s performance was marked by long delays in implementing major components of the project, especially the legal component, leading to the question of commitment to and interest in the project by the authorities. There were problems with coordination between various ministries. Although there appeared strong commitment from senior officials in the MEF, ownership of the project was not transparent among other ministries and agencies.

That said, some components of the project mark important steps forward for Cambodia.

Civil service reform included registering and fingerprinting civil servants, and led to the removal of “ghost” workers from the government payroll. A program was designed for demobilization of the armed forces.

The project supported capacity building in MEF, with the Economic Unit and the Economic Advisory Team. The Debt Management Unit was created, and took part in negotiations for debt rescheduling with the United States and Russia. A national budget was put in place. Steps were taken towards the introduction of Value-Added Tax. Work was begun on strengthening customs administration.

But the most important impact made by the project is the establishment of the Economics and Finance Institute at the MEF. Ironically, this activity was only a one-liner in the project implementation plan of the appraisal report (“training facility”). The EFI is a functioning institution serving as a training center for civil servants in macroeconomic and financial management.
PART II E

OTHER WORLD BANK INITIATIVES:

YOUTH PROGRAM

SMALL GRANTS PROGRAM

TRUST FUNDS

PUBLIC INFORMATION CENTER
YOUTH OUTREACH

Young people in Cambodia face an uncertain future. According to a study by Youth Star, an NGO assisted by the World Bank that supports leadership, citizenship, and volunteerism among young people in Cambodia, they experience despair and hopelessness because of a lack of opportunities to find employment. Even those students who graduate from university are not guaranteed employment since jobs are lacking and the quality of higher education is uncertain. Many of Cambodia’s young people feel powerless to affect change in society and are generally risk averse and fearful of the unknown.

The World Bank is seriously concerned about the issue of higher education and labor market skills in Cambodia. There needs to be a stronger link between what the higher education system is offering and what the needs are of the Cambodian labor market. The Bank will be working with the Ministry of Education, Youth and Sports (MoEYS) and the Supreme National Economic Council (SNEC) to undertake a study entitled “Higher Education, Skills, and the Labor Market” to look at these issues and to follow up with a project the following year to support improving the access, quality, and relevance of higher education in Cambodia.

In March 2007 the Bank launched its World Development Report 2007 on “Development and the Next Generation”, in partnership with the MoEYS. The World Development Report is the flagship report of the World Bank Group and every year a different topic is chosen. This year was the first time the report has focused on youth issues.

During the report launch the five winners of the first annual Cambodia Essay Competition received their prizes. The competition was another World Bank initiative in 2006, to encourage young people to speak up and to have their voices heard. It was aligned to the international Essay Competition and implemented in partnership with the NGO Youth Resource Development Program (YRDP). The topic given for the essay was “How do you contribute to solving community problems?”

The Bank is committed to the young people of Cambodia and is making an effort to listen to their voices and to feed their perspectives into the design of the Bank’s programs. It is working with both non-Government and Government institutions on youth issues. In September 2006, in partnership with two NGOs (Pour un Sourire d’Enfant – PSE – and the Khmer Youth Association) the Bank organized two open-space workshops in Phnom Penh to discuss “a better future – the issues and opportunities”. More than 280 young people participated in these workshops and the results will be fed into the design of future World Bank programs to help youth.

The World Bank continues sharing its new studies with students and young groups by organizing student talk events and video conferencing with World Bank experts, study authors, and youth.

An education revolution has been slowly taking place in Cambodia. Primary net enrollment rates have surpassed 90 percent and lower-secondary enrollments have jumped from 20 to over 30 percent in three years. However, half of the children enrolled in primary education do not complete primary school, only a third of them go on to lower secondary school, and the upper secondary enrollment rate is only 11 percent. The Bank is committed to continuing efforts to strengthen the formal education system. The Bank is providing support to MoEYS for expanding access to basic education and for improving its quality through a $28 million Education Sector Support Project. A feature of this, discussed elsewhere in this annual review, is that it provides scholarships to poor students, and to girls in particular, to attend secondary school.
Good Governance is the predominant theme of the World Bank’s Small Grants Program for 2007. Seven organizations received a total of US$41,000.

The Association Cooperation for Economic Development (ACED) received $6,000 to “strengthen civic engagement to demand good governance” in 11 communes in Bavel and Phnom Prek districts of Battambang province. It seeks to improve knowledge of citizens’ rights, expression of opinions, and governance; to increase civic engagement awareness among commune councilors, village chiefs, and other relevant institutions; and to ensure law enforcement responds to citizens’ demands for good governance.

The Democracy Resource Center for National Development (DND) received $6,000 to promote “citizens’ voice for local governance” in six communes in Dambe, Thbong Khmum, and Ponvha Krek districts of Kampong Cham province. The DND seeks to increase awareness on decentralization and good governance via district and commune forums; provide training to service providers and citizens on local governance; provide orientation on assessment of effectiveness of public service delivery; and promote citizens’ voice to improve local governance.

Environmental Beauty (EB) has received a grant of $6,000 for its “Positive Think-Positive Change (PT-PC)” program, in Prey Kabas and Angkagn communes in Prey Kabas District of Takeo province. PT-PC’s target group is 300 youth. It seeks to support positive think-positive change among community youth groups; improve youth groups’ understanding, ability and role in maintaining peace via peer and group education promotion; introduce savings and credit programs to local youth groups; and introduce concepts and practices of good governance and facilitate their engagement with commune councils.

The Kunathor Organization received $6,000 for its “people’s rights based in good governance project”.

This targets 300 people in Thm Mor Kol and Banan districts of Battambang province and Prash Net Prash district of Banteay Meanchey province. The project aims to increase awareness of good governance; provide participatory methods to monitor commune council performance; conduct “reflexion” sessions and meetings for local citizen activists; and organize study tours.

The Rural Community and Environment Development Organization (RCEDO) received $6,000 for its “Citizens’ Rating Report project (CRR)”. This targets 1677 families in 12 villages in Boss Sboav commune, Serei Sophorn district in Banteay Meanchey province. The project seeks to promote awareness on democracy, civic engagement principles and decentralization; introduce CRR methods, data collection analysis and entry; and organize public forums and facilitate dialogue between service providers and citizens on the CRR reports.

The New Life Cambodia (TNL-C) received a grant of $5,000 for its “integrated community empowerment for participation approach”. The target group in Banan district of Battambang province is commune council members, village chiefs and vice chiefs, development committees, and others. TNL-C intends to build the capacity of project support groups, enabling them to address community concerns for resolution; introduce community participation methods as a watchdog mechanism for local government performance; and engage commune leaders to sectoral officials to deal with problems.

The Khmer Youth and Social Development organization (KYSO) received a grant of $6,000 for a second year for its project in Kandal province, “Women as Partners in Promotion of Gender and Good Governance in the Community”. This project aims to increase school-youth’s knowledge of domestic violence; capacity building; and develop a youth bulletin.
<table>
<thead>
<tr>
<th>Project Name</th>
<th>Grants Agency</th>
<th>Effective Date</th>
<th>Closing Date</th>
<th>Amount ($m)</th>
<th>Total disbursed to date as of 06/30/07 ($m)</th>
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<td>1. Strengthening the National Audit Authority</td>
<td>WBTF</td>
<td>02/14/06</td>
<td>02/13/09</td>
<td>0.21</td>
<td>0.03</td>
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<td>2. Mainstreaming Education for Disadvantaged Children</td>
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<td>09/13/05</td>
<td>03/03/09</td>
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<td>3. Land Allocation for Social and Economic Development</td>
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<td>09/27/07</td>
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<td>4. Institutionalisation of Project and Program Management Function</td>
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<td>07/18/05</td>
<td>07/17/08</td>
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<td>5. Improving Efficiency of Public Procurement</td>
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<td>11/14/07</td>
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<td>6. Cambodia Public Financial Management and Accountability</td>
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<td>11/11/10</td>
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<td>7. National Institute of Statistics Capacity Building</td>
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<td>8. Statistical Development</td>
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<td>9. Strengthening Environmental Management Capacity building at local level</td>
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<td>01/02/08</td>
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<td>10. Capacity Building for Sustainable Forest and Land Management</td>
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<td>11. Strengthening Civil Society</td>
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<td>12. Empowerment of the Poor in Siem Reap</td>
<td>JSDF</td>
<td>03/15/07</td>
<td>06/20/08</td>
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| TOTAL                                                                        | 13.89         | 1.53                                      |
The PIC is the focal point for providing access to World Bank publications, reports and other development-related materials. This is being done in support of the World Bank’s policy of disclosure to be open about its activities and to explain its work to the widest possible audience.

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♦ access to a special collection of CDs and videotapes on development;
♦ access to development sites on the Internet;
♦ online access to World Bank projects, documents and reports; and
♦ an extensive cataloguing system (Global Jolis) that allows users to see the collection of around 60 World Bank PICs around the world.

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♦ Economic and Finance Institute, Phnom Penh
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Monday — Friday:
9:00 am to 12:00 noon and 2:00 pm to 5:00 pm

Location
# 70, Preah Norodom Blvd, Phnom Penh, Cambodia.

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INTERNATIONAL FINANCE CORPORATION (IFC) IN CAMBODIA

Although Cambodia has progressed greatly after decades of war and isolation, which only ended in 1998, Cambodia’s emerging private sector still faces many challenges. These include lack of infrastructure, low levels of literacy, high levels of poverty, a fast-growing, largely rural population with few job opportunities, and cumbersome laws, regulations and unofficial fees that hinder business and discourage investment. Since 1998, IFC has been helping Cambodia to address these problems and compete more effectively in the global economy.

IFC investment targets commercially viable projects that create jobs, transfer knowledge on best international practice and reduce poverty. IFC’s advisory services, which are provided through the multi-donor Mekong Private Sector Development Facility (IFC MPDF), target poverty reduction through interrelated programs which seek to improve the business environment; develop the financial sector; improve managerial capacity; and increase sustainable business practices in three sectors that are central to economic growth and poverty reduction – tourism, agribusiness, and garments. IFC MPDF’s donors are the Asian Development Bank, Australia, Canada, the European Union, Finland, IFC, Ireland, Japan, New Zealand, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom.

IFC Investments

To help Cambodia develop much needed infrastructure and also contribute to the success of tourism (which is an important creator of jobs with great potential to expand), IFC has provided two loans totaling US$27.5 million to Société Concessionaire de l’Aéroport. This is financing expansion and improvements to international airports in Phnom Penh and Siem Reap, and bringing the domestic airport in Sihanoukville up to international standards. IFC has also provided financing of US$1.8 million to Amansara Resorts, a boutique hotel in Siem Reap, near Angkor Wat, that has become a leader in the revival of traditional music and arts in Cambodia.

Through both financing and advisory services, IFC and IFC MPDF play an important role in developing Cambodia’s commercial finance sector. Both investment and advisory services work towards making more financing available to small and medium-sized enterprises (SMEs), which comprise 95% of businesses in Cambodia and find it difficult to access the financing they need to upgrade and expand.

With financing from IFC and others, ACLEDA Bank, which began as an NGO microfinance provider in 1993, has become Cambodia’s second largest and one of its most successful banks. IFC holds $1.6 million in equity in ACLEDA and an IFC representative sits on ACLEDA’s Board. IFC also loaned ACLEDA $6 million in 2004 and $5 million in 2006 to support lending to SMEs and licensed microfinance institutions. In 2007, IFC provided ACLEDA with trade financing that will help more Cambodian SMEs enter the global market.

Advisory services from IFC MPDF helped improve ACLEDA’s operations and structure, and also trained credit officers in assessing the businesses of borrowers. IFC MPDF also helped to bring IFC in as an ACLEDA investor, which in turn attracted other international finance institutions. In 2005, ACLEDA won IFC’s worldwide Client Leadership Award, and in 2006, a CGAP Financial Transparency Award. Currently IFC MPDF is advising ACLEDA on the introduction of electronic banking services.

IFC’s equity investment of US$450,000 in Hagar Soya, combined with technical assistance from IFC MPDF, helped Hagar, an NGO targeting abused and abandoned women, to build Cambodia’s only UHT soya milk factory. The factory, which employs former residents of Hagar’s women’s shelter, produces an affordable...
beverage which is nutritious and has a long shelf life without refrigeration – important factors in a country with limited cold storage and high levels of malnutrition.

**IFC Advisory Services (IFC MPDF) achievements in Cambodia**

At the end of 2007, IFC MPDF will celebrate ten years of promoting small and medium enterprise development in Cambodia, Vietnam and Lao PDR. These countries share a common history of colonization, war, and isolation, and all are still making the transition from central planning to free enterprise.

IFC MPDF has broken new ground in Cambodia and the Mekong Region in a number of important ways. In 1998, IFC MPDF was the first donor-funded project to target small and medium enterprises. It was also the first to investigate the challenges SMEs face, and share the results widely with government, the private sector and donors. This research and advocacy program continues today as IFC MPDF’s Business Enabling Environment Program, carrying out its own research as well as collaborating on key private sector development studies with the World Bank, the Asian Development Bank and others.

IFC MPDF developed and marketed the region’s first locally tailored, hands-on training for small business owners and managers under the *Business Edge* brand and has developed the capacity of local trainers and training companies. In the last three years, *Business Edge* has been successfully replicated by IFC in China and the Middle East.

In 2004, IFC MPDF pioneered web portals in Siem Reap that allowed SME accommodation providers to start marketing themselves over the Internet. Based on the success of its first site, web portals were established in Phnom Penh, Vietnam and Lao PDR, and these earned the industry some US$350,000 in the start-up phase. The results proved so promising that the team set up a new company to replicate the model worldwide, in March 2006. The new, independent company, Worldhotel-link (WHL - [www.worldhotel-link.com](http://www.worldhotel-link.com)) now operates 14 sites across the Mekong region and in 67 destinations in 36 countries worldwide. WHL partnerships include Lonely Planet, National Geographic and airlines such as Virgin Blue.

IFC MPDF has contributed to finance sector development in Cambodia by providing crucial training for all levels of banking staff, and also raising more than $21 million dollars in SME financing from IFC and other international lenders. Ongoing advisory services have helped ACLEDA Bank and other commercial micro-lenders to grow and attract international financing. The Facility also helped launch and continues to advise the Cambodian Microfinance Association. Thanks to support from IFC MPDF and other donors, Cambodia’s MFIs are now considered the most successful part of the finance industry and recognized worldwide for meeting high standards.
IFC MPDF pioneered working with grassroots business initiatives (GBIs) in Cambodia that provide training and employment for disadvantaged people. Between 1999 and 2005, IFC MPDF helped a number of NGOs and socially conscious enterprises to develop the operational systems and business skills needed to become commercially successful. These GBIs include Hagar Design, a maker of high fashion silk handbags and home accessories; Hagar Soya, Cambodia’s only UHT soya milk factory; Hagar Catering which profitably caters for staff in a number of hotels and garment factories, and operates a successful restaurant; Digital Divide Data, which provides data entry work for more than 200 employees in several Mekong cities, and CraftNetwork, which is helping established craft producers successfully market the products of hundreds of disadvantaged artisans across Cambodia.

Today IFC MPDF is still the largest private enterprise promotion program in the region, and in January 2008 it will launch its third five-year phase with a budget of $50 million dollars.

Business Enabling Environment Program
The BEE Program undertakes a number of initiatives to improve the policy, regulatory and institutional environment in which business operates. The program provides advisory services to government to develop and implement key business regulations. It also conducts research and gathers information on business issues in Cambodia and “good practice” worldwide. This is disseminated widely through seminars, Private Sector Discussion Papers, quarterly Business Issues Bulletins, and the mass media, including www.ifc.org/mpdf. Unique BEE publications include Cambodia and WTO: A Guide for Business, which helps SMEs understand the impact and opportunities of WTO accession. Publications now in press include one on the challenges facing women entrepreneurs in Cambodia and one on export procedures. The program also helps the business community to advocate on their own behalf through the Government-Private Sector Forum.

Government-Private Sector Forum: Because private enterprise has a short recent history in Cambodia, IFC supports the Government-Private Sector Forum, a structured and on-going dialogue between the Royal Government of Cambodia and the country’s business community. Through the G-PSF, representatives from government and private enterprise meet regularly to raise issues, hear each other’s views, and gain practical insights with regard to reforming existing and proposed policies, laws and regulations. This on-going dialogue helps improve the business environment so that it attracts the foreign and domestic investment needed to help the economy grow.

The G-PSF was launched in 1999, and it has developed into twice-yearly high profile, nationally-broadcast meetings between several hundred government and private sector leaders, representing eight sectoral working groups. Under the umbrella of the G-PSF, these sectoral working groups meet year-round at two levels to identify and resolve issues. At the first level, private sector representatives of associations and companies meet on their own to identify and agree on issues to raise with the government. At the second level, corresponding government/private sector Working Groups meet about once a month to resolve issues. In the Forums, the private sector and government Co-Chairs of the Working Groups report on their progress and ask the Prime Minister and cabinet for help in resolving any issues they could not settle.

Since 2002, with funding from AusAID, IFC has operated a Coordinating Bureau which facilitates meetings of the working groups, tracks progress on the reforms they are resolving, disseminates key documents in print and through a website (www.cambodia-gpsf.org) and conducts selected research to aid working groups in advocating reforms. Among significant reforms attributed to the G-PSF are: the review of scanning procedures for containers going through Sihanoukville Port; reduction of high cost and other problems related to the Sihanoukville toll road; simplification of cumbersome licensing requirements; and postponement of an accommodation tax until the tourism industry is better established.

Regarding economic impact, an analysis of nine of more than 1,000 issues raised by the Forum, found that their value to the private sector was worth nearly $70 million and that the total impact of Forum-led reforms is likely worth far more. The evaluation also found that both government and private sector participants devote considerable resources to the Forum. The pro bono contribution business owners and managers provide through their participation in the working groups, is worth an estimated $350,000 a year.

Provincial Business Environment Scorecard (PBES): Improving the business environment at the provincial level is critically important in Cambodia. The majority of people live in rural areas where poverty levels...
are the highest. In many communities, the population exceeds the land available for farming, and opportunities for employment are few. Although agribusiness has considerable potential in Cambodia, business environment problems are widely recognized as slowing growth.

IFC MPDF launched the Provincial Business Environment Scorecard project because, as worldwide experience shows, unless regulatory reforms are implemented effectively at the local level, they have little impact. The PBES project targets reform in two parts. The first is an annual survey of hundreds of businesses across Cambodia to assess key indicators of business friendliness, tally the results and rank provinces against each other. The second part of the project provides advisory services to provincial governments to support administrative reforms related to business registration, licensing, permits, and inspections. The PBES is the largest and most comprehensive research study of its kind conducted in Cambodia. In 2006, the survey assessed business environment challenges in Cambodia’s ten most economically-active provinces and in 2008, all 24 provinces will be assessed and ranked against each other.

Alternative Dispute Resolution: Settling business disputes is not easy in Cambodia and this slows economic development. Court systems are overloaded, judges are not trained to hear commercial cases and bribery can influence decisions. As a result of long delays and other problems, the cost of pursuing a case in court is often more than the value of the disputed amount. With little faith in the court system, entrepreneurs are reluctant to enter into business relationships with people they do not know well, which limits their growth. IFC MPDF is investigating the feasibility of providing support for a National Arbitration Center as an alternative to the court system. Through this project IFC MPDF is leveraging World Bank Group experience in establishing alternative dispute resolution.

Access to Finance Program

The ATF Program works with the financial sector to strengthen financial institutions, deepen financial intermediation and increase access to finance. Research shows that the development of the financial sector reduces income inequality by disproportionately boosting incomes of the poor.

Over the past six years, IFC MPDF has played a major role in developing the microfinance industry in Cambodia. Based on a needs assessment conducted in 2005, IFC MPDF has helped MFIs to: develop a shared vision of sustainable microfinance; launch the Cambodian Microfinance Association (CMA) develop a business plan; build capacity; and assess the feasibility for local commercial banks to secure wholesale funding they can on-lend to MFIs.

IFC MPDF is currently expanding its support for CMA’s advocacy work and helping improve the regulatory environment for MFIs so that they can introduce new products such as microinsurance and savings. IFC MPDF may also help member institutions to build an internal system for exchanging information on borrowers’ credit history. Other important MFI assistance includes:

Mekong Bank Advisory Project: This new initiative in all three IFC MPDF countries is helping commercial finance institutions provide more and better services to entrepreneurs, as well as individual consumers. Over the next six years, the program will provide advisory services worth more than US$12 million to selected banks and other non-bank financial institutions such as insurance and leasing companies. This will help IFC partner banks better serve the private sector, and as a result, tens of thousands more entrepre-
neurs are expected to get the financing and financial services they need to expand, create more jobs and contribute to economic growth.

Although approaches will vary depending on the needs of each partner, IFC MPDF’s support is likely to include helping financial institutions to develop an SME marketing strategy, improve risk and portfolio management and introduce new products/services, including mobile banking.

Garment Program

To help Cambodia’s garment industry survive and grow in the face of increasing global competition, IFC MPDF is improving productivity through building industry-wide partnerships, developing management skills and sustaining and enhancing corporate social responsibility. IFC MPDF targets the garment industry because it is Cambodia’s largest and only significant industry. It is also of enormous importance to the poorer rural women who work in the industry and support extended families with their earnings. In 2006, garment exports were worth US$2.5 billion, and at least 1.7 million people benefited directly or indirectly from the industry.

Training in human management skills: According to a December 2004 World Bank study, Cambodia’s good labor record is a major factor motivating at least half of overseas buyers to continue sourcing garments from Cambodia, despite lower prices elsewhere. But maintaining these labor standards and improving productivity in other ways is crucial. Recognizing the links between good labor practices, productivity, and competitiveness, IFC MPDF and Gap Inc. initiated a four-day “Supervisory Skills” training course in 2005 for 650 supervisors in seven factories. An assessment of outcome/impact carried out 12 months after the training found significant improvements in supervisory practices, better communication, fewer disputes, lower levels of absenteeism, higher levels of productivity and a reduction in rejections.

Based on the success of the initial pilot, a number of prominent retailers are joining Gap Inc and IFC MPDF in encouraging their partner factories to participate in the training. These include Sears Corp., Levi Strauss & Co., Wal-Mart, Adidas and others. Better Factories Cambodia, the International Labor Organization’s (ILO) labor monitoring and remediation program, is also promoting the industry-wide scale up, and after further development of BFC’s training capacity, it will take over delivery of the program. Over 18 months, the supervisory skills training is expected to develop the capacity of some 3,000 supervisors, who oversee nearly 100,000 Cambodian workers. A special version of the course for factory owners and senior managers is expected to reach some 300 participants.

Cambodia Buyers’ Forum: IFC MPDF, in partnership with ILO, is contributing to sustainability of the garment industry by establishing a mechanism that coordinates the efforts of international buyers to develop the industry. The Forum brings together buyers, manufacturers, unions and government to regularly discuss how to sustain the industry in the face of global competition. In addition to resolving problems, advocating for the industry, and offering industry-wide training, the Forum is expected to attract new buyers to Cambodia.

Better Factories Cambodia (BFC): Credit for Cambodia’s comparatively good labor standards goes to ILO’s labor monitoring and reporting initiative known as Better Factories Cambodia. IFC MPDF and ILO are working jointly to turn the project into an independent, self-sustaining institution after ILO funding ends in 2008. If proven successful, this independent institution should become a model for advancing corporate social responsibility in other critical labor intensive sectors, both inside and outside Cambodia.
Industry-wide Training Strategy: Drawing on its extensive experience with managerial training, IFC MPDF is facilitating the development of an industry-wide training strategy that will coordinate stakeholders’ current training initiatives and lay the groundwork for new ones.

Tourism Program

IFC MPDF’s Tourism Program aims to improve the sustainability of the rapidly emerging tourism sector. The program targets tourism in Cambodia, Lao PDR and Vietnam because of its importance to the economies in the Mekong region. Tourism generates around one million jobs in the region and has strong potential to grow. Sustainability is a crucial issue as rapid, unmanaged growth damages the natural, historic, and cultural assets on which tourism depends and also adversely affects the lives of local people, especially the most vulnerable. To address key business environment constraints, IFC MPDF is working with the Tourism Working Group of the Government-Private Sector Forum. At the destination level, IFC MPDF is addressing issues including short length of stay and limited benefits to local communities and assessing how sector development could achieve greater impact within the destination.

‘Stay Another Day’: IFC MPDF is running an innovative sustainable tourism project that links local tourism businesses to over 40 socially responsible organizations with products and services for tourists. The goals are to encourage tourists to stay longer, contribute more to local incomes, especially the least advantaged, and promote sustainable or ‘destination friendly’ tourism. Through this work in Cambodia and across the Mekong, IFC MPDF aims to show that sustainable tourism initiatives benefit both the destination and make good business sense. After positive initial feedback, the Tourism team is looking at options to partner with international NGOs and/or businesses to scale up and replicate around the world.

Agribusiness Program

IFC MPDF has been improving supply chains and sustainable practices in Vietnam and Lao PDR, and is currently assessing a project in Cambodia to improve the value chains of agro-processors in promising sub-sectors. IFC MPDF targets the agricultural sector and agribusiness in particular, because of their economic importance and prospects to create jobs in impoverished rural areas.

In Vietnam, IFC MPDF has developed a supply chain linking hundreds of subsistence farmers with a company manufacturing bamboo flooring for IKEA to help farmers and processors increase yields and their incomes in an eco-friendly way. Following a study conducted in partnership with Oxfam Hong Kong on the prospects for bamboo manufacturing in Cambodia, Vietnam and Lao PDR, work on improving bamboo supply chains will scale up in all three countries. This fast growing, more environmentally-friendly alternative to wood, is becoming increasingly popular with furniture manufacturers around the world. It also has strong potential to increase incomes of the poorer, rural people who grow, harvest and pre-process bamboo.

In August 2007, the European Union designated IFC MPDF as the implementing agency for a new Euro10 million agribusiness project, which aligns with IFC’s overall investment and advisory strategy in Cambodia and focuses in particular on staple foods, tree crops and other fruits and vegetables.