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Report No: PGD440

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

ON

A PROPOSED SHORTER MATURITY LOAN

IN THE AMOUNT OF US\$244 MILLION

AND

A PROPOSED CREDIT

IN THE AMOUNT OF SDR23.5 MILLION  
(US\$31 MILLION EQUIVALENT)

TO THE

KINGDOM OF CAMBODIA

FOR THE

SECOND CAMBODIA GROWTH AND RESILIENCE DEVELOPMENT POLICY FINANCING

May 8, 2024

Macroeconomics, Trade and Investment  
East Asia And Pacific

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Kingdom of Cambodia  
**GOVERNMENT FISCAL YEAR**  
 January 1 – December 31

**CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of March 31, 2024)

US\$1 = SDR 0.75

SDR1= US\$ 1.32

US\$ 1= KHR 4,041

**ABBREVIATIONS AND ACRONYMS**

ADB	Asian Development Bank	LDP	Letter of Development Policy
AFD	Agence Française de Développement	MTEF	Medium-Term Expenditure Framework
ASA	Advisory Services and Analytics	MEF	Ministry of Economy and Finance
ASEAN	Association of Southeast Asian Nations	MoC	Ministry of Commerce
BAU	Business-as-usual	MoE	Ministry of Environment
BRGS	Business Recovery Guarantee Scheme	MoH	Ministry of Health
CGCC	Credit Guarantee Corporation of Cambodia	MoP	Ministry of Planning
CCC	Cambodia Competition Commission	MoSVY	Ministry of Social Affairs, Veterans, and Youth Rehabilitation
CCF	Consumer Protection, Competition and Fraud Repression	NBC	National Bank of Cambodia
COVID-19	Coronavirus Disease 2019	NSDP	National Strategic Development Plan
CPF	Country Partnership Framework	NSSF	National Social Security Fund
CTP-PWYC	Cash Transfer Program for Pregnant Women and Children Under Two	OECD	Organisation for Economic Co-operation and Development
DPF	Development Policy Financing	PFI	Participating Financial Institution
DSA	Debt Sustainability Analysis	PFM	Public Financial Management
EAP	East Asia and Pacific	PFMRP	PFM Reform Program
EIA	Environmental Impact Assessment	PIM	Public Investment Management
EU	European Union	PM	Prime Minister
EUR	Euro	PPP	Public Private Partnership
FCDA	Foreign Currency Dedicated Account	Prakas	Official ministerial or inter-ministerial decision signed by relevant Minister(s)
FDI	Foreign Direct Investment	RGC	Royal Government of Cambodia

FMIS	Financial Management Information System	SCD	Systematic Country Diagnostic
GDP	Gross Domestic Product	SDR	Special Drawing Rights
GHG	Greenhouse Gas	SME	Small and Medium Enterprise
GRS	Grievance Redress Service	SOE	State-Owned Enterprise
IDA	International Development Association	TVET	Technical and Vocational Education and Training
IDPoor	Identification of Poor	TWG	Technical Working Group
IFC	International Finance Corporation	US\$	United States Dollar
IMF	International Monetary Fund	WBG	World Bank Group
KHR	Cambodian Riel		

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**KINGDOM OF CAMBODIA**

**Second Cambodia Growth and Resilience Development Policy Financing**

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## SUMMARY OF PROPOSED FINANCING AND PROGRAM

### BASIC INFORMATION

Operation ID	Programmatic	If programmatic, position in series
P180749	Yes	2nd in a series of 2

### Proposed Development Objective(s)

The objective of this operation is to: i) boost growth through a more competitive environment for the private sector; ii) strengthen fiscal resilience; and iii) enhance social and environmental resilience.

### Organizations

Borrower: Kingdom of Cambodia  
 Implementing Agency: Ministry of Economy and Finance

### PROJECT FINANCING DATA (US\$, Millions)

#### Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)?	Yes
Is this project Private Capital Enabling (PCE)?	Yes

### SUMMARY

<b>Total Financing</b>	<b>275.00</b>
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### DETAILS

#### World Bank Group Financing

International Development Association (IDA)	275.00
IDA Credit	31.00
IDA Shorter Maturity Loan (SML)	244.00



**IDA Resources (US\$, Millions)**

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	31.00	0.00	44.00	0.00	75.00
Scale-Up Window (SUW)	0.00	0.00	200.00	0.00	200.00
<b>Total</b>	<b>31.00</b>	<b>0.00</b>	<b>244.00</b>	<b>0.00</b>	<b>275.00</b>

**PRACTICE AREA(S)**

**Practice Area (Lead)**

Macroeconomics, Trade and Investment

**Contributing Practice Areas**

**CLIMATE**

**Climate Change and Disaster Screening**

Yes, it has been screened and the results are discussed in the Operation Document

**OVERALL RISK RATING**

**Overall Risk**

● Moderate



RESULTS		
Indicator Name	Baseline	Target
1. Annual new companies registered through the online business registration portal	7,459 (2021), of which 2717 with female director	10,000 (annual average 2022-2024), of which 4000 with female director
2. Number of decisions concerning the implementation of the Competition Law issued by the CCC or the CCF	0 (2021)	4 (2025)
3. Number of beneficiary businesses supported by the Women Entrepreneurs Guarantee Scheme, the Tourism Recovery Co-Financing Scheme, and Portfolio Guarantee Schemes	0 (2021)	1000, of which 400 are female-owned (2025)
4. Estimated size of the unfunded liability associated with the civil service pension scheme, as a share of GDP	41 percent (2020)	30 percent (2025)
5. The fiscal commitments and contingent liabilities associated with all PPPs approved between 2023 and 2025 that have been assessed in accordance with the provisions of the PPP Law and supporting SOPs.	0 (2021)	100 percent (2025)
6. Total Government debt issued in the domestic market	US\$0 (2021)	US\$150 million (2025)
7. Number of poor and vulnerable households eligible for emergency social assistance following eligible flood and drought events.	0 (2022)	1,060,000 households, of which 550,000 are female-headed households (2025)
8. Completion of a National GHG Emissions Reductions Registry to support the tracking of GHG Emissions Reductions projects	No (2022)	Yes (2025)
9. The proportion of residential electrical appliances with energy efficiency standards	15 percent (2023)	21 percent (2025)
10. Percentage of beneficiaries receiving social benefit payments into general purpose transaction accounts	0 percent (2021)	10 percent (2025) with half of them being women



## IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO KINGDOM OF CAMBODIA

### 1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Financing (DPF) will support reforms to boost growth through a more competitive environment for the private sector and to strengthen Cambodia’s fiscal, social, and environmental resilience.** The Program Development Objectives (PDOs) and pillars of the operation are to: i) boost growth through a more competitive environment for the private sector; ii) strengthen fiscal resilience; and iii) enhance social and environmental resilience. This operation is the second in a programmatic series of two. The total IDA amount is planned at US\$275 million (US\$200 million from the Scale Up Window-Shorter Maturity Loans (SUW-SML) and US\$75 million from the IDA country allocation of which US\$44 million will be provided on SML terms).

2. **Cambodia has seen rapid growth and poverty reduction over the past three decades, but the COVID-19 pandemic posed a setback to progress.** Cambodia achieved an average growth rate of 7.7 percent between 1995 and 2019. GDP per capita increased from US\$379 to US\$1,430 (constant 2015 US\$), lifting Cambodia to become a lower middle-income economy by 2015. Growth was not only fast but also inclusive, with the poverty headcount ratio falling from 33.8 percent to 17.8 percent between 2009 and 2019.<sup>1</sup> However, the COVID-19 pandemic led to a 3.1 percent contraction in 2020 – the first contraction in 25 years and among the most pronounced in East Asia. Simulations show this GDP contraction increased poverty by 2.8 percentage points, pushing about 460,000 individuals into poverty. It also revealed the fragility of an economic model highly dependent on a narrow range of products, markets, and factor inputs. The COVID-induced contraction was followed by a relatively subdued recovery with 3.0 percent growth in 2021. Since then, GDP growth increased to 5.2 percent in 2022 and 5.4 percent in 2023, a substantial recovery but below the pre-COVID trend.

3. **Pro-growth structural reforms are crucial for job creation and further raising living standards.** Relatively slow growth in 2023 reflects both underlying weaknesses in the country’s growth model and the slowdown in the global economy. Cambodia’s structural slowdown started well before the pandemic but was masked for several years by rapid capital inflows which fueled a construction boom. Cambodia’s structural challenges have included weak productivity growth, low human capital formation and skills development, low allocative efficiency, and limited diversification, underpinned by low competition and challenges to private sector development. While substantial improvements have been made, including those supported by this operation, the country still underperforms compared to peers in Southeast Asia in terms of investment climate, and competitiveness. In addition, credit remains concentrated in real estate, while many SMEs are unable to access the credit required to invest and grow. Cambodia’s highly concentrated economy – in terms of products, export markets and financing sources - exposes it to shocks, underscoring the importance of diversification. Future development progress will hinge on addressing these structural challenges.

4. **Rebuilding fiscal resilience is also a priority.** Cambodia achieved small fiscal surpluses in 2018 and 2019. However, the COVID-19 pandemic caused fiscal deficits to rise to 4.9 and 7.2 percent of GDP in 2020 and 2021, respectively, as lower economic activity and pandemic-related tax relief reduced total revenues, while total expenditures increased under the RGC’s fiscal response program. After declining to 4.5 percent of GDP in 2022, the fiscal deficit is expected to widen again to 6.5 percent of GDP in 2023. Cambodia also faces substantial contingent liabilities from SOEs, the financial sector and natural disasters, and will need greater fiscal space and financing options to effectively manage these risks. While fiscal buffers are relatively robust—with government deposits at around 16 percent of GDP as of August 2023, and Cambodia at low risk of debt distress— addressing fiscal sustainability through the reforms in this operation will be crucial to maintain development progress in the face of economic shocks.

<sup>1</sup> Ministry of Planning (2021). Poverty in Cambodia—Setting the poverty line. Phnom Penh: Royal Government of Cambodia (2021).



5. **Finally, Cambodia is highly vulnerable to climate change, underscoring the need to improve climate resilience and follow a more sustainable growth path.** Cambodia is highly vulnerable to heat and natural disasters, particularly floods and droughts. The recent Cambodia Country Climate and Development Report (CCDR) estimated that, if unaddressed, climate change could lower GDP by up to 9 percent by 2050 and increase the poverty rate by 6 percentage points by 2040. Cambodia's recent growth model has also been highly carbon intensive and has resulted in the significant depletion of natural capital, with rapid emissions growth, deforestation and loss of wetland areas. This has exacerbated exposure to floods, droughts, and wildfires. Better protection of forest and other ecosystems would contribute to improved resilience. Improving the efficiency of energy and natural resource consumption would allow Cambodia to follow a more resilient and sustainable growth path, while benefitting productivity growth. In addition, while Cambodia has made significant strides in improving the social protection system, as supported by this operation, further improvements will be needed to continue to expand access and improve responsiveness to climate and other shocks. Doing so will also require fiscal space, making this reform agenda interdependent with the reforms to improve fiscal management described above. Finally, as the CCDR shows, natural disasters could challenge macroeconomic stability, underscoring the importance of building a more robust disaster risk financing framework.

6. **The prior actions supported by this operation address these evolving development challenges.** They are structured around three broad pillars: 1) boosting growth through a more competitive environment for the private sector; 2) strengthening fiscal resilience; and 3) enhancing social and environmental resilience. The selected policy and institutional reforms address key binding constraints to inclusive and resilient development in Cambodia. They directly support the private sector in driving a recovery from recent economic shocks while mitigating Cambodia's existing vulnerabilities over the longer term. The first pillar helps create an environment in which firms can enter, exit, and compete fairly, and improves access to credit for SMEs. The second pillar helps enhance fiscal resilience over the medium term by controlling spending on public pensions, enhancing efficiency, and mitigating the associated fiscal risks of capital expenditures and PPPs, and strengthening the RGC's capacity to raise financing through sovereign bond issuance. The third pillar improves social and environmental resilience by institutionalizing shock-responsive social protection mechanisms, improving payment delivery, enhancing environmental regulation, and improving disaster risk management.

7. **While addressing some of Cambodia's most complex development challenges, the operation is also aligned with key World Bank corporate priorities.** Prior actions supported by this operation contribute to key outcomes in the World Bank Corporate Score Card, including poverty reduction, reduced income inequality, expanded social safety nets and GHG emission reduction. The prior action on SME support specifically targets women entrepreneurs and the operation is gender tagged. The project is compliant with the Maximizing Finance for Development (MFD) approach and is MFD-enabling.

8. **The overall risk for this operation is moderate.** Relatively weak institutional checks and balances and gaps in the implementation of policies could pose some risk to the impact of the operation. Several policies supported by this operation introduced new legal frameworks and institutions to govern the implementation of the laws supported by this program. As the RGC begins implementing these laws, it may be hampered by technical, regulatory, and capacity challenges to ensure effective functioning and operation. To help mitigate these risks, the RGC will continue to benefit from technical assistance, including from the Bank, to support the implementation of these reforms.

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1. RECENT ECONOMIC DEVELOPMENTS

9. **Real GDP increased by 5.4 percent in 2023, but Cambodia's recovery remains weaker than previously**



**forecasted.** In 2023, goods exports grew by 5 percent y/y, driven by a strong performance of exports of non-garments, travel goods, and footwear (GTF) products, which include vehicle, electronic, and electrical component manufacturing. Demand for GTF exports – Cambodia’s traditional growth driver - was more subdued, particularly in Cambodia’s largest trading partners of the US and EU. A recovery in tourism also bolstered growth in 2023, with tourist arrivals increasing by 140 percent y/y and reaching 82.5 percent of 2019’s level. However, the structure and composition of arrivals have changed to include more low-expenditure tourists, resulting in a slower recovery of tourism receipts.

10. **Inflationary pressures remained contained at the end of 2023, after high volatility over the past two years.** After peaking at 7.8 percent in June 2022, consumer price inflation swiftly declined, reaching 0.07 percent in June 2023. It then rebounded to 3.9 percent in October, driven by higher food prices, but remained stable at an estimated 3.0 percent in 2023. Within the narrow margin of maneuver given by the managed-peg, monetary policy focused on curbing inflation and has gradually unwound pandemic-era support measures, including by increasing reserve requirements for foreign currencies.

11. **In 2023, the current account unexpectedly registered a surplus and changed the outlook for the current account relative to the projections made at the time of the Debt Sustainability Assessment (DSA).** The current account is expected to register a surplus of 2.4 percent in 2023, reflecting a significant contraction of imports due to restrictions on gold imports, as well as subdued demand, against strong export performance. This changes the outlook relative to that from when the DSA was conducted in December 2023, improving projections for Cambodia’s external position. Cambodia has traditionally run sizable current account deficits, due to its high import dependence, while concurrently attracting ample capital inflows, with FDI inflows more than financing the current account deficit and contributing to reserve buildup. From 2021 onwards, however, FDI and other financial inflows were insufficient to fully fund the more significant current account deficits, resulting in modest drawdowns of international reserves in 2021 and 2022. As of 2023, gross international reserves stood at US\$19.9 billion, covering around six months of imports, remaining at adequate levels despite declining from a peak of over ten months in 2020.

12. **Because of its managed exchange rate peg and high level of dollarization, Cambodia continued to import tight monetary policy conditions from the US in 2023.** Since the start of the U.S. Federal Reserve’s interest rate hikes, the Riel-U.S. dollar exchange rate has been under increased pressure, given the highly dollarized nature of the Cambodian economy. The Central Bank has managed to maintain the Riel-U.S. dollar exchange rate at 4,000 Riels per U.S. dollar within the targeted range of  $\pm 2$  percent. In August 2023, the weighted average interest rates of U.S. dollar-denominated term deposits in Cambodia almost doubled, rising to 5.71 percent per year, up from 3.0 percent per year in January 2021. In response, credit growth sharply decelerated to 7.7 percent y/y, a 13-year low in August 2023, down from 22.7 percent during the same period in 2022. However, pegging the Riel to the dollar meant the Riel appreciated relative to other currencies, posing challenges to the competitiveness of Cambodia’s goods and services exports in other markets, particularly in Asia. This highlights the importance of modernizing monetary and foreign exchange policy to support de-dollarization.

13. **The credit-to-GDP ratio remains elevated with risks from high private sector debt, especially given concentrated exposure to the real estate sector.** Average annual credit growth was very high at around 25 percent during 2011–2021 and played a significant role in fueling economic activity. It has slowed since late 2022 to 4.8 percent in 2023. Nevertheless, the private credit-to-GDP ratio remains elevated at 174 percent in August 2023, significantly higher than peer countries in the region. Around a third of credit is channeled to real estate, construction, and personal mortgages. In 2021, the Financial Service Authority (FSA) was established to regulate and supervise real estate institutions along with other non-bank industries such as



insurance, capital markets, and pawnshops. NBC regularly updates its regulatory framework for banking supervision, and the IMF encourages the further strengthening of the supervisory framework, emphasizing risk-based supervision and the implementation of Basel III.<sup>2</sup> Cambodia is one of the few ASEAN countries that does not have a deposit protection scheme in place. The NBC is exploring ways to introduce deposit insurance, and a feasibility study is underway.

14. **Cambodia’s financial soundness indicators point to a substantial increase in non-performing Loans (NPLs), while capital adequacy and liquidity remain robust.** The reported NPL ratio for commercial banks increased from 1.9 percent in 2021 to 3 percent in 2022, and further to 5.4 percent in 2023, reflecting the decline in credit growth and the rollback of pandemic-related forbearance measures. Commercial banks’ capital adequacy ratio (CAR)—an indicator of their loss-absorbing capacity—stood at 22.7 percent in 2023, up from 22.2 percent in 2021. This exceeds the NBC’s minimum regulatory requirement of 15 percent, which is above the minimum ratio of capital to risk-weighted assets under Basel II (8%) and Basel III (10.5%). The liquidity coverage ratio (LCR)—a measure to test whether banks hold sufficient high quality liquid assets to cover short term (30 days) cash outflows—stood at 167.6 percent for commercial banks in 2023, up from 143.8 percent in 2022—well above NBC’s required benchmark of 100 percent. The profitability of the banking sector recently declined, however, which NBC attributes to the increase in provisioning expenses for NPLs: in 2023 the Return on Assets and Return on Equity ratios reached 0.7 and 3.8 percent respectively, down from 1.4 and 7 percent in 2022.<sup>3</sup>

15. **The fiscal stance was expansionary in 2023, with the deficit widening due to an increase in spending against slowing revenue collection.** After being appropriately expansionary in response to the pandemic, the fiscal deficit declined in 2022. However, it widened again in 2023 as revenue collection slowed against rising expenditures. Cambodia has historically had a low fiscal revenue to GDP ratio, partially reflecting a high prevalence of tax incentives, and government revenues declined markedly in 2020 and 2021 due to the pandemic-induced economic slowdown. In 2022, there was an across-the-board improvement in domestic revenue collection driven by the post-COVID rebound, but this has proved short-lived. Fiscal revenues, including grants as a proportion of GDP, are expected at 21.4 percent during 2023, down from 23.7 percent in 2022. At the same time, expenditures have increased due to civil servant wage growth, election-related spending, and a capital spending boost. In addition, the increase in current expenditure was also driven by financing for hosting the 32nd Southeast Asian Games and general election-related spending.<sup>4</sup>

16. **The RGC’s countercyclical fiscal policy response has led to more significant fiscal deficits, but public debt has remained contained.** The fiscal deficit is estimated to reach 6.5 percent of GDP in 2023, up from 4.5 percent in 2022, in contrast to the small surpluses run before the COVID-19 pandemic. Cambodia’s external debt has risen but remains at sustainable levels. By the end of 2023, Cambodia’s external public and publicly guaranteed debt, including arrears, was estimated to be 35.2 percent of GDP, up from 28.1 percent in 2019.<sup>5</sup> Bilateral debt accounts for around 70 percent of total external debt, with more than half owed to China. External debt has been accrued on concessional terms, with a present value of around 21 percent of GDP at the end of 2022. Cambodia’s domestic debt is marginal, accounting for only 0.5 percent of the public debt at the end of Q3 2023. In the absence of meaningful domestic debt and local currency bond markets, Cambodia is highly exposed to foreign currency risk. Furthermore, it reduces the flexibility of the fiscal policy and the effectiveness of the monetary policy. The lack of a domestic government bond market hinders capital market

<sup>2</sup> International Monetary Fund Article IV Consultation 2023 for Cambodia.

<sup>3</sup> National Bank of Cambodia, 2023 Annual Report.

<sup>4</sup> It is important to note that the data sources and methodology used to measure the fiscal deficit differ between Table 2 below and the 2023 DSA. Therefore, the figures in Table 2 for the fiscal position are not directly comparable with those in the DSA.

<sup>5</sup> Cambodia has legacy arrears (a loan from early 1970) that remain unresolved and amount to 2 percent of GDP.



development, which would be critically important to promote private sector financing. Cambodia is establishing a domestic debt market, which will help diversify financing sources (with key reforms being supported by this operation), promote domestic savings, and de-dollarize the economy.

**Table 1: Key macroeconomic indicators**

	2021	2022	2023	2024	2025	2026	2027
			Est.	Proj.	Proj.	Proj.	Proj.
<b>National Accounts and Prices</b>							
GDP at constant market prices (% change)	3.0	5.2	5.4	5.8	6.1	6.4	6.6
Agriculture	1.2	0.7	1.4	1.4	1.4	1.5	1.5
Industry	9.4	8.3	4.8	7.4	7.7	8.1	8.1
Services	-2.7	3.5	8.0	6.1	6.3	6.4	6.5
Price/Deflator (annual average)	1.3	4.1	2.4	2.1	2.3	2.2	2.5
Consumer Price Index (annual average)	2.8	5.5	3.0	2.8	2.7	3.0	2.0
<b>Money and Credit</b>							
Broad money (% change)	20.0	8.2	12.5	13.0	15.1	17.0	18.8
Credit to the private sector (% change)	23.2	18.9	4.1	7.6	10.8	12.6	15.8
<b>External Sector (US\$m unless otherwise)</b>							
Exports (goods and services)	18,566	24,495	29,150	35,679	45,186	54,488	62,714
Imports (goods and services)	29,489	40,467	31,911	35,713	43,831	53,994	61,769
Foreign Direct Investment, net inflows	3,391	3,425	3,639	4,080	4,351	4,620	4,896
Gross official reserves	20,272	17,816	19,896	23,550	26,135	28,786	32,050
(months of imports)	8.1	7.0	6.0	5.5	5.0	5.0	5.1
Current account (percent of GDP)	-39.7	-25.5	2.4	3.4	3.4	2.6	3.1
<b>Debt Stock and Service</b>							
External debt (public sector, % of GDP)	35.2	34.2	35.2	36.3	36.5	36.0	35.7
Domestic public debt (% of GDP)	0.0	0.1	0.2	0.2	0.3	0.3	0.3
Total public debt (% of GDP)	35.2	34.3	35.4	36.5	36.8	36.3	36.0
Nominal GDP, USD million	26,963	29,158	31,789	34,426	37,458	40,848	44,530

Source: World Bank staff calculations and projections based on data from the authorities (MOP, MEF, and NBC).

Note: 1/ Est. = estimates; and Proj.= projections.

**Table 2: Fiscal accounts**

	2021	2022	2023	2024	2025	2026	2027
			Est.	Proj.	Proj.	Proj.	Proj.
<b>Revenue and grants</b>	<b>22.0</b>	<b>23.7</b>	<b>21.4</b>	<b>22.0</b>	<b>22.6</b>	<b>22.8</b>	<b>23.0</b>
Revenue	20.5	22.9	20.3	21.5	22.1	22.6	22.8
Grants	1.6	0.8	1.1	0.5	0.4	0.2	0.2
<b>Expenditure and net lending</b>	<b>29.2</b>	<b>28.2</b>	<b>27.9</b>	<b>27.9</b>	<b>26.9</b>	<b>26.5</b>	<b>26.8</b>
<b>Recurrent expenditure</b>	<b>15.6</b>	<b>15.2</b>	<b>15.4</b>	<b>15.4</b>	<b>15.2</b>	<b>15.0</b>	<b>15.1</b>
Wages and salaries	7.2	6.8	6.8	6.7	6.9	6.8	6.8
Interest payments	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Foreign	0.5	0.4	0.5	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	-0.1	0.1	0.1	0.1	0.1
Goods and services	8.0	8.0	8.1	8.1	7.8	7.7	7.8
o/w subsidies and transfers	4.8	3.1	1.1	1.8	1.3	1.0	1.1
<b>Other expenditures</b>	<b>3.8</b>	<b>4.3</b>	<b>5.2</b>	<b>5.0</b>	<b>5.1</b>	<b>5.3</b>	<b>5.5</b>
<b>Development expenditure</b>	<b>9.7</b>	<b>8.7</b>	<b>7.4</b>	<b>7.6</b>	<b>6.6</b>	<b>6.2</b>	<b>6.2</b>
Domestically financed	4.9	4.1	2.6	2.7	2.6	2.5	2.5
Externally financed	4.8	4.6	4.8	4.9	4.0	3.7	3.7
<b>Overall balance (inc. grants)</b>	<b>-7.2</b>	<b>-4.5</b>	<b>-6.5</b>	<b>-5.9</b>	<b>-4.3</b>	<b>-3.8</b>	<b>-3.8</b>
Financing	7.2	4.5	6.5	5.9	4.3	3.8	3.8
Net foreign financing	3.6	3.7	3.9	2.6	1.6	0.9	0.9
Gross foreign borrowing	4.7	4.9	5.1	4.0	3.0	2.5	2.6
Budget support loans	0.9	1.3	1.6	0.5	0.5	0.3	0.2
Project loans	3.8	3.6	3.6	3.5	2.5	2.2	2.4
Amortization	-1.1	-1.2	-1.3	-1.4	-1.5	-1.6	-1.6
Net domestic financing (from current savings). 1/	3.5	0.9	2.7	3.3	2.7	2.8	2.9

Source: World Bank staff calculations and projections based on data from the authorities (MOP, MEF, and NBC).

Note: 1/ Est. = estimates; and Proj.= projections. Note: estimates of the fiscal deficit use different data to those in the DSA and Article IV, so fiscal deficit projections cannot be directly compared.



## 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. **Despite external headwinds and structural challenges, Cambodia's real GDP growth is projected to reach 5.8 percent in 2024 and 6.4 percent on average from 2025-2027.** Cambodia's structural challenges of low human capital and weak productivity growth are more exposed as the rapid provision of private sector credit and demand for low-value added manufacturing exports are expected to slow in the medium-term. Accordingly, Cambodia is not expected to reach its previous growth average of above 7 percent per year and must rely on structural reforms to boost productivity, raise human capital and enhance business environment. Several reforms supported by this operation aim to enhance the efficiency of the private sector, direct productive capital to SME's in targeted sectors and attract quality infrastructure through PPPs. GDP growth is projected to be the highest for industry, with 7.3 percent growth in 2024, followed by services, with 6.1 percent growth in 2024. Growth in tourism and non-garment exports is expected to pick up, pushing overall exports to 10.3 percent in 2024, along with a continued recovery of domestic demand. Mirroring the recovery in GDP growth, the pace of poverty reduction is projected to accelerate, but it is unlikely to reach pre-pandemic levels.

18. **The current account is expected to continue to register a surplus as the trade balance improves, and reserves are expected to remain stable.** The current account is expected to record a surplus of 3.4 percent in 2024 due to a significant decline in gold imports and the improvement in the trade balance excluding gold. Gross official reserves, reflected in months of imports, are expected to decline to 5.5 percent in 2024. Exports and FDI are projected to be robust, facilitated by the newly ratified free trade agreements. However, Cambodia's export-oriented manufacturing sector is vulnerable to weaker external demand because of slower-than-expected growth in key export markets, including the European Union and China.

19. **Headline inflation will decline over the medium term, facilitating a more accommodative monetary policy stance.** Headline inflation is projected to decline to 2.8 percent in 2024. Low and stable inflation over the forecast horizon will be supported initially by the reduction of global energy prices in 2024 weighed by slower global growth and an improvement in agricultural supplies. Although the exchange rate arrangement offers limited margin of maneuver, monetary policy is expected to normalize to ensure a neutral stance in 2024 as the output gap closes and inflation remains moderate.

20. **A gradual fiscal consolidation is expected to stabilize public debt at its current and comparatively contained level.** As growth converges to potential, revenue performance is expected to improve, while spending is expected to stabilize and then decline. These trends are consistent with a gradual narrowing of the fiscal deficit to 5.9 percent in 2024 and then down to 3.8 percent by 2026, with public debt expected to stabilize at the current level of just above 35 percent of GDP. Around 80 percent of gross financing needs will continue to be met by external borrowing, with the remainder to be financed by a drawdown of fiscal reserves and a resumption of domestic bond issuance (see Prior Action #6).

21. **The World Bank - IMF Debt Sustainability Assessment (DSA) conducted in December 2023 assessed Cambodia to be at low risk of external and overall public debt distress.** The baseline scenario assumes a steady economic recovery, primarily driven by a rebound in the tourism sector and manufacturing goods exports. The total public and publicly guaranteed (PPG) debt-to-GDP ratio is projected to rise by four percentage points of GDP during the next decade, but its level is set to remain stable. Cambodia also faces substantial contingent liabilities from SOEs, the financial sector and natural disasters. To assess sensitivity of debt sustainability to these risks, the DSA conducted customized stress tests for fiscal risks stemming from contingent liabilities. Specifically, high levels of private sector debt carry the potential for fiscal risks, including implicit contingent liabilities associated with the potential need for banking sector recapitalization or corporate sector support. To account for these risks, a large contingent liability shock is incorporated into one of the DSA stress tests—10 percent of GDP due to financial market risks (twice the default setting), and 7.3 percent of GDP due to PPP risks—but none of the indicative



thresholds are breached in this scenario. Since the DSA, the outlook remains broadly similar. Estimates of the fiscal deficit in 2023 are slightly lower than those projected at the time of the DSA, while the current account is now estimated to register a surplus in 2023, in contrast to the projections of a deficit at the time of the DSA.

22. **Nevertheless, the outlook is subject to downside risks.** Slower than expected global growth and external demand could dampen growth prospects. Capital inflows could be affected by China’s economic slowdown, which is the largest source of FDI for Cambodia. While Cambodia is less dependent on portfolio inflows, tight global financial conditions could compound external financing pressures. There are also risks associated with the high level of private sector debt. Given increasingly leveraged corporate balance sheets, there is potential for a debt overhang, which could weigh on future investment and hiring decisions. The slowdown in credit growth and the continued concentration of domestic credit in the construction and real estate sector may also lead to a further rise in NPLs, which could threaten financial stability, with potential spillovers to the real economy. During the pandemic, the emergence of these risks may have been masked by forbearance measures, which allowed banks to restructure loans without adjusting their classification, but these measures have now been unwound.

Table 3: External Financing

	2021	2022	2023	2024	2025	2026	2027
			Est.	Proj.	Proj.	Proj.	Proj.
<b>Financing Requirements</b>	<b>11,000</b>	<b>7,787</b>	<b>-363</b>	<b>-679</b>	<b>-720</b>	<b>-424</b>	<b>-631</b>
Current account deficit	10,711	7,438	-766	-1,164	-1,265	-1,057	-1,362
Debt amortization	289	350	403	485	546	634	731
<b>Financing Sources</b>	<b>9,938</b>	<b>5,331</b>	<b>1,717</b>	<b>2,976</b>	<b>1,865</b>	<b>2,227</b>	<b>2,633</b>
Grants	419	219	334	185	166	71	81
Debt disbursements	1,269	1,414	1,629	1,386	1,139	1,014	1,150
Disbursements to the private sector	8,250	3,698	-246	1,405	560	1,142	1,402
Foreign direct investment, net	3,391	3,425	3,639	4,080	4,351	4,620	4,896
Portfolio investments, net	-51	-126	-150	-167	-175	-185	-199
Other investments, net1/	4,910	398	-3,735	-2,508	-3,615	-3,293	-3,296
IMF credit (net)	0	0	0	0	0	0	0
Gross reserves accumulation (increase = +)	-1,062	-2,456	2,080	3,655	2,585	2,651	3,264

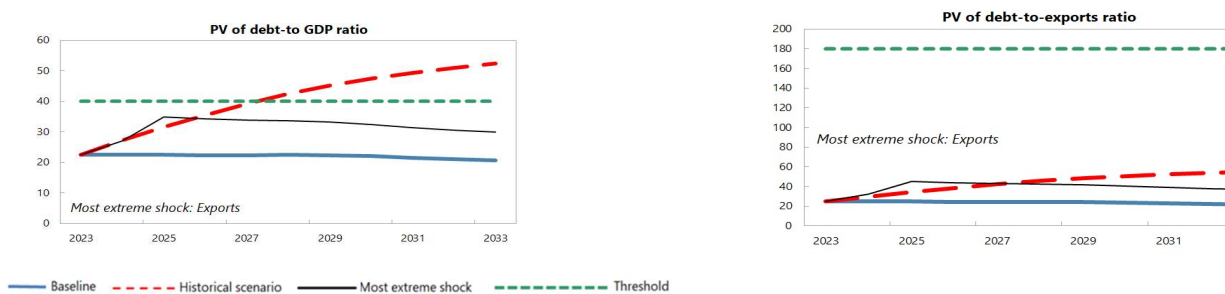
Source: World Bank staff calculations and projections based on data from the authorities (MOP, MEF, and NBC).

Note: 1/ Est. = estimates; and Proj.= projections

Figure 1: Indicators of public and publicly guaranteed external debt under alternative scenarios (2023–33)

a. Present value of debt-to-GDP ratio

b. Present value of debt-to-exports ratio



Source: IMF Staff Report for the 2023 Article IV Consultation-Debt Sustainability Analysis. Note: MX = most extreme.

23. **The macroeconomic policy framework is adequate for the proposed operation.** After deploying available fiscal space to support the economy and households during COVID, the authorities are shifting toward a gradual fiscal consolidation calibrated to the pace of the ongoing recovery and remaining downside risks to growth. The fiscal deficit is projected to decline, and public debt is projected to stabilize at current levels, which remain relatively low by international standards. Moreover, Cambodia’s public debt has been contracted predominantly at concessional terms. As a result, the risk of public external and overall public debt distress remains low, while fiscal buffers (in the form of government deposits) remain relatively robust. To preserve the nominal US\$ exchange rate anchor and curb domestic inflation, the authorities have also tightened monetary policies, including through tighter liquidity provision and policy rate hikes. The current account surplus, FDI, development partner financing,



and other private inflows are expected to be sufficient to meet Cambodia's external financing needs. International reserves are projected to remain at adequate levels through the forecast period's end. Even after accounting for the discontinuation of forbearance measures in July 2022, the banking sector's capital adequacy remains well above the NBC's required benchmark, which exceeds Basel requirements. Liquidity has tightened but remains at levels well above the benchmark required by the NBC.

### 2.3. IMF RELATIONS

24. **The IMF and World Bank staff collaborate closely to monitor macroeconomic developments and policies in Cambodia, and the IMF Executive Board concluded its most recent (2023) Article IV consultation in November 2023.** IMF and World Bank staff hold regular bilateral meetings to exchange information and coordinate activities. A series of discussions took place during this operation's preparation. A joint DSA was completed in 2023 (consistent with DSA underpinning the macroeconomic framework, presented above).

## 3. GOVERNMENT PROGRAM

25. **The RGC has designed and implemented national development strategies over several decades in its *Rectangular Strategy* documents, which cover five-year periods.** The latest *Rectangular Strategy Phase IV* (2019–2023) outlined a broad development agenda based on four “strategic rectangles”: i) human resource development, ii) economic diversification, iii) enhancing private sector and employment, and iv) sustainable and inclusive development. The *National Strategic Development Plan* (NSDP) is the country's second most important policy document. It is developed to coincide with and provide a roadmap for implementing the Rectangular Strategy so that the programs and projects of all ministries, agencies, and sub-national authorities are aligned.

26. **The RGC has begun to focus on increasing economic diversification, strengthening competitiveness, and promoting productivity.** The RGC developed an *Industrial Development Policy* (2015–2025), which aims to increase the industrial sector's share from 24 percent of GDP to 30 percent over the period 2013–2025 through support for four pillars: i) attracting FDI to boost industrial development; ii) modernizing and formally registering SMEs and linking them to foreign enterprises; iii) improving the regulatory framework to enhance competitiveness; and iv) creating supporting policies on human resource development, together with infrastructure and service improvements. Economic diversification is expected in the manufacturing and agro-industrial sectors and SME growth, especially those that use technology and innovation. Overall, the *Industrial Development Policy* envisions a structural transformation for the country that will contribute to economic development and employment creation for achieving growth that is both sustainable and inclusive. Gender equality has also been prioritized by the RGC, particularly through the five-year national strategy plan to strengthen gender mainstreaming and women's empowerment, known as *Neary Rattanak Phase 5*. Gender and social inclusion are also mainstreamed and promoted by implementing the *Pentagonal Strategy Phase I*.

27. **Cambodia recently outlined its new medium-term strategy in its *Pentagonal Strategy, Phase I*, on August 22, 2023.** The *Pentagonal Strategy, Phase I* for Growth, Employment, Equity, Efficiency, and Sustainability aims to promote crisis-resilient economic growth, more jobs, poverty reduction to below 10 percent, strengthening governance and improving the quality of public institutions, and sustainable socioeconomic development, and resilience to climate change. To achieve these objectives, the Strategy identifies five priority areas: human capital development, more economic diversification, and competitiveness; private sector development and jobs; strengthened resilience, inclusive and sustainable development; and development of digital economy and society. The *Pentagonal Strategy* keeps a line of sight to Cambodia's 2050 vision of becoming a high-income country.

## 4. PROPOSED OPERATION

### 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION



28. **The DPF series aims to i) boost growth through a more competitive environment for the private sector; ii) strengthen fiscal resilience; and iii) enhance social and environmental resilience.** The proposed operation is the second in a programmatic series of two operations. It is structured around three pillars. The first pillar helps create an environment in which firms can enter, exit, and compete fairly. The second pillar helps enhance fiscal resilience over the medium term by controlling spending on public pensions, enhancing efficiency and mitigating the associated fiscal risks of capital expenditures and PPPs, and strengthening the RGC's capacity to raise financing through sovereign bond issuance. The third pillar improves social and environmental resilience by institutionalizing shock-responsive social protection, improving disaster risk management, expanding carbon markets, improving energy efficiency and improving payments delivery. The pillars are also interlinked and support each other in tackling Cambodia's structural challenges. The actions in Pillar 1, for example, support fiscal resilience (Pillar 2) with higher formalization of firms expanding the tax base, boosting economic activity through a more efficient business environment and helping mobilize green private finance to address climate resilience (Pillar 3). Similarly, Pillar 3 helps support fiscal resilience by ensuring households and the government can respond quickly to natural disasters and be safe to resume participation in the economy swiftly.

29. **The project is compliant with the Maximizing Finance for Development approach and is expected to enable private capital through PAs 2, 4 and 5.** Thus, PA2 unlocks additional private lending from banks and deposit-taking financial institutions supported by guarantees from the government set-up guarantee corporation via removing the risk capital reserve requirements for the guaranteed loans. PA4 improves quality of the PPP decision-making process by providing a regulatory framework for the proper fiscal risk management of PPPs. Finally, PA5 lays out the necessary regulatory foundation to improve sustainability of the issuance of Government debt securities/bonds on the capital markets. Under this PA the project is also expected to bring in US\$150 million in Private Capital Enabled (RI6), which is expected from the Government bond placement in the domestic market by the project closing.

30. **The proposed operation reflects key lessons learned from previous DPFs in Cambodia and in the East Asia Pacific region.** The operation marks the third DPF delivered in Cambodia over the past 3 years. It demonstrates the Government's commitment to a consistent reform agenda and a strong partnership with development partners. The operation is structured around current Government priorities for which strong reform momentum exists. In these circumstances, DPFs in Cambodia tend to achieve strong results and have manageable risks. This operation builds on the reforms supported in DPF1 (P179019) and prior operations. Past operations have highlighted that close coordination with other development partners is critical to support strong reforms. Support through Investment Project Financing (IPF) operations and the inclusion of parallel TA is critical for implementation of reforms and achievements of results.

31. **The proposed operation is aligned with the RGC's longer-term strategies outlined in the Rectangular Strategy Phase IV and Pentagonal Strategy.** The first pillar on boosting growth through a more competitive environment for the private sector supports the Pentagonal Strategy's priority areas of economic diversification and competitiveness, and private sector development. The second pillar on strengthening fiscal resilience supports the Pentagonal Strategy's priority areas of strengthened resilience. The third pillar on enhancing social and environmental resilience supports the Pentagonal Strategy's priority areas of inclusive and sustainable development and the development of digital economy and society.

32. **With its reorientation to medium-term growth and reform, the proposed operation also supports the WBG's extensive and deep engagement in Cambodia as outlined in the World Bank Group (WBG)'s Country Partnership Framework (CPF) for 2019–2024.**<sup>6</sup> In this context, the following interdependent filters were applied to

<sup>6</sup> World Bank Group (2022). Performance and Learning Review of the WBG CPF for Cambodia for the Period FY19-FY24. See <https://openknowledge.worldbank.org/handle/10986/37758>.



guide the choice of sectors and reforms: i) the relative urgency of reforms; ii) the commitment of government to implement the reforms within the operation’s timeline; iii) the presence of strong analytical underpinnings and a good knowledge base to inform the policy dialogue and choice of actions; iv) the existence of robust implementation arrangements; and (v) coordination with other development partners. These filters reflect key lessons learned from the World Bank’s extensive global experience in preparing DPFs. The implementation of government reforms is reinforced through extensive technical assistance and ASA program supported by the World Bank, International Finance Corporation (IFC), IMF, and other development partners.

33. **This program is aligned with the goals of the Paris Agreement and Cambodia’s pathway towards low GHG emissions and climate-resilient development (see Annex 6).** The DPF reform program is consistent with the implementation of Cambodia’s climate strategies, such as the Nationally Determined Contribution (NDC), the Long-Term Strategy for Carbon Neutrality (LTS4CN), the National Adaptation Plan and the Circular Strategy on Environment 2023-28. The Program does not hinder the achievement of Cambodia’s climate goals and contributes to mitigation directly through PA 7 and PA 8. PA 7 supports the development of carbon markets to lower deforestation through Article 6 of the Paris Agreement, which will support the achievement of the targets for emissions reduction from forestry and land use in the LTS4CN. PA 8 supports improvements in energy efficiency through the NEEP and Sub-decree on management and improvement of energy efficiency of electrical appliances. These contribute to the power sector emissions reductions in the LTS4CN and the Power Development Plan. The Program also supports Cambodia’s efforts to build resilience to the impacts of climate change adaptation. PA 6 directly supports building adaptive capacity through the Shock Responsive Social Protection Policy and supports building climate and disaster resilience through the Disaster Risk Financing Policy. The DPF reform program is also consistent with the Cambodia CCDR. Prior Action #6 directly support the CCDR priority on reducing exposure and vulnerability to the physical impacts of climate change, while Prior Action #7 and #8 supports the CCDR priority to steer the economy onto a lower carbon growth path.

#### 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

##### **Pillar 1: Boosting growth through a more competitive environment for the private sector**

34. **Pillar 1 aims to boost growth through a more competitive environment for the private sector.** It supports reforms that: i) facilitate firm entry by streamlining business registration; and ii) improve access to credit for SMEs. These prior actions were selected to address key binding and long-standing constraints to private sector-driven growth in Cambodia as identified in the Cambodia Systematic Country Diagnostic (2024).

##### ***Facilitating firm registration***

**Prior Action #1:** To reduce registration times and facilitate the efficient entry of firms, MEF and MISTI have issued a Prakas<sup>7</sup> to modernize the tracking and management approval systems, and to streamline the classification and certification processes of SMEs and handicrafts.

35. **The private sector in Cambodia is characterized by a high degree of informality and the time and costs of setting up and running a business remain relatively high.** According to the 2022 Economic Census data, 93 percent of the approximately 750,000 establishments in Cambodia employ less than five people and the vast majority of these businesses are unregistered. In Cambodia, 65 percent of MSMEs are considered women-led but own only one-third of registered businesses. This degree of informality impacts the entire private sector and the 2023 World Bank Enterprise Survey found that 42 percent of firms consider the most important business environment constraint to be practices of the informal sector. Such informality is likely attributable to the still-high costs of firm registration, prevalence of red tape, corruption, and unofficial payments, and generally the weak rule

<sup>7</sup> Inter-ministerial Prakas No. 836, dated November 14, 2023.



of law. Over the past few years, the costs of establishing and running a business in Cambodia were lowered, with COVID-19 accelerating the reform momentum. The process of establishing a firm is now simpler, faster and cheaper. But despite recent progress, the costs of setting up and running a business remain relatively high in Cambodia. According to the latest Cambodia Enterprise Survey, it takes around 30 days for firms to get an operating license in Cambodia, higher than the EAP average of 19 days.

36. **To help facilitate the efficient entry of informal firms, regulatory measures that were prioritized in the Informal Economy Policy were issued by the Ministry of Industry, Science, Technology, and Innovation (MISTI) (Prior Action #1).** The Informal Economy Policy was launched in October 2023 with the objective of encouraging and accelerating the participation of the 85 percent of informal firms to join in the formal economy. MISTI then issued a Sub-Decree that established the High-Level Committee to implement the informal economy policy in January 2024 that empowers the cross-cutting government committee to implement the policy. MISTI issued a Prakas to cut processing times for new business licenses and registrations by 30 percent for 10 different processes in November 2023 to make it easier and quicker for firms to register and derive the benefits of being included in the formal economy. These processes include e.g. establishment of SMEs of different sizes, operational certificates, and accreditation certificates. This was achieved by adopting a comprehensive tracking system, from initial service provision to final completion, new faster and easier management approval systems the relocation of the One Window Service facility to MISTI, offering a friendlier, more comfortable, and modernized environment. Finally, the MISTI website has been modernized to help speed up the process. This action follows from PA1 in DPO1 that reduced the costs to register and streamlined and standardized the process of business registration.

37. **A more efficient business environment also relies on a well-functioning insolvency framework.** Cambodia's 2007 Insolvency Law contains several good-practice features, but the estimated time to complete insolvency proceedings remains long and the recovery rate low, weakening confidence in the insolvency system. To help address these limitations to the implementation of the insolvency regime, the Ministry of Justice adopted a Prakas in early 2024. The Prakas now contributes to having professionally licensed and trained insolvency administrators, leading to better quality insolvency processes and higher returns to creditors over time through efficient reorganization, liquidation, or debt enforcement (foreclosure or receivership) proceedings.

38. **Expected Results:** The amendments to the Law on Commercial Enterprises (LCE) and the Law on Commercial Rules and Commercial Register (LCRCR), supported by the First Cambodia Growth and Resilience DPF (P179019), along with the improvements to the business environment from Prior Action 1 are expected to support an increase in annual new companies registered through the online business registration portal from 7,459 (with 2717 with a female director) for 2021 to an annual average of 10,000 for 2022-24, of which 4300 will be with a female director (Results Indicator #1). This result contributes to the World Bank Corporate Scorecard Results Indicator (CRI) 11, state of online e-government service provision.

### ***Promoting inclusive development through access to credit for SMEs***

**Prior Action #2:** To promote access to credit for SMEs, (i) the National Bank of Cambodia has issued a Prakas<sup>8</sup> to assign a zero risk weight to the guaranteed portion of loans; and (ii) the MEF and the CGCC have established Portfolio Guarantee Schemes for SMEs to eliminate the need for case-by-case reviews of individual guarantees.

39. **While overall credit to the private sector has increased, Cambodian SMEs have faced difficulties accessing credit, which were worsened by COVID-19.** High credit growth has been concentrated in real estate and construction, with SMEs, female-owned businesses, and tourism businesses benefitting less (for instance, hotels and restaurants represent only 4 to 5 percent of total loans). Supported by DPO1, the Government took several

<sup>8</sup>Prakas No. B7-023-338, dated June 23, 2023, on the Credit Risk for Capital Adequacy Ratios in Deposit-Taking Banks and Financial Institutions.



steps to improve access to credit, including establishing the SME Bank and the Credit Guarantee Corporation of Cambodia (CGCC). These have operationalized several of their lending windows, such as the Women Entrepreneurs Guarantee Scheme and the Tourism Recovery Co-Financing Scheme (DPO1 prior action).

40. **Building on these steps, there are opportunities to further strengthen the efficiency and effectiveness of these instruments in facilitating SME access to finance at scale.** First, while financial institutions can use guarantees issued by the CGCC for loans to SMEs, they face a disincentive as, from a regulatory point of view, the guarantee does not take away the need to hold regulatory capital to cover the risk. Hence, recognition of the guarantee from a regulatory perspective is needed. Second, CGCC's initial guarantee schemes focused on issuing guarantees on an individual basis, which means that applications must be considered by CGCC on a case-by-case basis. The next step was to institutionalize portfolio guarantees, which can cover multiple similar loans based on key criteria without needing case-by-case reviews.

41. **In 2023 and early 2024, the Recipient adopted measures to further promote access to credit for SMEs (Prior Action #2).** First, the National Bank of Cambodia approved the Prakas on Regulatory Capital for Banking and Financial Deposit-taking Institutions in 2023, containing several notable changes to stimulate lending to priority areas. For loans with a guarantee, there is now a zero percent risk weight, relieving capital requirements (for the guaranteed portion of the loan). This enables the use of guarantees issued by, for example, the CGCC, to free up capital that would otherwise be dedicated to meet reserve requirements. In addition, for non-guaranteed loans, risk weights have been lowered (from 100 percent) for loans to registered MSMEs (75 percent risk weight), agriculture (85 percent), and green finance projects (80 percent) during the operational phase. In the case of green finance, this will help to incentivize investments in green finance projects as it will free up 20 percent of capital that would otherwise be dedicated to meeting reserve requirements so that it can instead be allocated to green finance lending projects. This will make green finance projects favorable relative to other types of lending. Overall, these measures expand the balance sheet and reduce the costs for Banks to serve MSMEs, providing incentives to expand access to finance. Second, the MEF approved the request from CGCC to set up Portfolio Guarantee Schemes for MSMEs with financial institutions in Cambodia, which commenced in 2023. These portfolio guarantee scheme agreements are each centered on a specific theme: MSMEs in tourism (specifically, travel agents), wholesale and retail trade, and women or women-owned businesses, MSMEs, and agents for payment service providers.

42. **Expected Results:** Taken together, support to enhance credit flows to SMEs and an improved business environment are expected to facilitate SMEs' access to formal credit. This will enable more businesses to survive times of crisis or grow. By 2025, the Women Entrepreneurs Guarantee Scheme, the Tourism Recovery Co-Financing Scheme, and the Portfolio Guarantee Schemes are expected to have provided guarantees/loans to at least 1000 businesses, of which at least 400 will be female-owned (Results Indicator #3).

### **Pillar 2: Strengthening fiscal resilience**

43. **Pillar 2 aims to strengthen fiscal resilience.** It supports reforms that: i) enhance the sustainability of the civil service pension scheme; ii) promote the efficient selection and implementation of public-private partnership (PPP) projects; and iii) diversify the sources of financing available to the government by establishing the regulatory framework needed to support the issuance of government debt in the domestic market. Together, these reforms will help improve government spending efficiency and maintain the fiscal space and financing options necessary to respond to future shocks.

#### ***Reforming pension schemes to control fiscal costs***



**Prior Action #3:** To contain fiscal costs and reduce uncertainty, MEF has issued a Decision<sup>9</sup> to automatically index civil service pensions to inflation.

44. **Spending on civil service pensions has been increasing rapidly, and the unfunded liability will continue to grow unless reforms are made.** Between 2015 and 2022, pensions were raised on an ad hoc basis, resulting in the growth rate of pensions outstripping inflation. World Bank projections, which assume somewhat lower future rates of pension growth, combined with the underlying demographics of the scheme, suggest that annual pension spending could double from 0.4 percent to 0.8 percent of GDP between 2022 and 2050. As there are no employee contributions to the scheme, pensions are financed directly from the government budget. The current method of adjusting pensions on an *ad hoc* basis leads to uncertainty about how the size of this unfunded liability will evolve. The RGC is considering reforms that would make the civil service pension scheme more financially sustainable and worked with the World Bank under DPO1 to estimate the financial impact of different options.

45. **On November 30, 2023, a Decision was issued mandating that civil service pensions be indexed to prices (Prior Action #3).** This is part of the reform that follows the Decision under DPO1 Prior Action #4 to integrate civil servants into the new National Social Security Fund (NSSF) pensions scheme and phase out the old civil service pension scheme over time. The start date of this indexation will be determined by an inter-ministerial Prakas by the Minister of Economy and Finance, the Minister of Ministry of Labour and Vocational Training, and the Minister of the Ministry of Civil Service. In 2019, the *Social Security Law* mandated that formal sector workers and their employers contribute to a pension scheme – the NSSF – for the first time in Cambodia. The NSSF is a partially funded, defined benefit scheme, and benefits are indexed to inflation. Automatic price indexation protects the purchasing power of retirement income, makes future spending more predictable, and reduces discretionary adjustments. For these reasons, price indexation of pension benefits is considered good practice and is the method of adjusting pensions in almost all OECD countries. Over the last few years, the Bank has supported the RGC by providing technical support and financial projects to reform the existing civil service pension scheme. Under the new reform, all civil servants hired after a specific date will be enrolled in the new NSSF pension scheme, gradually reducing the RGC’s unfunded pension liabilities. The central budget will continue fully financing pension entitlements accrued before the reform. Over time, civil service pensions will increasingly be financed by a combination of employer (RGC) and employee contributions.

46. **Expected results:** It is expected that the estimated size of the unfunded liability associated with the civil service pension scheme in 2025 will decline to around 30 percent of GDP as compared to 41 percent of GDP in 2020 (Results Indicator #4). This estimate is based on the discounted present value of spending on civil service pensions through 2075 as a share of GDP in 2025 and takes into account the impact of the integration and the change in indexation of benefits.

#### ***Improving the efficiency of public investment and mitigating associated fiscal risks***

**Prior Action #4:** To strengthen the management of PPP related fiscal risks, MEF has issued a Prakas<sup>10</sup> establishing new guidelines for fiscal management of PPP projects, that sets out an institutional and regulatory framework to assess, approve, budget and manage both fiscal commitments as well as contingent liabilities associated with PPP projects.

47. **The RGC has made a commitment to infrastructure investment, but significant gaps remain in the adequacy, accessibility, and quality of basic public infrastructure.** The 2023 Systematic Country Diagnostic (SCD)

<sup>9</sup> Decision No. 086-MEF of November 30, 2023, on the Revision of Benefit of the Social Security Pensions Fund for Public Officials.

<sup>10</sup> Prakas No. 641 MEF-BK-GDPPP dated October 2, 2023, on Promulgating the Guidelines on Fiscal Management on PPP Projects to support the implementation of the Sub-decree No. 174 ANKr.BK dated august 31, 2022.



identified boosting public and private investment in infrastructure as one of the highest priority areas. Transport connectivity is a critical priority, with logistics costs in Cambodia estimated at 26 percent of GDP (2020), which is higher than most ASEAN countries. Cambodia still has one of the highest electricity tariffs in the region and the availability and quality of fixed and mobile broadband are among the lowest among ASEAN countries, with low and unequal penetration rates, slower speeds, and higher costs. Infrastructure funding has traditionally been sourced from the public budget, state-owned enterprises (SOEs) and through concessional loans from development agencies. However, given that available funding from these sources is limited, it will be essential to mobilize private sector capital through a combination of public and privately financed infrastructure (including through PPPs) to try and address some of the identified gaps.

48. **Recognizing this, a Law on Public-Private Partnerships (“PPP Law”) was promulgated on 18 November 2021, with a related Sub-Decree approving Standard Operating Procedures and Guidelines under the PPP Law (DPO1 Prior Action #5).** This PPP Law provides potential PPP investors with more clarity and greater confidence in the commitment and ability of the RGC to support PPPs, which in turn should result in greater competition for projects and lower costs of finance. In addition, while externally funded public investment projects are subject to clear and rigorous guidelines, the absence of a uniform set of manuals to guide the preparation, appraisal, and monitoring of domestically financed investment projects has resulted in varying practices across line ministries. Recognizing this, a sub-decree on PIM was approved in March 2020, which introduced appraisal guidelines, institutional arrangements, and basic principles for public investment project selection and budgeting. To support this sub-decree, in November 2022, the Recipient also issued a Prakas for adopting a PIM manual for domestically financed projects. This offers clarity in relation to rules, principles, terms, procedures, and mechanisms for managing public investment projects financed by the national budget throughout the project cycle.

49. **To support the implementation of the PPP Law, in 2023 and 2024, the Recipient adopted measures to improve the fiscal management of PPP projects and the selection methodology for private partners in PPPs (Prior Action #4).** A Prakas on “Guidelines on Fiscal Management of PPP Projects” was approved on 02 Oct 2023. These guidelines ensure that, among other things, the MEF (through the General Department of PPPs) i) appropriately assesses the ‘value for money’ received by providing government support to a project; ii) reviews and approves the provision of any direct or contingent government support to a project; and iii) robustly monitors and manages the fiscal risks associated with PPP projects throughout the life of the project. The guidelines also include requirements for environmental impact assessments of PPP projects and an evaluation of their environmental sustainability, including climate impacts. In addition to, this Prakas, on 29 November 2022, the Recipient issued the SOPs for PPP Projects (Volume III) which ensure that the use of direct negotiation/selection is limited and that the primary method of procurement for solicited projects, as well as Unsolicited Proposal (USPs), should be competitive bidding, as this typically produces better value for money.

50. **To provide further clarity on Public Financial Management (PFM) rules in relation to capital budget management, the Recipient promulgated a new PFM system law.** In March 2023, a new PFM system law was promulgated. The new law provides the legal basis for all changes from key reforms under the PFM reform program, including PIM. One of the components that bear directly to PIM are the commitment appropriations, which refer to the amounts authorized to be committed in a budget year, for capital expenditure (Article 41-44). The new law puts a cap on commitment appropriation. The Government can make commitment for the entire operation of the planned programs and investment projects in annual budget law and additional appropriation for its completion is prohibited (article 41). An investment project can span across multiple years and Article 42 of the PFM system law allows for the carry forward any unspent budget appropriation to the following year’s budget. This is expected to ensure investments stay within the allocated appropriation.



51. **Expected results:** It is expected that the share of fiscal commitments and contingent liabilities associated with all PPPs that have received project approval to proceed to procurement between 2023 and 2025 that have been assessed in accordance with the provisions of the PPP Law and supporting SOPs will increase from 0 percent in 2021 to 100 percent in 2025 (Results Indicator #5). This contributes indirectly to the World Bank CRI15, Private investment as a percentage of GDP.

***Diversifying sources of government financing***

**Prior Action #5:** To support the regular issuance of government bonds over the longer term, Prime Minister and MEF have adopted a Policy Framework on the Development of Government Securities<sup>11</sup> that establishes the selection of government securities instruments for primary market operations, issuance methods and channels, and the use of proceeds from government bond issuance.

52. **Over the past two decades, RGC has had very little access to domestic sources of government financing.** Prior to 2022, the last issue of Government Treasury Bills was in 2006, in only modest amounts. Since then, the RGC has mainly relied on external (concessional) financing to meet its public financing needs. The heavy reliance on external financing and bilateral borrowing creates a significant concentration risk in the debt portfolio and expose Cambodia’s public financing to the foreign exchange risk. However, access to concessional financing is limited and could be further reduced given Cambodia’s goals of becoming an upper -middle-income country by 2030 and a high-income economy by 2050. In 2020, the RGC enacted the Law on Government Securities, which facilitates the issuance, trading, and management of government securities locally and abroad, in local and foreign currency, to finance its development needs. In 2022, the RGC issued three Prakas that support the implementation of the Law by establishing the regulatory and operational framework governing the issuance of government securities in the Cambodian market (DPO1 Prior Action #6). With these in place, the RGC has begun regular monthly domestic auctions. In September 2022, the RGC, through the National Bank of Cambodia as an agent, issued a local-currency government bond for the first time, floating KHR 41.8 billion (around US\$ 10 million) at a 2 percent coupon with a tenor of one year. The first auction in September 2022 was an important milestone. However, the preliminary policy framework, which guided the first and the following issuances, was time-bounded until the end of 2023 and provided no access to auctions for institutional investors beyond commercial banks. While the comprehensive framework enables institutional investors’ participation in the primary and secondary markets of government securities, there remain gaps, as the direct access to the market infrastructure, including the auction system, clearing, settlement and depository infrastructure as well as the trading system is limited to commercial banks and micro-finance institutions. Insurance companies, the National Social Security Fund (NSSF), securities firms, and other investors can participate in the government securities market indirectly through commercial banks and micro-finance institutions.

53. **In 2023, the MEF adopted a Policy Framework for the Development of Government Securities to support regular issuance of domestic securities over the longer term (Prior Action #5).** The policy framework addressed the gaps in the preliminary framework as described in the previous paragraph. The policy framework covers 2023-2028 and determines the legal and regulatory framework relevant to government securities issuance, defines the role of the different stakeholders, including the MEF (which acts on behalf of the RGC as the issuer), the NBC, the Cambodia Securities Exchange, and establishes a coordination mechanism among the key stakeholders to support the government securities market development. The policy framework stipulates obligations for the stakeholders. For example, it obliges the MEF to prepare an annual issuance plan, and defines the role of the NBC to organize the government bond auctions and act as a fiscal agent of the government. The policy framework guides the

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<sup>11</sup> “Policy Framework on the Development of Government Securities 2023 – 2028” adopted by the Royal Government (Prime Minister and MEF) on November 2, 2023.



selection of instruments for primary market operations, issuance methods and channels, and the use of proceeds from government bond issuance. In addition, it establishes a framework for the depository, clearing, settlement and trading of government securities. The policy framework also defines roles and responsibilities for stakeholders for the local currency government securities market development. In addition to facilitating the diversification of government financing sources, this is expected to help promote the use of local currency in Cambodia, improve liquidity management in the domestic interbank market, support the monetary policy implementation by providing various instruments for open market operations, and allow for the formation of a domestic yield curve as a benchmark for local interest rates.

54. **Expected results:** Subject to market conditions, RGC will issue domestic market debt in local currency worth the equivalent of US\$150 million by the end of 2025 (Results Indicator #6).

### **Pillar 3: Enhancing social and environmental resilience**

55. **Pillar 3 aims to enhance social and environmental resilience.** It supports reforms that: i) strengthen resilience to climate-related shocks through a shock-responsive social protection system and expanded disaster risk financing; ii) strengthen carbon markets to provide incentives for environmental protection, iii) improve energy efficiency through setting efficiency standards, and iv) improve financial inclusion and efficiency by supporting digital social benefit payments.

#### ***Boost resilience to climate-related shocks***

**Prior Action #6:** To enhance resilience to climate-related shocks through a more efficient and inclusive social protection system and to facilitate financial and fiscal resilience, (i) Prime Minister and MEF have approved the Shock Responsive Social Protection Policy<sup>12</sup> which provides a set of tailored policy options for a rapid scaling-up of social assistance in response to shocks, including natural disasters and, (ii) MEF has adopted the Disaster Risk Financing Policy<sup>13</sup> that establishes new disaster risk financing instruments to improve fiscal and financial resilience.

56. **As the frequency and severity of weather shocks are expected to increase with climate change, deepening the RGC’s capacity to respond quickly to the needs of the poor and vulnerable is critical.** Shock Responsive Social Protection (SRSP) helps build the climate resilience of poor and vulnerable households by supporting their capacity to prepare for, cope with, and adapt to the shocks they face. After a history of ad-hoc social protection shock responses, which included temporary cash transfer programs, the RGC has taken important decisions towards consolidating and establishing a broad-based permanent social protection system, providing poor and vulnerable households, including women and female-headed households, better capacity to prepare for and cope with the shocks they face. Prevailing gender norms and long-term roots of gender inequality amplify women’s vulnerability and reduce their ability to withstand climate impacts. The Cambodia CCDR showed that women in Cambodia face a higher vulnerability to climate shocks. Climate change impacts on poverty in the absence of adaptation could range from 0.3 to 6.0 percentage points by 2040, mainly driven by stronger declines in service and agricultural sector earnings, which disproportionately affect poorer households (CCDR 2023).

57. **A critical priority for Cambodia will be to lower exposure to floods, droughts, and extreme heat.** The RGC may incur significant disaster related contingent liabilities from disaster and climate shocks, with potential annual average contingent liabilities of US\$74 million from floods alone. Despite investments in risk reduction and preparedness, the RGC is still exposed to residual risks from disasters and climate shocks, which could have adverse

<sup>12</sup> “Guidelines on the Social Protection Framework for Disaster Response” issued by the Royal Government (Prime Minister and MEF) on September 20, 2023.

<sup>13</sup> Disaster Risk Financing Strategy 2023-2028” issued by the MEF on January 20, 2024.



impacts on macroeconomic stability. The RGC continues to face several challenges in managing the financial impacts of disasters: the instruments frequently used by the RGC mostly include limited government budget and donor assistance while other market-based instruments are nascent. This leaves the RGC with significant funding gaps for extreme events. Projections show that Cambodia may face a fiscal resource funding gap of US\$400 million for a 1-in-20 year flood (CCDR 2023). Therefore, expanding disaster risk financing will be a crucial priority for the RGC for adaptation and recovery from disaster impacts.

58. **To facilitate a more effective response to future shocks, the Recipient approved a Shock Responsive Social Protection (SRSP) Policy (Prior Action #6) in September 2023.** The SRSP Policy determines for government and its partners how to leverage elements of the SP system to provide more systematic, predictable, timely, and effective protection of the poor and vulnerable during and following shocks in two ways: The SRSP Policy details a clear set of interventions and building from existing data and delivery systems that can be sequenced and scaled to provide early support to households vulnerable to shocks; and building coordination and coherence between these interventions and more comprehensive emergency response activities led by the National Committee for Disaster Management (NCDM). The two primary shocks it focuses on are climate-related shocks – floods and droughts – as well as recessions and health-related shocks. The SRSP Policy includes social assistance program design tweaks, paths for vertical and horizontal expansions of existing programs, and linking social protection programs to humanitarian actors’ responses. The SRSP Policy would have facilitated rapid identification and faster delivery of tailored SP support to households affected by the economic impacts of COVID-19 if it were in place previously. It now provides the Government with concrete policy mechanisms for responding quickly and adequately to households affected by varied shocks.

59. **To improve the adequacy and adaptiveness of the social protection system, the Recipient has adopted measures to expand healthcare coverage and social assistance for poor and vulnerable households.** First, on October 23, 2023, the RGC approved Inter-ministerial Prakas No. 603, which facilitated the extension of the HEF to At-Risk Households to access health care services free of charge in public health facilities to an additional 1.8 million people. The HEF is a social protection mechanism that enables the targeted population to access or utilize healthcare services free of charge in public health facilities. This will also support climate adaptation as at-risk households are more likely to be exposed to climate hazards and climate hazards have a causal impact on adverse health outcomes, as was shown in the research by Aguilar-Gomez, Baquie and Robyn (2024) for the Cambodia CCDR. The purpose of the Fund is to facilitate healthcare service utilizations and provide financial protection against the cost of healthcare for the vulnerable population. This marks a significant step in moving towards Universal Health Care for Cambodia as this initiative, alongside NSSF’s expansion, dramatically increases population coverage in a social health protection scheme from 29 percent in 2011 to 43 percent in 2023. Second, on December 5, 2023, the RGC approved the Family Package sub-decree, which institutionalizes a policy shift towards increasing social assistance coverage of poor and vulnerable families to address life cycle risks. The approval of the Family Package sub-decree enables a transition from low social assistance coverage and fragmented delivery to an integrated lifecycle approach that covers all poor households registered in IDPoor as IDPoor 1 and 2. The Family Package improves the adequacy of social assistance by providing a flat rate unconditional cash transfer, topped with additional conditional and unconditional amounts depending on the lifecycle household risks of beneficiaries (pregnancy, children under two, school-aged children, people with disabilities, people living with HIV, and elderly). The program strengthens Cambodia’s SP system by expanding its non-health social assistance coverage from less than 3.3 percent of Cambodia’s population before the COVID-19 pandemic to 16.9 percent.

60. **The RGC adopted the Disaster Risk Financing (DRF) Policy in January 2024 (Prior Action #6).** The DRF Policy is designed to improve Cambodia’s economic resilience by building the RGC’s financial capacity to better withstand climate shocks and natural disasters caused by climate change. The Policy will help to protect the national budget, households and firms against climate-induced natural disasters by employing a range of



complementary, cost-efficient, and pre-arranged disaster risk financing instruments. In terms of identifying sustainable financing instruments, the Policy prescribes a national reserve fund, contingent financing through domestic and regional mechanisms to ensure cost efficiency for disaster financing, and risk transfer for agriculture. The DRF policy requires the expansion of the social protection system in response to the increased frequency and severity of floods and droughts caused by climate change through the development of the SRSP Policy. The World Bank Poverty Assessment shows, a negative shock from a natural disaster that reduces per capita daily consumption by KHR 2723 (US\$ 0.70) will nearly double the poverty rate in Cambodia. Accordingly, the RGC increased its capacity to provide shock-responsive relief and through the SRSP Policy, a key element of the DRF framework policy, the RGC can reach over a million poor and vulnerable households with targeted emergency social assistance in the event of a natural disaster.

61. **Expected Results:** The implementation of the Disaster Risk Financing Policy and SRSP Policy is expected to make eligible 1,060,000 poor and vulnerable households (of which 550,000 are female-headed) by 2025 for emergency social assistance following eligible flood and drought events from a baseline of 0 in 2022 (Results Indicator #7). The results contribute to the World Bank CRI1, Percentage of people covered by social protection and labor programs, of which (%) in the poorest quintile and CRI5, Millions of people with enhanced resilience to climate risks.

**Prior Action #7:** To strengthen participation in carbon markets for increased environmental sustainability, the Council of Ministers has approved and endorsed the Operations Manual for the Implementation of Article 6 of the Paris Agreement<sup>14</sup> to establish the criteria and regulatory framework for carbon trading under Article 6.

62. **While Cambodia’s GHG emissions per capita remain low, emissions grew at an average annual rate of 8 percent from 2010–2019, the fastest in Southeast Asia, and outstripping GDP growth.** One of the reasons for this rapid emissions growth has been deforestation, with Cambodia experiencing a 30 percent loss of forest cover over the past two decades (Global Forest Watch, 2022). This rapid deforestation has exacerbated exposure to physical climate risks including floods, droughts, and landslides. The recent Cambodia CCDR showed that lowering deforestation was one of the rare ‘triple win’ policy options that could benefit economic growth, climate resilience and emissions all at the same time. Participating in carbon markets offers one potential avenue to lower deforestation by providing the financial incentives for heightened protection of forested areas. Recognizing this, Cambodia has adopted several GHG reduction mechanisms such as the Clean Development Mechanism (CDM) and the Joint Crediting Mechanism (JCM) to participate in carbon markets and create the financial incentives for environmental protection. However, to date there has been no joint legal framework to effectively implement these programs and initiatives, which has hindered private sector confidence in their effective governance. To implement one clear and consistent legally binding framework, the RGC has finalized a Sub-Decree on Rules and Procedures for GHG Emissions Reductions Mechanisms, which was submitted to the Council of Ministers for approval in March 2024.

63. **To pave the way for accessing financing under Article 6 of the Paris Agreement, the Prime Minister has approved and endorsed the Operations Manual for Article 6 of the Paris Agreement (Prior Action #7).** In addition, to facilitate progress in developing carbon markets as governed under Article 6 of the Paris Agreement, in January 2024 Cambodia’s Prime Minister approved and endorsed its Article 6 Operations Manual. Article 6 of the Paris Agreement sets out how countries can pursue voluntary cooperation to reach their climate targets. Cambodia’s Operational Manual provides guidelines on criteria for project eligibility for Article 6 and guidelines on the role of government in monitoring and evaluation under Article 6. This Operations Manual will pave the way for Cambodia

<sup>14</sup> Approval letter No. 1380 dated December 14, 2023.



to access financing under Article 6, strengthening the incentives for the private sector to participate in environmental protection in the country.

64. **Expected Results:** The approval of the Article 6 Operations Manual is expected to result in the development of a National GHG Emissions Reductions Registry by 2025 to support the tracking of GHG Emissions Reductions projects being planned or implemented in Cambodia (Results Indicator #8).

**Prior Action #8:** To promote the sustainable use of energy, the Prime Minister has approved a National Energy Efficiency Policy (NEEP) that sets targets and actions to improve energy efficiency, and, to implement the NEEP, has issued an accompanying sub-decree<sup>15</sup> on management and improvement of energy efficiency of electrical appliances.

65. **Increasing energy efficiency will be crucial for slowing emissions growth, raising productivity and adapting to rising heat.** Cambodia's economy is among the most carbon-intensive in Southeast Asia, emitting more carbon per unit of GDP than all peer countries, and over ten times more than the OECD average. One of the key drivers of this high carbon intensity has been low energy efficiency, underpinned by limited regulation of energy efficiency standards. Cooling appliances alone are estimated by the National Cooling Action Plan to account for 45 percent of electricity consumption, while demand for cooling is projected to double over the next two decades with rising heat from climate change and growing incomes. Improving energy efficiency, particularly of cooling appliances, will be crucial to enable climate adaptation without resulting in significant growth in emissions.

66. **To increase energy efficiency, MME has approved a National Energy Efficiency Policy (NEEP) and issued an accompanying Sub-decree on Management and Promotion of Appliance Energy Efficiency (Prior Action #8).** The NEEP was launched in May 2023 and sets a national target for the reduction of total energy consumption by 19 percent by 2030, relative to a business-as-usual scenario. It sets detailed targets by sector and policy actions to achieve these targets. To successfully implement the NEEP, Cambodia issued its first Sub-Decree on Management and Promotion of Appliance Energy Efficiency, dated 11 August 2023. This new energy efficiency legislation outlines a comprehensive framework to govern the use of electricity by mandating adherence to specified standards and energy efficiency ratings. The definition of electrical appliances includes a wide range of equipment, machinery, and devices that rely on electricity for operation. The recent Power Development Plan projects that achieving the NEEP's energy efficiency targets will lower power demand by 17 percent in 2040 relative to a Business-as-Usual scenario without the NEEP. The sub-decree will form a component of the NEEP, by assigning roles and duties to ministries and institutions to monitor and implement the energy efficient appliance regulations. It also provides guidelines for registering, labeling, and filing complaints about energy efficiency of appliances. This should pave the way for more stringent standards on appliances and the phasing out of appliances with low energy efficiency.

67. **Expected results:** The proportion of residential electrical appliances with energy efficiency standards is expected to increase from a baseline of 15 percent in 2023 to 21 percent in 2025 (Results Indicator #9). This is based upon estimates of the number of standards that will be implemented under the sub-decree and current appliance energy efficiency ratings data from the Energy Sector Modelling project.

***Promote financial inclusion and enhance the efficiency of government payments.***

**Prior Action #9:** To promote financial inclusion among social beneficiaries, MoSVY has issued a Prakas<sup>16</sup> that allows recipients of social benefits to receive their benefits in a general-purpose account at any eligible bank or payment service institution of their choice.

<sup>15</sup> Inter-ministerial Sub-decree No. 254 ANKr.BK dated August 11 2023, on Management and Promotion of Appliance Energy Efficiency.

<sup>16</sup> Prakas No. 56- MOSAVY dated December 29, 2023, on *Providing Options for Opening General Purpose Accounts with Banks, Microfinance Institutions or Licensed Financial Institutions for Beneficiaries under the National Social Assistance Programs of the Royal Government*



68. **Financial inclusion in Cambodia poses a significant challenge, with less than one-third of adults having an account with a bank, microfinance institution, or other formal financial institution, as revealed by the WB Global Findex database 2021.** Despite a 10-percentage point increase from 2017, Cambodia lags regional peers like Laos (37 percent), Myanmar (48 percent), Indonesia (52 percent), and Viet Nam (56 percent). While 24 percent of the population receives government-to-person (G2P) payments, such as social assistance payments, over two-thirds of G2P payments in Cambodia in 2021 were received in cash. During the COVID-19 pandemic, the RGC leveraged the existing IDPoor registry to deliver cash transfers to approximately 700,000 households. The mechanism relied on a single contracted service provider, specifically Wing Bank, for cash distribution, employing largely automated backend processes.

69. **In December 2023, MoSVY issued Prakas #56, which allows recipients of social assistance payments to receive their benefits directly into a general-purpose account with their chosen provider (Prior Action #9).** The Prakas aims to bolster financial inclusion among the low-income population and make it easier, faster and more efficient for recipients to access their social benefit payments – thereby facilitating the reach and effectiveness of the shock responsive social protection system described in Prior Action 6. According to a recent MoSVY/UNICEF study, most beneficiary households (85 percent) are unbanked. Directly delivering social assistance payments into a general-purpose account provides a significant opportunity to advance financial inclusion in the country. Allowing recipients to choose their payment provider improves their ability to manage money, builds trust in financial service providers, and increases their willingness to use additional services. Importantly, this approach significantly improves convenience. In certain regions, more than 40 percent of beneficiaries reported having to travel over 30 minutes to withdraw cash benefits during the pandemic. During a recent stakeholder engagement workshop, banks expressed significant interest in participating in the delivery of G2P payments. Notably, none of the private sector participants present expressed concerns about their ability to meet the increased demand. This is expected to increase the effectiveness of the social protection system, supporting the reforms in PA6 and, through doing so, increasing resilience to climate change impacts.

70. **Expected Results:** These reforms anticipate a significant increase in financial inclusion among Cambodia’s poor population. The expectation is that the percentage of beneficiaries receiving social benefit payments into general-purpose transaction accounts will surge from a baseline of 0 in 2021 to 10 percent of all social benefit recipients in 2025 (Results Indicator #10), with half of them being women. This result contributes to the World Bank CR12, Number of people that use a financial account, of which (%) are women and youth.

#### 4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

71. **The proposed operation is closely aligned with the WBG Country Partnership Framework (CPF) for Cambodia for FY2019–2024 and the WBG goals of ending extreme poverty and promoting shared prosperity on a livable planet.** The proposed operation includes prior actions 1, 2 and 9 that support the 2019-24 CPF’s objectives of enhancing financial sector development and fostering private enterprises. Prior actions 3-5 also support the CPF’s objectives of strengthening public sector accountability and public finance. Prior action 4 supports the CPF’s objectives of expanding and improving sustainable infrastructure services. Prior actions 7-8 contribute to the CPF’s focus area of strengthening sustainable use of natural resources which covers challenges related to natural wealth management and resilience to climate change.

72. **This operation is also closely aligned with the findings and recommendations of the 2024 SCD and the CCDR.** The 2024 SCD concludes that the 2017 SCD’s three development pathways (outcomes) with governance and institutions cutting across them remain relevant. Under these outcome areas, ten priorities for development were identified, whose level of priority have been adjusted in the 2023 SCD to account for the progress made in the last five years and the global and socio-economic changes. High-priority areas in the 2024 SCD include



improving the business environment, investment in young children, protection of households from shocks, sustainability of natural capital, and governance and institutions. The first pillar of this operation supports this priority of improving the business environment, while the third pillar supports the priorities of protecting households from shocks and the sustainability of natural capital. Prior Action #6 directly support the CCDR priority on reducing exposure and vulnerability to the physical impacts of climate change by building adaptive capacity through shock-responsive social protection and improved disaster risk financing, while Prior Action #7 and #8 supports the CCDR priority to steer the economy onto a lower carbon growth path through higher energy efficiency and lower deforestation.

#### 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

73. **Public consultation processes were conducted by the RGC at several stages for reforms including the insolvency framework, the civil service pensions reform, the implementation of the PPP Law, the Shock Responsive Social Protection Policy and the Article 6 Operations Manual.** For the PPP law and the Prakas and guidelines supporting its implementation, public consultations were held early in the process to identify the law’s constraints and objectives, and as the drafting advanced, six months later, a second round of public consultations was held by the RGC. Close technical consultations were held on pensions reforms with the ILO and World Bank along with continued consultations with civil servants. These meetings have discussed the policy recommendations underpinning the proposed operation’s prior actions with development partners, civil society, and the private sector. In 2023, consultations were also held with several government ministries in relation to the CCDR, SDC and CPF processes, which included consultations in relation to the reforms related to climate, resilience, and energy efficiency. In January 2024, the GS-NSPC conducted a stakeholder consultation workshop to raise awareness among stakeholders about the new Prakas #56, introduce a modern G2P payments architecture vision, solicit valuable inputs for consensus on immediate policy actions for effective implementation of the new Prakas.

74. **The RGC coordinates its activities with a large spectrum of development partners, NGOs and external stakeholders who play a substantial role in Cambodia’s development program and rely on public consultations during the development and implementation of key reforms.** Development partners are present across multiple sectors working together to support Cambodia’s national priorities. The RGC leads several sector and thematic donor working groups (TWGs) to ensure appropriate complementarity, division of labor among donors, and alignment with national priorities. Nineteen TWGs facilitate dialogue on sector and thematic issues, mainly at a technical level, focusing on resource allocation, implementation, and monitoring. The RGC actively participates in the TWGs and meets bilaterally with development partners in the design and implementation of its project and analytical work. Civil society groups also work in a wide range of areas, including education and training, agriculture, gender and social inclusion health, human rights, natural resources management, and micro-lending.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1. POVERTY AND SOCIAL IMPACT

75. **Prior Actions #1 and #2 are expected to have significant long-term indirect benefits for the poor.** Prior Actions #1 and #2 would support more and better job creation through an improved enabling environment with higher firm entry, survival, and performance. Prior Actions #1 and #2 are expected to enable poorer Cambodians to participate in the growth process because they: i) reduce the time and economic burden needed to enter formal entrepreneurship; ii) enhance access to finances for MSMEs, (iii) provide a fresh start for individuals, who have financial difficulties to re-engage in economic activities. Women also stand to benefit from the schemes as they represent over 70 percent of tourism workers and 45 percent of self-employed.<sup>17</sup> By enhancing access to finance

<sup>17</sup> Cambodia Socio-Economic Survey 2019-20.



for SMEs affected by the COVID-19 pandemic, Prior Action #2 would support the faster recovery of SMEs and the jobs they support.

76. **Prior Actions #3 and #5 also have the potential to create fiscal space that could be used to enhance spending on health, education, and social assistance.** This type of spending is progressive and inequality-reducing under the current fiscal system, as demonstrated “in the Fiscal Incidence Analysis for Cambodia (see Figure 5).<sup>18</sup> Assuming the fiscal space created is used to increase pro-poor social spending, this action would strengthen the redistributive effect of fiscal policy. Significant and well-targeted direct transfers to the poor will not only mitigate the negative repercussions of COVID-19 and other shocks but will also help the poor offset the loss in purchasing power from indirect taxation and strengthen the poverty-reducing effect of social spending.

77. **Prior Actions #6 and #9 are expected to have significant direct positive impacts on the poor and at-risk households.** Prior Actions #6 and #9 would: i) help protect in a timely manner a larger number of households from falling deeper into poverty in the event of shocks, and ii) enhance financial inclusion for poor and vulnerable households. The impacts of Prior Actions #6 and #9 are as follows: i) Early support to at-risk households at benefit levels that fully compensate for losses incurred during a shock would mitigate nearly half a million new households from falling into poverty. Even with partial compensation, the impacts would still be positive by reducing the severity of the negative impact on at-risk households. Vertically expanding programs have a greater poverty-reducing effect compared to providing benefits to poor households only. Simulation analysis suggested that the vertical expansion of COVID-19 relief cash transfers to both at-risk and IDPoor households would have mitigated poverty by 4 percentage points in the aftermath of the 2022 inflationary period, whereas as income support to IDPoor households alone would have mitigated poverty by 2.4 percentage points<sup>19</sup>; ii) Allowing recipients of social benefits to receive their benefits in a general-purpose account at any eligible bank or payment service institution of their choice would significantly reduce the distance, time, and cost needed access the funds and increase.

78. **Prior Action #7-#8 can significantly impact poverty reduction and promoting equity.** Lower-carbon growth creates opportunities for sustainable development that can benefit the poor and at-risk households. For example, investment in renewable energy projects can create jobs in the construction, manufacturing, and maintenance sectors. These jobs can provide income for the poor. Additionally, energy efficiency measures will also reduce energy cost for low-income households.

## 5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

79. **The proposed prior actions are not expected to have significant negative effects on the environment, forests, and natural resources and Prior Actions #4, #7 and #8 are expected to have a positive effect.** While pillar 1’s reforms to support private sector development through efficient entry and exit of firms, greater competition and improved access to finance could indirectly lead to higher energy consumption and the use of environmental resources in the long-term, increased competition and efficiency could also lower energy intensity or emissions or spur lower-carbon innovation. Hence, overall, the impacts of these reforms are ambiguous. The new legal framework for PPP’s, supported by Prior Action #4, includes relevant EIA guidelines and practices. The Implementing Agency is required to prepare a feasibility study that assesses the environmental impacts of the project—particularly with respect to land acquisition. The EIA is required for public and private projects and activities and encourages public participation in the implementation of EIA process to take account of their conceptual input and suggestions prior to the implementation of a project. Prior Action #7 on Article 6 of the Paris Agreement is also expected to have significant impacts on lowering deforestation and emissions through improving carbon markets and providing incentives for environmental protection. Prior Action #8 on lowering energy

<sup>18</sup> Karamba, W., Myck, M., Trzcinski, K., and K. Tong. 2023. “Fiscal Policy Effects on Poverty and Inequality in Cambodia”. Policy Research working paper, no. WPS 10570. Washington, D.C.: World Bank.

<sup>19</sup> Ly and Karamba (2022). Cambodia Economic Update : Navigating Global Economic Headwinds.



consumption, is also expected to have a positive impact on the environment and natural resources through lowering fossil fuel demand. Annex 4 details the assessment for each prior action.

### 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

80. **A series of reforms under the RGC’s Public Financial Management Reform Program (PFMRP) have helped to strengthen public financial management (PFM) systems.** The RGC has adopted several new key strategies under the PFMRP including: a Medium-Term Revenue Mobilization Strategy; a Budget System Reform Strategy 2019–2025; a Public Investment Management System Reform Strategy; and a Procurement System Reform Strategy. The PFMRP is at its final phase (phase 4) and expected to last for 5 years (2023-27).

81. **Cambodia has a fiscal and budget management system that is functioning adequately, enabling the RGC to finance and execute a budget that delivers public services to the general population.** Overall, the results of the PEFA assessment in 2021 show that PFM systems in Cambodia have significantly improved in the areas related to fiscal and budget management but improvements are still needed in areas related to fiscal transparency and reporting, public investment management, medium-term budgeting, expenditure arrears, and payroll. The assessment shows that budgeting and accounting classification, internal controls, and internal audit are aligned with good practices with a score of C. Furthermore, the Government’s budget is made available to the public in printed form or on an external website. For example, all budget documents, including the budget brief for fiscal year 2024, are publicly available at the Ministry of Economy and Finance website, after approval by the National Assembly. The dimension on submission of financial statements for external audit is rated D because financial reports are formally submitted to the National Audit Agency more than nine months from the fiscal year-end. The Consolidated Action Plan for PFM reform continues to focus on targeted reform priorities such as alignment of medium-term budget expenditure to strategic priorities, Public Investment Management (PIM), state property management, and comprehensiveness and inclusiveness of fiscal and financial reporting, and internal audit functions. The World Bank and other development partners continue to support these areas of reforms.

82. **The legal framework of the public procurement system is comprehensive.** It is comprised of a sub-decree on public procurement (2006), the Law on Public Procurement (2012) and new Public Procurement Law (2023). The General Department of Public Procurement of the MEF regulates public procurement transactions, advisory services, and capacity building related to public procurement. Public procurement practices in Cambodia are well established under the Law on Public Procurement, which addresses both domestically financed and externally assisted procurement, as well as special provisions in other laws for concessions and PPP projects. There are two parallel procurement systems, one for domestically financed procurement and the other for externally financed procurement projects. Thus, the RGC applies parallel procurement systems, both of which are mandatory for government agencies, depending on the source of financing. The procurement systems for externally financed projects take precedence over the domestically financed procurement for projects financed by both domestic and external sources. Furthermore, based on the Implementing Rules and Regulations for Public Procurement and Standard Operating Procedures, some agencies have developed separate implementation handbooks, including procurement instructions. For externally financed projects, the General Department of International Cooperation and Debt Management (GDICDM) leads in procurement. (LLOR).

83. **Development partners, including the World Bank, are collaborating with the RGC to further modernize the current procurement system over the medium term.** The MEF had finalized the new Law on Public Procurement, and Royal Kram promulgated the new law No. NS/RKM/0112/005 to regulate the rule on 16 May 2023. Under the procurement reform roadmap, the RGC aims to have Cambodia's unified public procurement system by 2025. Key reforms in the new Public Procurement Law include incorporating international best practice, e-Government Procurement, and Sustainable Procurement into the two parallel procurement systems and decentralization of procurement works to procurement entities in the line ministries. In the near term, the World



Bank is supporting the RGC to strengthen the implementation of Cambodia’s public procurement system, as well as streamlining procurement procedures in the regulatory framework. In addition, the World Bank is supporting MEF to provide training to procurement officers for Bank-financed projects to improve disbursement and complete projects on schedule. (LLOR).

84. **Review of the Forex control environment.** The IMF safeguards assessment for the National Bank of Cambodia (NBC) is outdated (2010) and cannot be relied upon to determine the adequacy of controls around the government’s forex control environment. Moreover, the team could not use alternative assurance mechanisms, such as reviewing the NBC’s audited financial statements because they are not publicly available. In view of the foregoing, the team recommends using a Foreign Currency Dedicated Account (FCDA) at the NBC to mitigate fiduciary risks. Secondly, the Bank reserves the right to request for an audit of the FCDA, as necessary. Furthermore, an active program of support through the World Bank’s Treasury and IFC is aimed at strengthening NBC’s capacity for managing foreign reserves, financial assets, money market and derivatives. These interventions will help strengthen foreign exchange management and the control environment.

85. **With the implementation of the mitigations measures above, the overall Fiduciary residual risk falls to Moderate.**

86. **A single tranche DPF of US\$275 million will be disbursed upon effectiveness and following the Recipient’s request for withdrawal of the proceeds.** Consistent with the OPCS’s Good Practice Note Addressing Fiduciary and Public Financial Management Issues in Development Policy Financing (February 2020), the proceeds from the credit are required to be deposited in U.S. dollars into a designated account at NBC. The MEF—which is the “Recipient”—will open a FCDA in U.S. dollars at the NBC into which the proceeds of the Credit will be disbursed in a single tranche upon effectiveness of the Financing Agreement. The FCDA will form part of the country’s official foreign reserves. Upon use, the Credit proceeds should become part of the country’s budget resources. After depositing in the FCDA, the proceeds of the credit or any part thereof are not to be used to finance excluded expenditures. In such a case, the World Bank will request the Recipient to refund the amount directly to the Bank, and such payments made for excluded expenditures would be canceled from the credit. The disbursement of DPF will follow the World Bank’s disbursement handbooks and guidelines.

87. **Reporting.** Within 30 days after the withdrawal of financing from the financing account, the Recipient shall report to the Bank: i) the exact sum received into the FCDA; ii) the details of the account to which the Local Currency equivalent of the Financing proceeds will be credited; iii) the record that an equivalent amount has been accounted for in the Recipient’s budget management systems in a manner acceptable to the World Bank; and iv) the statement of receipts and disbursement of the FCDA.

#### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

88. **Implementation of this operation is being coordinated by the MEF as part of existing mechanisms for development coordination in Cambodia.** While the MEF has overall responsibility, several other agencies are also closely involved in the reform program, including the MoC, MoSVY, and NBC. Day to day responsibility for monitoring and evaluation falls under the General Department of International Cooperation and Debt Management at MEF.

89. **Monitoring and evaluation of the reform program will be undertaken jointly by the RGC and WBG teams.** These two teams will engage regularly to monitor progress in implementing the agreed policy and institutional reforms supported by the operation, and to assess progress made towards achieving the expected results. Results indicators have been specifically selected to reflect available data sources in Cambodia. Further, the results chain has been defined to reflect the comparatively short time period of just one year from appraisal to closure and evaluation of the DPF. Fuller details of the causal chain from program objectives to prior actions to expected results are described in Annex 1.



90. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Project-affected communities and individuals may submit their complaints to the Bank’s independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on submitting complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank’s Accountability Mechanism, please visit <https://accountability.worldbank.org>.

## 6. SUMMARY OF RISKS AND MITIGATION

91. **The overall risk of the proposed operation is “moderate”.** The overall risk rating is based on a balance between substantial levels of Institutional Capacity for Implementation and Sustainability with moderate political and governance risk, macroeconomic, fiduciary, environment and social, and stakeholder risks, with a lower set of program risks reflecting the strong consensus around Cambodia’s pentagonal strategy.

92. **The Institutional Capacity for Implementation and Sustainability risk is “substantial”.** Relatively weak institutional checks and balances and gaps in the implementation of policies could pose some risk to the impact of the operation. Several policies supported by this series introduced new legal frameworks and institutions to govern the implementation of the laws supported by this program (LCE law, LCRC law, PPP Law, Competition Law, PFM Systems law). As the RGC begins implementation of these laws, it may be hampered by technical, regulatory and capacity challenges to ensure effective functioning and operation. To help mitigate these risks, the RGC will continue to benefit from technical assistance, including from the Bank and other development partners, to support implementation.

**Table 3: Summary Risk Ratings**

Risk Categories	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Low
4. Technical Design of Project or Program	● Low
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Moderate
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	
<b>Overall</b>	● Moderate





**ANNEX 1: POLICY AND RESULTS MATRIX**

**DETAILED RESULTS FRAMEWORK**

Objective	DPO1 Prior Action	DPO2 Prior Action	Indicator	Baseline and target
<b><i>Pillar 1: Boosting growth through a more competitive environment for the private sector</i></b>				
Facilitate business registration and restructuring	<b>Prior Action #1:</b> To streamline and standardize the process of business registration, the Recipient promulgated amendments to the Law on Commercial Enterprises and the Law on Commercial Rules and Register, including the removal of minimum capital requirements.	<b>Prior Action #1:</b> To reduce registration times and facilitate the efficient entry of firms, MEF and MISTI have issued a Prakas to modernize the tracking and management approval systems, and to streamline the classification and certification processes of SMEs and handicrafts.	<b>Results Indicator #1:</b> Annual new companies registered through the online business registration portal	<b>Baseline:</b> <b>RI #1:</b> 7,459 (2021), of which 2717 with a female director  <b>Target :</b> <b>RI #1 :</b> 10,500 (annual average for 2022-24), of which 4000 with a female director
Strengthen the regulatory and institutional framework for competition	<b>Prior Action #2:</b> To promote competition and curb anti-competitive practices, the Recipient promulgated the Competition Law, issued a sub-decree to establish the Competition Commission of Cambodia (as per the provisions of the Law), and has appointed the members for the Competition Commission of Cambodia.		<b>Results Indicator #2:</b> Number of decisions concerning the implementation of the competition law issued by the CCC or CCF	<b>Baseline:</b> <b>RI #2:</b> 0 (2021)  <b>Target:</b> <b>RI #2:</b> 4 (2025)
Promote inclusive development through access to credit for SMEs	<b>Prior Action #3:</b> To enhance access to finance for small and medium enterprises affected by the COVID-19 pandemic, the Recipient, through the MEF, approved the Tourism Recovery Co-Financing Scheme, and through the Credit Guarantee Corporation of Cambodia, initiated the Women Entrepreneurs Guarantee Scheme.	<b>Prior Action #2:</b> To promote access to credit for SMEs, (i) the National Bank of Cambodia has issued a Prakas to assign a zero risk weight to the guaranteed portion of loans; and ii) MEF and the CGCC have established Portfolio Guarantee Schemes for SMEs to eliminate the need for case-by-case reviews of individual guarantees.	<b>Results Indicator #3:</b> Number of beneficiary businesses supported by the Women Entrepreneurs Guarantee Scheme, the Tourism Recovery Co-Financing Scheme, and Portfolio Guarantee Schemes.	<b>Baseline:</b> <b>RI #3:</b> 0 (2021)  <b>Target:</b> <b>RI #3:</b> 1000, of which 400 are female-owned (2025)

***Pillar 2: Strengthening fiscal resilience***



Reform pension schemes to control fiscal costs	<b>Prior Action #4:</b> To control fiscal costs, the Recipient, through the MEF, adopted a Decision to phase out the current civil service pension scheme and enroll new hires in the National Social Security Fund.	<b>Prior Action #3:</b> To control fiscal costs and reduce uncertainty MEF has issued a Decision to automatically index civil service pensions to inflation.	<b>Results Indicator #4:</b> Estimated size of the unfunded liability associated with the civil service pension scheme, as a share of GDP.	Baseline: <b>RI #4:</b> 41 percent (2020)  Target: <b>RI #4:</b> 30 percent (2025)
Improve efficiency of public investment and mitigate associated fiscal risks	<b>Prior Action #5:</b> To support fiscally sustainable and resilient infrastructure investment and help ensure value for money, the Recipient promulgated the Law on Public-Private Partnerships and issued a sub-decree approving standard operating procedures for public private partnership projects to strengthen the institutional and legal framework for PPP project’s approval and implementation.	<b>Prior Action #4:</b> To strengthen the management of PPP related fiscal risks, MEF has issued a Prakas establishing new guidelines for fiscal management of PPP projects, that sets out an institutional and regulatory framework to assess, approve, budget and manage both fiscal commitments as well as contingent liabilities associated with PPP projects.	<b>Results Indicator #5:</b> The fiscal commitments and contingent liabilities associated with all PPPs approved between 2023 and 2025 that have been assessed in accordance with the provisions of the PPP Law and supporting SOPs.	Baseline: <b>RI #5:</b> 0 percent (2021)  Target: <b>RI #5:</b> 100 percent (2025)
Diversify sources of government financing	<b>Prior Action #6:</b> To establish an authorizing regulatory framework for the issuance of local currency government bonds, the Recipient issued three relevant Prakas supporting the implementation of the 2020 Law on Government Securities including i) issuance of the Prakas on the Issuance of Government Securities by MEF; ii) the Prakas on the Usage of Government Securities in Monetary Operations by the National Bank of Cambodia; and iii) the Prakas on the Organization and Functioning of Departments and Units under the Supervision of the General Department of International Cooperation and Debt Management of the Ministry of Economy and Finance issued by MEF.	<b>Prior Action #5:</b> To support the regular issuance of government bonds, MEF has issued a Policy Framework on the Development of Government Securities that establishes the selection of government securities instruments for primary market operations, issuance methods and channels, and the use of proceeds from government bond issuance.	<b>Results Indicator #6:</b> Government debt issued in the domestic market	Baseline: <b>RI #6:</b> US\$0 (2021)  Target: <b>RI #6:</b> US\$150 million (2025)



**Pillar 3: Enhancing social and environmental resilience**

Boost resilience to climate-related shocks	<b>Prior Action #7:</b> To facilitate the timely provision of relief to vulnerable households in the event of a climate-related or economic shock, the Recipient issued a decision to expand eligibility criteria for the IDPoor database to include at-risk (near-poor and vulnerable) households to improve the Recipient’s capacity to rapidly identify households most in need of assistance.	<b>Prior Action #6:</b> To enhance resilience to climate-related shocks through a more efficient and inclusive social protection system and to facilitate financial and fiscal resilience, (i) Prime Minister and MEF have approved the Shock Responsive Social Protection Policy, which enables a rapid scaling-up of social assistance in response to shocks, including natural disasters and, (ii) MEF has adopted the Disaster Risk Financing Policy that establishes new disaster risk financing instruments to improve fiscal and financial resilience.	<b>Results Indicator #7:</b> Number of poor and vulnerable households eligible for emergency social assistance following eligible flood and drought events.	Baseline: <b>RI #7:</b> 0 (2022) Target: <b>RI #7:</b> 1,060,000 households, of which 550,000 are female-headed (2025)
Strengthen carbon markets	<b>Prior Action #7:</b> To strengthen participation in carbon markets for increased environmental sustainability, the Council of Ministers has approved and endorsed the Operations Manual for the Implementation of Article 6 of the Paris Agreement to establish the criteria and regulatory framework for carbon trading under Article 6.	<b>Results Indicator #8:</b> Completion of a National GHG Emissions Reductions Registry to support the tracking of GHG Emissions Reductions projects.	Baseline: <b>RI #8:</b> No (2022) Target: <b>RI #8:</b> Yes (2025)	
Improve energy efficiency	<b>Prior Action #8:</b> To promote the sustainable use of energy, the Prime Minister has approved a National Energy Efficiency Policy (NEEP) that sets targets and actions to improve energy efficiency, and, to implement the NEEP, has issued an accompanying sub-decree on management and improvement of energy efficiency of electrical appliances.	<b>Results Indicator #9:</b> The proportion of residential electrical appliances with energy efficiency standards.	Baseline: <b>RI #9:</b> 15 percent (2023) Target: <b>RI #9:</b> 21 percent (2025)	



Promote financial inclusion and enhance the efficiency of government payments

**Prior Action #9:** To promote financial inclusion and increase the efficiency of government payments, MoSVY has issued a Prakas that allows recipients of social benefits to receive their benefits in a general-purpose account at any eligible bank or payment service institution of their choice.

**Results Indicator #10:** Percentage of beneficiaries receiving social benefit payments into general purpose transaction accounts

Baseline:

**RI #10:** 0 percent (2021)

Target:

**RI #10:** 10 percent (2025), of which 50% are women

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**RESULTS INDICATORS BY PILLAR**

Baseline	Closing Period
<b>Pillar 1: Boosting growth through a more competitive environment for the private sector</b>	
<b>Annual new companies registered through the online business registration portal (Number)</b>	
Dec/2021	Dec/2024
7,459	10,000 (annual average for 2022-24)
➤ of which with a female director (Number)	
Dec/2021	Dec/2024
2,717	4,000 (annual average for 2022-24)
<b>Number of decisions concerning the implementation of the Competition Law issued by the CCC or the CCF (Number)</b>	
Dec/2021	Dec/2025
0	4
<b>Number of beneficiary businesses supported by the Women Entrepreneurs Guarantee Scheme, the Tourism Recovery Co-Financing Scheme, and Portfolio Guarantee Schemes (Number)</b>	
Dec/2021	Dec/2025
0	1,000
➤ of which are female-owned (Number)	
Dec/2021	Dec/2025
0	400
<b>Pillar 2: Strengthening fiscal resilience</b>	
<b>Estimated size of the unfunded liability associated with the civil service pension scheme, as a share of GDP (Percentage)</b>	
Dec/2025	Dec/2025
41 (BaU)	30
<b>The fiscal commitments and contingent liabilities associated with all PPPs approved between 2023 and 2025 that have been assessed in accordance with the provisions of the PPP Law and supporting SOPs. (Percentage)</b>	
Dec/2021	Dec/2025
0	100
<b>Government debt issued in the domestic market (Amount(USD))</b>	
Dec/2021	Dec/2025
0	150 million
<b>Pillar 3: Enhancing social and environmental resilience</b>	
<b>Number of poor and vulnerable households eligible for emergency social assistance following eligible flood and drought events. (Number)</b>	
Dec/2022	Dec/2025



0	1060000
➤Of which are female headed households (Number)	
0	550,000
<b>Completion of a National GHG Emissions Reductions Registry to support the tracking of GHG Emissions Reductions projects (Yes/No)</b>	
Dec/2022	Dec/2025
No	Yes
<b>The proportion of residential electrical appliances with energy efficiency standards. (Percentage)</b>	
Jan/2023	Dec/2025
15	21
<b>Percentage of beneficiaries receiving social benefit payments into general purpose transaction accounts (Percentage)</b>	
Dec/2022	Dec/2025
0	10
➤of which are women (in percentage points) (Percentage)	
Dec/2022	Dec/2025
0	5



ANNEX 2: FUND RELATIONS ANNEX

## IMF Executive Board Concludes 2023 Article IV Consultation with Cambodia

January 31, 2024

**Washington, DC:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>[1]</sup> with Cambodia and endorsed the staff appraisal without a meeting on a lapse-of-time basis.

Cambodia is on a recovery trajectory post-pandemic, with a GDP growth of 5.2 percent in 2022. The manufacturing sector has been the cornerstone of this recovery, adding over 3 percent to the real GDP. While agriculture faced challenges due to weather and rising costs, the service sector made a strong comeback. Electronics exports, particularly solar panels, have shown resilience, offsetting a decline in garment exports. Tourism is also recovering, boosted by the 2023 South-East Asia Games.

Inflation has been volatile and after a period of declining from the peak in June last year, it rebounded to 3.9% in October due to higher food and fuel prices. The central bank has gradually unwound pandemic-era support measures, including increasing reserve requirements for foreign currencies. Fiscal positions have improved in 2022 due to stronger-than-expected revenue performance. The current account deficit has also narrowed, primarily due to reduced gold imports.

The economy is projected to grow by 5.3 percent in 2023, fueled by a resurgence in tourism and strong performance in non-garment exports. However, risks are skewed to the downside. Weaker-than-expected growth in the U.S., accounting for over 40 percent of Cambodia's exports, and China pose significant risks. Additionally, U.S. monetary tightening and high levels of private debt in Cambodia could impact growth. Geopolitical tensions and trade policy uncertainties add another layer of risk, as do commodity price fluctuations and climate events.

The fiscal deficit is expected to widen in 2023 due to a combination of factors: extended targeted social supports to households and firms affected by the COVID-19 pandemic and the cost-of-living crisis; increased spending associated with the 2023 South-East Asia Games and the General Election; and the finalization of incomplete infrastructure projects from 2022. Starting from 2024, the deficit is projected to narrow in line with the authorities' commitment to scaling back temporary support measures (including cash transfers), while retaining targeted fiscal support to the poor through social protection system reform. Public debt to GDP is projected to increase moderately during the next decade and the risk of debt distress remains low, although there are vulnerabilities from shocks to exports and growth.



## Executive Board Assessment 2

The Cambodia economy is continuing to recover from the pandemic. The economy achieved 5.2 percent growth in 2022 and is projected to grow by 5.3 percent in 2023. The main drivers of growth are the expansion of non-garment goods exports and a rebound in tourism. But garment exports, a major contributor to growth in the past, remains weak. And the compositional shift in tourist arrivals means the country is receiving less income per tourist compared to the pre-pandemic era.

Though the rebound has continued, downside risks are significant. The near-term threats to growth include continued demand weakness from advanced-economy trade partners, recovery slowdown in China, high level of private debt domestically and tighter global financial conditions. Over the medium term, geopolitical tension and trade fragmentation, structural decline in growth from China, as well as climate change may pose important challenges to growth.

Fiscal policy in 2023 was appropriately expansionary, but as recovery progresses, fiscal consolidation should start. The fiscal stance should return to neutral in 2024 as pandemic-related spending needs subside and economic recovery continues. Over the medium term, strengthening tax base as well as tax and customs administration is crucial for safeguarding revenues, especially given the revenue erosion from various tax incentives and the already low revenue-to-GDP ratio. Improving evaluation and execution of public investments will ensure spending is appropriately directed to support economic development.

Monetary policy needs to continue normalizing towards the pre-pandemic setting. The phasing out of pandemic-related forbearance measures and the increase of USD reserve requirement are welcome. NPLs should continue to be adequately provisioned for. After the breakneck expansion in recent years, credit growth should be allowed to recalibrate, to reflect a normalization of financial conditions, especially given the high private sector indebtedness. Improvement in supervisory framework, as well as in data gathering and analysis, should continue. Legal and operational frameworks for corporate insolvency and bank resolution need to be strengthened.

To ensure sustained progress in elevating living standards over the medium term, substantial reforms are needed. Provision of human capital, both quality and quantity, needs to improve to accommodate the changing needs of the economy, as the comparative advantage in labor cost diminishes at a higher income level. Investments in key infrastructure, such as in transportation, energy, logistics and telecommunication, will support more diversified industries and increase the scale of operation.

Governance and anti-corruption reforms are important to attract new FDIs and sustain high growth. Improvements in public governance and anti-corruption will reduce the cost of doing business, help draw investments from a wider range of source countries and improve Cambodia's attractiveness as a tourist destination. It is critical to strengthen frameworks on asset declarations, whistleblower protection and access to information. Adequate resources and authorities should be allocated to oversight and investigative bodies.

**Table 1. Cambodia: Selected Economic Indicators, 2020 – 28**

Per capita GDP (2022, US\$): 1,546

Life expectancy (2019, years): 75.5

Population (2022, million): 16.7

Literacy rate (2019, percent): 87.7

	2020	2021	2022	2023	2024	2025	2026	2027	2028
									Proj.
<b>Output and prices (annual percent change)</b>									
GDP in constant prices	-3.1	3.0	5.2	5.3	6.0	6.4	6.5	6.2	6.3
Inflation (end-year)	2.9	3.7	2.9	3.7	3.0	3.0	3.0	3.0	3.0
(Annual average)	2.9	2.9	5.3	2.3	3.0	3.0	3.0	3.0	3.0
<b>Saving and investment balance (in percent of GDP)</b>									
Gross national saving	21.5	-18.1	-1.6	22.4	18.6	18.5	18.5	18.4	18.1
Government saving	3.5	0.4	3.1	4.1	5.1	6.1	7.1	8.1	9.1
Private saving	18.1	-18.5	-4.7	18.3	13.5	12.4	11.4	10.4	9.0
Gross fixed investment	24.9	23.9	24.5	24.5	24.5	24.5	24.5	24.5	24.5
Government investment	8.8	9.0	7.7	10.8	8.1	8.4	8.7	8.6	8.7
Private investment	16.1	14.9	16.8	13.7	16.4	16.1	15.8	15.9	15.8



Money and credit

(annual percent change, unless otherwise indicated)

Broad money	15.3	16.4	8.2	14.9	11.0	12.3	11.4	12.8	8.3
Private sector credit	17.2	23.6	18.5	11.0	13.0	13.5	13.5	13.5	13.5
Velocity of money 1/	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.6

Public finance  
(in percent of GDP)

Revenue	23.9	21.6	23.9	23.0	23.2	23.3	23.4	23.5	23.6
Domestic revenue	22.0	20.0	22.2	21.7	21.9	22.0	22.1	22.2	22.4
Of which: Tax revenue	19.7	18.0	20.0	18.9	19.1	19.2	19.3	19.4	19.6
Grants	1.9	1.6	1.8	1.3	1.3	1.3	1.3	1.2	1.2
Expenditure	27.3	28.6	24.9	26.6	25.2	26.0	26.3	26.1	26.1
Expense	18.5	19.6	17.2	15.9	17.1	17.6	17.6	17.5	17.5
Net acquisition of nonfinancial assets	8.8	9.0	7.7	10.8	8.1	8.4	8.7	8.6	8.7
Net lending (+)/borrowing(-)	-3.4	-7.1	-1.0	-3.6	-2.0	-2.7	-2.9	-2.6	-2.6
Net lending (+)/borrowing(-) excluding grants	-5.3	-8.6	-2.7	-4.9	-3.3	-4.0	-4.2	-3.8	-3.8
Net acquisition of financial assets	0.6	-4.0	2.5	-0.4	1.0	0.1	-0.4	0.1	0.5
Net incurrence of liabilities 2/	4.0	3.0	3.4	3.2	2.9	2.8	2.5	2.7	3.0
Total public debt (In percent of GDP)	34.4	35.9	34.8	35.8	36.3	36.5	36.3	36.4	36.8



Balance of payments  
(in millions of dollars, unless otherwise indicated)

Exports, f.o.b.	18,470	19,527	23,179	23,387	25,229	27,361	29,686	32,209	34,944
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(Annual percent change)	23.2	5.7	18.7	0.9	7.9	8.5	8.5	8.5	8.5
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Imports, f.o.b.	-20,993	-30,726	-32,005	-27,360	-30,760	-33,226	-36,004	-39,075	-42,468
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(Annual percent change)	-5.7	46.4	4.2	-14.5	12.4	8.0	8.4	8.5	8.7
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Current account (including official transfers)	-870	-11,179	-7,535	-647	-1,954	-2,141	-2,312	-2,521	-2,860
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(In percent of GDP)	-3.4	-42.0	-26.1	-2.1	-5.9	-6.0	-6.0	-6.1	-6.4
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Gross official reserves 3/	21,334	21,119	17,805	20,869	23,348	25,881	28,534	31,478	34,583
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(In months of prospective imports)	7.8	7.3	7.1	7.4	7.7	7.8	8.0	8.1	8.2
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External debt  
(in millions of dollars, unless otherwise indicated)

Public external debt	8,810	9,505	9,971	10,926	11,805	12,727	13,627	14,701	15,937
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(In percent of GDP)	34.4	35.9	34.8	35.6	35.8	35.8	35.5	35.5	35.7
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Public debt service	365	397	427	413	430	446	461	482	503
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(In percent of exports of goods and services)	1.8	2.0	1.7	1.5	1.4	1.4	1.3	1.2	1.2
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Memorandum items:

Nominal GDP (in billions of Riels)	105,892	110,506	121,030	131,086	142,221	155,128	169,582	184,812	201,549
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(In millions of U.S. dollars)	25,771	26,601	28,818	30,872	33,130	35,744	38,649	41,662	44,941
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Sources: Cambodian authorities; and IMF staff estimates and projections.



1/ Ratio of nominal GDP to the average stock of broad money.

2/ Includes statistical discrepancy.

3/ Includes unrestricted foreign currency deposits held at the National Bank of Cambodia.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

## **IMF Communications Department**

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Source: <https://www.imf.org/en/News/Articles/2024/01/30/pr2431-cambodia-imf-executive-board-concludes-2023-article-iv-consultation>



ANNEX 3: LETTER OF DEVELOPMENT POLICY



ក្រសួងសេដ្ឋកិច្ច និង ហិរញ្ញវត្ថុ  
MINISTRY OF ECONOMY AND FINANCE  
N° 1526.MEFI.GD.COM

ព្រះរាជាណាចក្រកម្ពុជា  
ជាតិ សាសនា ព្រះមហាក្សត្រ  
KINGDOM OF CAMBODIA  
Nation Religion King

Phnom Penh, 26 April 2024

Mr. Ajay Banga  
President  
The World Bank Group  
Washington, D.C.

**Subject:** Cambodia Second Growth and Resilience Development Policy Financing (P180749)

Dear Mr. Ajay Banga,

On behalf of the Royal Government of Cambodia (RGC), we would like to provide an update on the Cambodian economy and our reform efforts to accelerate economic recovery and boost long-term growth, as well as to protect the environment and improve climate resilience. In this context, we express our interest in obtaining a budget support program loan from the World Bank – International Bank for Reconstruction and Development (IBRD) through the Cambodia Second Growth and Resilience Development Policy Financing (Cambodia DPF 2) in the amount of US\$275 million in support of our reform efforts rooted in the Rectangular Strategy Phase IV (2019–2023) and Cambodia Pentagonal Strategy, Phase I for Growth, Employment, Equity, Efficiency, and Sustainability. We would also like to take this opportunity to thank the World Bank for the technical assistance provided to the implementing ministries and agencies undertaking the structural reforms supported by this DPF series.

The Cambodian economy has continued to recover from the setback of the COVID-19 pandemic, and the economy grew at an estimated 5.4 percent in 2023, but growth remains below the pre-pandemic trend, reflecting both cyclical and structural constraints to growth. Looking ahead, growth is projected to pick up to 5.8 percent in 2024 and 6.4 percent on average from 2025-2027, buoyed by a strong performance of manufacturing and exports, along with tourism and domestic consumption. After the fiscal deficit rose to an estimated 6.5 percent of GDP in 2023, up from 4.5 percent in 2022, a gradual fiscal consolidation is expected from 2024 onwards, with the fiscal deficit reaching 3.8 percent from 2023. Meanwhile, the debt-to-GDP ratio is expected to stabilize at the current level of just above 35 percent of GDP. Around 80 percent of gross financing needs will continue to be met by external borrowing, with the remainder to be financed by a drawdown of fiscal reserves and a resumption of domestic bond issuance.

ផ្លូវលេខ ៩២ សង្កាត់វិថីភ្នំ ខណ្ឌដូនពេញ រាជធានីភ្នំពេញ កម្ពុជា  
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The RGC has made significant strides in laying the groundwork for the Pentagonal Strategy over the past three years. The Pentagonal Strategy aims to promote crisis-resilient economic growth, more jobs, poverty reduction to below 10 percent, strengthening governance and improving the quality of public institutions, and sustainable social-economic development, resilience to climate change. To achieve these objectives, the Strategy identifies five priority areas: human capital development, more economic diversification, and competitiveness; private sector development and jobs; strengthened resilience, inclusive and sustainable development; and development of digital economy and society. The Pentagonal Strategy keeps a line of sight to Cambodia's 2050 vision of becoming a high-income country. Recognizing the risks and vulnerabilities posed by climate change, the Pentagonal Strategy also advances the agenda of building resilience to climate change, while ensuring a just transition to low-carbon development underpinned by Cambodia's Nationally Determined Contribution (NDC) and Long-Term Strategy for Carbon Neutrality submitted to the United Nations Framework Convention on Climate Change.

Amid the economic and environmental context, we look forward to the Bank's continued support through the second operation of the Cambodia DPF series, which consists of three pillars: 1) boosting growth through a more competitive environment for the private sector; 2) strengthening fiscal resilience; and 3) enhancing social and environmental resilience.

**Pillar 1: Boosting growth through a more competitive environment for the private sector**

The government has taken important steps to facilitate the efficient entry and exit of firms. The first operation supported reforms that reduced the costs to register and streamlined and standardized the process of business registration. As part of the second operation, the Informal Economy Policy was launched in October 2023 with the objective of encouraging and accelerating the participation of the 85 percent of informal firms to join in the formal economy. MISTI then issued a Sub-Decree that established the High-Level Committee to implement the informal economy policy in January 2024. MISTI also issued a Prakas to modernize the tracking and management approval systems, and streamline the classification and certification processes of SMEs and handicrafts. This will cut processing times for new business licenses and registrations by 30 percent for 10 different processes in November 2023 to make it easier and quicker for firms to register and derive the benefits of being included in the formal economy. To improve the insolvency framework the government has issued a Prakas to establish a Regulation on Insolvency Administrators under the 2007 Insolvency Law. This will contribute to having professionally licensed and trained insolvency administrators, leading to better quality insolvency processes and higher returns to creditors over time through efficient reorganization, liquidation or debt enforcement (foreclosure or receivership) proceedings.

To strengthen the regulatory and institutional framework for competition, the government adopted the Competition Law in 2022 and the setup of the Cambodia Competition Commission (CCC), supported by the first operation. It has also implemented secondary regulations to foster effective implementation of the Competition Law. First, the government has issued a Sub-Decree to limit the anticompetitive effects of mergers and acquisitions by



establishing a procedure to notify and review mergers, including limiting negative effects through remedies. Second, it has issued a Decision to grant exemptions under the Competition Law for practices that benefit consumers and enhance overall efficiency.

Finally, the government has taken important steps to improve access to credit for SMEs. Under the World Bank's 2021 Cambodia Relief, Recovery and Resilience DPF, the government established the SME Bank and the Credit Guarantee Corporation of Cambodia (CGCC). These have operationalized several of their lending windows, such as the Women Entrepreneurs Guarantee Scheme and the Tourism Recovery Co-Financing Scheme. In 2023 and early 2024, further important steps were taken under the current operation. First, the National Bank of Cambodia approved the Prakas on Regulatory Capital for Banking and Financial Deposit-taking Institutions in 2023, containing several notable changes to stimulate lending to priority areas. There is now a zero percent risk weight for loans with a guarantee (for the guaranteed portion of the loan). In addition, risk weights have been lowered (from 100 percent) for loans to registered MSMEs (75 percent risk weight), agriculture (85 percent), and green finance projects (80 percent) during the operational phase. Second, the CGCC started implementing a new portfolio guarantee approach, through the set up of Portfolio Guarantee Schemes for MSMEs with financial institutions in Cambodia in 2023. The portfolio guarantee scheme agreements are each centered on a specific theme: MSMEs in tourism (specifically, travel agents), wholesale and retail trade, and women or women-owned businesses, MSMEs, and agents for payment service providers. This new portfolio guarantee approach avoids case-by-case reviews previously required for individual guarantees.

## **Pillar 2: Strengthening fiscal resilience**

To control fiscal costs and reduce uncertainty, the government has taken several important steps to reform pension schemes. Under the first operation the government took reforms to integrate civil servants into the new National Social Security Fund (NSSF) pensions scheme and phase out the old civil service pension scheme over time. Under the new reform, all civil servants hired after a specific date will be enrolled in the new NSSF pension scheme, gradually reducing the RGC's unfunded pension liabilities. Under the second operation, in November 2023, a Decision was issued mandating that civil service pensions be indexed to prices. This should protect the purchasing power of retirement income, make future spending more predictable, and reduce discretionary adjustments.

To strengthen the regulatory framework for the management of PPPs and public investments, under the first operation a Law on Public-Private Partnerships ("PPP Law") was promulgated on 18 November 2021, with a related Sub-Decree approving Standard Operating Procedures and Guidelines under the PPP Law. To support the implementation of the PPP Law, in 2023 and 2024, under the second operation the government has also adopted measures to improve the fiscal management of PPP projects and the selection methodology for private partners in PPPs. The government has issued a Prakas on guidelines for fiscal management of PPP projects, approved guidelines and set conditions under the Standard Operating Procedures when a direct selection methodology for private partners can be used. Those guidelines also set out an institutional and regulatory



framework to assess, approve, budget and manage both fiscal commitments as well as contingent liabilities associated with PPP projects.

To support the regular issuance of government bonds, in 2020, the RGC enacted the Law on Government Securities, which facilitates the issuance, trading, and management of government securities locally and abroad, in local and foreign currency, to finance its development needs. In 2022, under the first operation, the government issued three Prakas that support the implementation of the Law by establishing the regulatory and operational framework governing the issuance of government securities in the Cambodian market. Under the second operation, the government has issued a Policy Framework on the Development of Government Securities that establishes the selection of instruments for primary market operations, issuance methods and channels, and the use of proceeds from government bond issuance.

### **Pillar 3: Enhancing social and environmental resilience**

The government has taken several important steps to facilitate a more efficient and inclusive social protection response to climate-related and other shocks. After a history of ad-hoc social protection shock responses, which included temporary cash transfer programs to respond to the economic impacts of the COVID-19 pandemic, inflation, and floods, supported by the first operation, the government has taken important decisions towards consolidating and establishing a broad-based permanent social protection system. In mid-2022, the National Social Protection Council approved a policy to expand the eligibility criteria for the IDPoor database to include at-risk households prone to falling into poverty in the aftermath of shocks. Under this second operation, the government has approved the Shock Responsive Social Protection Policy, which provides a set of tailored policy options that allow for a rapid scaling-up of social assistance depending on the type and severity of the shock. The government has also taken steps to build resilience to the impacts of climate change. The government also adopted the Disaster Risk Financing (DRF) Policy, which is designed to improve Cambodia's economic resilience by building the government's financial capacity to better withstand disaster and climate shocks. With that objective, the Policy will help to protect the national budget, households and firms against disasters and climate shocks by employing a range of complementary, cost-efficient, and pre-arranged disaster risk financing instruments.

To further expand and improve the adequacy of the social protection, the government has also issued a Prakas to extend the coverage of the Health Equity Fund, which provides health care services free of charge, to at-risk households. The government has approved the Family Package sub-decree, a broad-based regular social assistance program, that provides poor and vulnerable families with cash support to address life cycle risks.

The government has also taken important steps to follow a lower-carbon growth path. To strengthen participation in carbon markets to increase environmental sustainability, the government has approved and endorsed the Operations Manual for Article 6 of the Paris Agreement. This provides guidelines on criteria for project eligibility for Article 6 and guidelines on the role of government in monitoring and evaluation under Article 6. It will pave the way for countries to buy carbon credits from Cambodia to meet their NDCs. To tackle





the issue of low energy efficiency, the government has approved a National Energy Efficiency Policy (NEEP), which sets a national target for the reduction of total energy consumption by at least 19 percent by 2030, relative to a business-as-usual scenario. It also sets detailed targets by sector and policy actions to achieve these targets. To successfully implement the NEEP, the government also issued a Sub-Decree on Management and Promotion of Appliance Energy Efficiency. This new energy efficiency legislation outlines a framework to govern the use of electricity by mandating adherence to specified standards and energy efficiency ratings.

Finally, to promote financial inclusion among social beneficiaries, the government has issued a *Prakas* that allows recipients of social benefits to receive their benefits in a general-purpose account at any eligible bank or financial institution of their choice.

Taken together, these programs of reforms, supported by the Cambodia Second Growth and Resilience Development Policy Financing, encompass a diverse range of initiatives aimed at steering the Cambodian economy on a trajectory of sustainable and inclusive growth and enabling economic and social resilience as envisioned in the Pentagonal Strategy. The reforms will contribute to improving private sector development to boost medium-term growth, strengthening Cambodia's climate mitigation and adaptation efforts while supporting gender equality and inclusion.

The RGC greatly values the unwavering support extended by the World Bank throughout the years, both in financing the country's development priorities and providing technical assistance across a broad spectrum of reforms. We eagerly anticipate your continued engagement and support in the years ahead. We look forward to your continued engagement and support in the coming years.

Yours sincerely, 



**Dr. Aun Pornmoniroth**  
Deputy Prime Minister  
Minister of Economy and Finance



**ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE**

Prior Actions	Significant environmental effects	Significant poverty, social, or distributional effects
<b><i>Pillar 1: Boosting growth through a more competitive environment for the private sector</i></b>		
<p><b>Prior Action #1:</b> To reduce registration times and facilitate the efficient entry of firms, MEF and MISTI have issued a Prakas to modernize the tracking and management approval systems, and to streamline the classification and certification processes of SMEs and handicrafts.</p>	<p><b>Neither positive/negative.</b> No significant adverse direct impact in the short-term. Potential long-term indirect negative impact <i>only if</i> faster business registration results in private sector growth and higher energy consumption, use of natural resources or pollution.</p>	<p><b>Positive.</b> Indirect benefits in the long term through greater job creation.</p>
<p><b>Prior Action #2:</b> To promote access to credit for SMEs, (i) the National Bank of Cambodia has issued a Prakas to assign a zero risk weight to the guaranteed portion of loans; and (ii) MEF and the CGCC have established Portfolio Guarantee Schemes for SMEs to eliminate the need for case-by-case reviews of individual guarantees.</p>	<p><b>Neither positive/negative.</b> No significant adverse direct impact in the short-term. Potential long-term indirect negative impact <i>only if</i> greater access to finance results in private sector growth and higher energy consumption, use of natural resources or pollution.</p>	<p><b>Positive.</b> Direct benefits in the short term through greater access to credit for women and poor entrepreneurs. Positive long-term indirect benefits through greater job creation.</p>
<b><i>Pillar 2: Strengthening fiscal resilience</i></b>		
<p><b>Prior Action #3:</b> To control fiscal costs and reduce uncertainty MEF has issued a Decision to automatically index civil service pensions to inflation.</p>	<p><b>Neither positive/negative.</b> No significant adverse direct impact in the short-term.</p>	<p><b>Neither positive/negative.</b> No significant adverse direct impact in the short-term. Potential long-term indirect benefits <i>only if</i> fiscal space directed toward more pro-poor spending.</p>
<p><b>Prior Action #4:</b> To strengthen the management of PPP related fiscal risks, MEF has issued a Prakas establishing new guidelines for fiscal management of PPP projects, that sets out an institutional and regulatory framework to assess, approve, budget and manage both fiscal commitments as well as contingent liabilities associated with PPP projects.</p>	<p><b>Neither positive/negative.</b> No significant adverse direct impact in the short-term. Potential long-term indirect negative impact <i>only if</i> higher infrastructure investment results in emissions growth or the depletion of natural capital (e.g through building roads). Potential long-term indirect positive impact <i>only if</i> higher infrastructure investment results in improved public transport or cleaner energy.</p>	<p><b>Neither Positive/negative.</b> Potential long-term indirect benefits through more infrastructure investment leading to higher growth and more jobs, and greater access to public services. Potential fiscal space for other pro-poor spending by crowding in private investment. Potential negative externalities from infrastructure investments.</p>
<p><b>Prior Action #5:</b> To support the regular issuance of government bonds, MEF has issued a Policy Framework on the Development of Government Securities that establishes the selection of instruments for primary market operations, issuance</p>	<p><b>Neither positive/negative.</b> No significant adverse direct impact in the short-term.</p>	<p><b>Neither positive/negative.</b> No significant adverse direct impact in the short-term. Potential long-term</p>



methods and channels, and the use of proceeds from government bond issuance.		indirect benefits <i>only if</i> fiscal space directed toward more pro-poor spending.
<b>Pillar 3: Enhancing social and environmental resilience</b>		
<b>Prior Action #6:</b> To enhance resilience to climate-related shocks through a more efficient and inclusive social protection system and to facilitate financial and fiscal resilience, (i) Prime Minister and MEF have approved the Shock Responsive Social Protection Policy which enables a rapid scaling-up of social assistance in response to shocks, including natural disasters and, (ii) MEF has adopted the Disaster Risk Financing Policy that establishes new disaster risk financing instruments to improve fiscal and financial resilience.	<b>Neither positive/negative.</b> No significant adverse direct impact in the short-term.	<b>Positive.</b> Short term and long term direct positive impacts on welfare through shock-responsive social assistance systems that both protect households living in poverty and vulnerable households from the risks of poverty.
<b>Prior Action #7:</b> To strengthen participation in carbon markets for increased environmental sustainability, the Council of Ministers has approved and endorsed the Operations Manual for the Implementation of Article 6 of the Paris Agreement to establish the criteria and regulatory framework for carbon trading under Article 6.	<b>Positive.</b> Short term and long term direct positive impacts from lower deforestation.	<b>Neither positive/negative.</b> No significant adverse direct impact in the short-term.
<b>Prior Action #8:</b> To promote the sustainable use of energy, the Prime Minister has approved a National Energy Efficiency Policy (NEEP) that sets targets and actions to improve energy efficiency, and, to implement the NEEP, has issued an accompanying sub-decree on management and improvement of energy efficiency of electrical appliances.	<b>Positive.</b> Short term and long term direct positive impacts from higher energy efficiency resulting in lower use of natural resources, lower pollution and lower emissions.	<b>Neither positive/negative.</b> Potential benefits only if there is adoption of energy efficient technologies by low-income households and the energy efficiency measures translate to energy cost-savings for low-income households.
<b>Prior Action #9:</b> To promote financial inclusion and increase the efficiency of government payments, MoSVY has issued a Prakas that allows recipients of social benefits to receive their benefits in a general-purpose account at any eligible bank or payment service institution of their choice.	<b>Neither positive/negative.</b> No significant adverse direct impact in the short-term.	<b>Positive.</b> Short term and long term direct positive impacts from inclusive and convenient access to financial services.

**ANNEX 5: DPF PRIOR ACTIONS AND ANALYTICAL UNDERPINNINGS**

<b>Pillar 1: Boosting growth through a more competitive environment for the private sector</b>	
Prior Action #1	The 2019 Investment Climate Assessment set out a series of recommended reforms to reduce the time and cost of establishing a business. Through the Cambodia Jobs for Competitiveness and Growth ASA (P172080), technical support was provided to the RGC in FY21 on business environment related activities, including review and comments to the draft LCE and LCRCR. The support was continued through the Cambodia Economic Recovery Plan ASA (P177812) in FY22.



Prior Action #2	Under the Cambodia Financial Sector Development Technical Assistance Project (P171621), technical support was provided to the SME Bank of Cambodia and the Credit Guarantee Corporation of Cambodia on legal provisions with Participating Financial Institutions (PFIs) for risk-sharing lending facilities, and on principles for public credit guarantee schemes for SME guarantee schemes.
<b>Pillar 2: Strengthening fiscal resilience</b>	
Prior Action #3	“Integration of Civil Servants into the NSSF”, Policy Note (Joint with ILO, May 2022).
Prior Action #4	“Review of PPP regulatory framework for increasing private sector participation and financing in transport in Cambodia” (April 2022). “Strengthening the PPP Fiscal Risk Management Framework in Cambodia (August 2022). Initial training provided on the use of the PPP Fiscal Risk Assessment Model (PFRAM) was provided in June 2022.
Prior Action #5	DMF Cambodia Domestic Debt Market Development technical assistance (P174820) (FY21–FY22). Technical assistance on the Preliminary Policy Framework for the Development of Government Securities (October 2021). Technical assistance on the Comprehensive Policy Framework for the Development of Government Securities.
<b>Pillar 3: Enhancing social and environmental resilience</b>	
Prior Action #6	“An assessment of Cambodia’s Cash Transfer Program for the Poor and Vulnerable Households during COVID-19” World Bank (2022); “Improving the IDPoor Program in Cambodia: Insights from household survey data analysis and good practices” World Bank (2019). Enhancing Climate Capabilities in East Asia Pacific (P180225) FY 23-26 “Cambodia Country Climate and Development Report” World Bank (2023).
Prior Action #7	“Cambodia Country Climate and Development Report” World Bank (2023).
Prior Action #8	“Cambodia Country Climate and Development Report” World Bank (2023). Cambodia SCD Update (P500162) FY23-24. Technical Assistance to enhance the enabling environment in e-mobility and energy efficiency in Cambodia (P176906) FY23-24.
Prior Action #9	Demirgüç-Kunt, Asli, Leora Klapper, Dorothe Singer, Saniya Ansar. 2022. “The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19.” MoSVY/UNICEF. 2022. “Payment Service Providers/E-payment Assessment in Cambodia”, Final Report Technical Assistance on Protecting from shocks and promoting inclusion: SP in Cambodia after COVID-19 (P500905).



ANNEX 6: PARIS ALIGNMENT ASSESSMENT

**Program Development Objectives:** *to: i) boost growth through a more competitive environment for the private sector; ii) strengthen fiscal resilience; and iii) enhance social and environmental resilience.*

<p><b>Step 1.</b> Is this operation consistent with the country climate commitments, including for instance, the NDC, NAP, LTS, and other relevant strategies?</p>	<p>The DPF reform program is consistent with the implementation of Cambodia’s climate strategies, such as the Nationally Determined Contribution (NDC), the Long-Term Strategy for Carbon Neutrality (LTS4CN), the National Adaptation Plan and the Circular Strategy on Environment 2023-28. On mitigation, the Program does not hinder the achievement of Cambodia’s climate goals and contributes to mitigation directly through PA 7 and PA 8. PA 7 supports the development of carbon markets to lower deforestation through Article 6 of the Paris Agreement, which will support the achievement of the targets for emissions reduction from forestry and land use in the LTS4CN. PA 8 supports improvements in energy efficiency through the NEEP and Sub-decree on management and improvement of energy efficiency of electrical appliances. These contribute to the power sector emissions reductions in the LTS4CN and the Power Development Plan. The Program also supports Cambodia’s efforts to build resilience to the impacts of climate change adaptation. PA 6 directly supports building adaptive capacity through the Shock Responsive Social Protection Policy, and supports building climate and disaster resilience through the Disaster Risk Financing Policy.</p>
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**Mitigation goals: assessing and reducing the risks**

**Pillar objective:** boosting growth through a more competitive environment for the private sector

**Prior Action #1:** To reduce registration times and facilitate the efficient entry of firms, MEF and MISTI have issued a Prakas to modernize the tracking and management approval systems, and to streamline the classification and certification processes of SMEs and handicrafts.

**Prior Action #2:** To promote access to credit for SMEs, (i) the National Bank of Cambodia has issued a Prakas to assign a zero risk weight to the guaranteed portion of loans; and (ii) MEF and the CGCC have established Portfolio Guarantee Schemes for SMEs to eliminate the need for case-by-case reviews of individual guarantees.

<p><b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?</p>	<p><b>Answer:</b> No  <b>Explanation:</b> PA 1 establishes reforms to lower the time for business. It is generally not expected to lead to a significant increase in GHG emissions, although improved private sector development could indirectly raise emissions. PA 2 aims to increase access to credit for SMEs. While SME growth could increase emissions, access to credit could also enable firms to invest in technologies that lower emissions, so overall effects are ambiguous.</p>
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<b>Step M2.2:</b> Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country's low-GHG emissions development pathways?	<b>Answer:</b> N/A
<b>Step M3:</b> Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	<b>Answer:</b> N/A
<b>Conclusion for PA1 and PA2:</b> ALIGNED	
<b>Pillar objective:</b> strengthening fiscal resilience	
<b>Prior Action #3:</b> To control fiscal costs and reduce uncertainty MEF has issued a Decision to automatically index civil service pensions to inflation. <b>Prior Action #4:</b> To strengthen the management of PPP related fiscal risks, MEF has issued a Prakas establishing new guidelines for fiscal management of PPP projects, that sets out an institutional and regulatory framework to assess, approve, budget and manage both fiscal commitments as well as contingent liabilities associated with PPP projects. <b>Prior Action #5:</b> To support the regular issuance of government bonds, MEF has issued a Policy Framework on the Development of Government Securities that establishes the selection of instruments for primary market operations, issuance methods and channels, and the use of proceeds from government bond issuance.	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> PA 3 supports the indexation of civil service pensions, which is a fiscal reform. It is not expected to lead to a significant increase in GHG emissions. PA 4 supports reforms to strengthen PPPs and improve the regulation relating to PIM. It is expected to lead to a decline in GHG emissions through the introduction of environmental impact assessments in the Guidelines on Fiscal Management of PPP projects. The guidelines include requirements for environmental impact assessments of PPP projects and an evaluation of their environmental sustainability, including climate impacts. However, expanded infrastructure provision could also raise emissions, if it is carbon-intensive or channeled towards higher carbon projects, like roads or airports. PA 5 supports the issuance of government bonds. It is not expected to lead to a significant increase in GHG emissions.



<b>Step M2.2:</b> Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country’s low-GHG emissions development pathways?	<b>Answer:</b> N/A
<b>Step M3:</b> Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	<b>Answer:</b> N/A
<b>Conclusion for PA3, PA4 and PA5:</b> ALIGNED	
<b>Pillar objective:</b> Enhancing social and environmental resilience.	
<p><b>Prior Action #6:</b> To enhance resilience to climate-related shocks through a more efficient and inclusive social protection system and to facilitate financial and fiscal resilience, (i) Prime Minister and MEF have approved the Shock Responsive Social Protection Policy which enables a rapid scaling-up of social assistance in response to shocks, including natural disasters and, (ii) MEF has adopted the Disaster Risk Financing Policy<sup>20</sup> that establishes new disaster risk financing instruments to improve fiscal and financial resilience.</p> <p><b>Prior Action #7:</b> To strengthen participation in carbon markets for increased environmental sustainability, the Council of Ministers has approved and endorsed the Operations Manual for the Implementation of Article 6 of the Paris Agreement to establish the criteria and regulatory framework for carbon trading under Article 6.</p> <p><b>Prior Action #8:</b> To promote the sustainable use of energy, the Prime Minister has approved a National Energy Efficiency Policy (NEEP) that sets targets and actions to improve energy efficiency, and, to implement the NEEP, has issued an accompanying sub-decree<sup>21</sup> on management and improvement of energy efficiency of electrical appliances.</p> <p><b>Prior Action #9:</b> To promote financial inclusion and increase the efficiency of government payments, MoSVY has issued a Prakas that allows recipients of social benefits to receive their benefits in a general-purpose account at any eligible bank or payment service institution of their choice.</p>	
<b>Step M2.1:</b> Is the prior action likely to cause a significant increase in GHG emissions?	<b>Answer:</b> No <b>Explanation:</b> PA 6 supports the development of a shock responsive social protection that can respond to climate shocks and expands disaster risk financing instruments. It is not expected to lead to a significant increase in GHG

<sup>20</sup> Disaster Risk Financing Strategy 2023-2028” issued by the MEF on January 20, 2024.

<sup>21</sup> Inter-ministerial Sub-decree No. 254 ANKr.BK dated August 11 2023, on Management and Promotion of Appliance Energy Efficiency.



	emissions. PA 7 supports reforms to facilitate the development of carbon markets and international carbon trading under Article 6 of the Paris Agreement. It is expected to lead to a long-term reduction in GHG emissions through paving the way for the expansion of emissions reductions schemes and through creating the financial incentives for heightened environmental protection. PA 8 supports reforms to improve energy efficiency and introduce new regulation for energy efficiency standards of appliances. It is expected to lead to a long-term reduction in GHG emissions. PA 9 supports reforms to improve the efficiency of government payments. It is not expected to lead to a significant increase in GHG emissions.
<b>Step M2.2:</b> Is the prior action likely to introduce or reinforce significant and persistent barriers to transition to the country’s low-GHG emissions development pathways?	<b>Answer:</b> N/A
<b>Step M3:</b> Is the risk of the prior action introducing or reinforcing significant and persistent barriers being reduced to low after mitigation measures have been implemented?	<b>Answer:</b> N/A
<b>Conclusion for PA6, PA7, PA8 and PA9:</b> ALIGNED	
<b>Mitigation goals:</b> All prior actions of the proposed DPF program are aligned with the mitigation goals of the Paris Agreement.	
<b>Adaptation criteria: assessment of physical climate risks</b>	
<b>Pillar objective:</b> boosting growth through a more competitive environment for the private sector	
<p><b>Prior Action #1:</b> To reduce registration times and facilitate the efficient entry of firms, MEF and MISTI have issued a Prakas to modernize the tracking and management approval systems, and to streamline the classification and certification processes of SMEs and handicrafts.</p> <p><b>Prior Action #2:</b> To promote access to credit for SMEs, (i) the National Bank of Cambodia has issued a Prakas to assign a zero risk weight to the guaranteed portion of loans; and (ii) MEF and the CGCC have established Portfolio Guarantee Schemes for SMEs to eliminate the need for case-by-case reviews of individual guarantees.</p>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse	<b>Answer:</b> No



effect on the prior action’s contribution to the Development Objective(s)?	<b>Explanation:</b> PA 1 establishes reforms for processing times for business licenses and registration. PA2 aims to improve access to credit by SMEs. Climate hazards are not expected to have an adverse effect on the PA’s contribution to boosting growth through a more competitive environment for the private sector.
<b>Step A3:</b> Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?	<b>Answer:</b> N/A
<b>Conclusion for PA1 and PA2:</b> ALIGNED	
<b>Pillar objective:</b> strengthening fiscal resilience	
<p><b>Prior Action #3:</b> To control fiscal costs and reduce uncertainty MEF has issued a Decision to automatically index civil service pensions to inflation.</p> <p><b>Prior Action #4:</b> To strengthen the management of PPP related fiscal risks, MEF has issued a Prakas establishing new guidelines for fiscal management of PPP projects, that sets out an institutional and regulatory framework to assess, approve, budget and manage both fiscal commitments as well as contingent liabilities associated with PPP projects.</p> <p><b>Prior Action #5:</b> To support the regular issuance of government bonds, MEF has issued a Policy Framework on the Development of Government Securities that establishes the selection of instruments for primary market operations, issuance methods and channels, and the use of proceeds from government bond issuance.</p>	
<b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?	<p><b>Answer:</b> No</p> <p><b>Explanation:</b> PA 3 supports civil service pension reform, which is a fiscal reform. PA 4 supports improvements to PPPs and PIM. PA 5 supports macroeconomic reforms to improve the issuance of government bonds. Climate hazards are not generally expected to have an adverse effect on the PA’s contribution to promoting fiscal resilience. However, if climate hazards threaten macroeconomic stability, they could raise the risk premium of the country and affect government bond issuances.</p>
<b>Step A3:</b> Does the design of the prior action reduce the risk from climate hazards to an acceptable level, considering climate	<b>Answer:</b> N/A



adaptation good practices applicable to the country context?	
<b>Conclusion for PA4, PA5 and PA6:</b> ALIGNED	
<b>Pillar objective:</b> Enhancing social and environmental resilience.	
<p><b>Prior Action #6:</b> To enhance resilience to climate-related shocks through a more efficient and inclusive social protection system and to facilitate financial and fiscal resilience, (i) Prime Minister and MEF have approved the Shock Responsive Social Protection Policy which enables a rapid scaling-up of social assistance in response to shocks, including natural disasters and, (ii) MEF has adopted the Disaster Risk Financing Policy that establishes new disaster risk financing instruments to improve fiscal and financial resilience.</p> <p><b>Prior Action #7:</b> To strengthen participation in carbon markets for increased environmental sustainability, the Council of Ministers has approved and endorsed the Operations Manual for the Implementation of Article 6 of the Paris Agreement to establish the criteria and regulatory framework for carbon trading under Article 6.</p> <p><b>Prior Action #8:</b> To promote the sustainable use of energy, the Prime Minister has approved a National Energy Efficiency Policy (NEEP) that sets targets and actions to improve energy efficiency, and, to implement the NEEP, has issued an accompanying sub-decree on management and improvement of energy efficiency of electrical appliances.</p> <p><b>Prior Action #9:</b> To promote financial inclusion and increase the efficiency of government payments, MoSVY has issued a Prakas that allows recipients of social benefits to receive their benefits in a general-purpose account at any eligible bank or payment service institution of their choice.</p>	
<p><b>Step A2:</b> Are risks from climate hazards likely to have an adverse effect on the prior action’s contribution to the Development Objective(s)?</p>	<p><b>Answer:</b> No</p> <p><b>Explanation:</b> PA 6 supports shock responsive social protection and improved disaster risk financing. Risks from climate hazards are not likely to have an adverse effect on this PA’s contribution to enhancing social and environmental resilience. On the contrary, PA 6 contributes to further strengthening Cambodia’s resilience to risks from climate hazards. PA 7 and 8 support a lower carbon growth path for Cambodia through improved carbon markets and higher energy efficiency. Risks from climate hazards are not likely to have an adverse effect on this PA’s contribution to enhancing social and environmental resilience. To the contrary, PA 7 contributes to environmental resilience in Cambodia by lowering the depletion of natural capital, which has exacerbated physical climate risks. PA 9 supports the efficacy of payments to households. Risks from climate hazards are not likely to have an adverse effect on this PA’s contribution to enhancing social and environmental resilience. On the contrary, through improving payment efficiency and social inclusion, PA 9 contributes to the adaptive capacity of Cambodia to climate and disaster hazards.</p>
<p><b>Step A3:</b> Does the design of the prior action reduce the risk from</p>	<p><b>Answer:</b> N/A</p>



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climate hazards to an acceptable level, considering climate adaptation good practices applicable to the country context?	
<b>Conclusion for PA6, PA 7, PA 8 and PA9:</b> ALIGNED	
<b>Adaptation and resilience:</b> All prior actions of the proposed DPF program are aligned with the adaptation and resilience goals of the Paris Agreement.	
<b>OVERALL CONCLUSION OF PARIS ALIGNMENT ASSESSMENT:</b> The PDO and reform program is consistent with the implementation of Cambodia’s 2020 NDC, the LTS4CN and NAP 2015. All Prior Actions are Paris-Aligned as per the assessment. Hence, the Second Cambodia Growth and Resilience DPF is deemed Paris-Aligned.	



**ANNEX 7: MATRIX OF KEY CHANGES TO ORIGINAL POLICY MATRIX IN A PROGRAMMATIC SERIES**

DPO1 Indicative Triggers and Results Indicators	DPF2 Prior Actions and Results Indicators	Comments
<p><b>Indicative Trigger #1:</b> To improve the insolvency framework, the Recipient, through the Ministry of Justice, issued a Prakas to establish a Regulation on Insolvency Administrators under the 2007 Insolvency Law that defines the authority of insolvency administrators, establishes a code of conduct and establishes regulations for training, licensing, assignment, and oversight.</p>	<p><b>Prior Action #1:</b> To reduce registration times and facilitate the efficient entry of firms, MEF and MISTI have issued a Prakas to modernize the tracking and management approval systems, and to streamline the classification and certification processes of SMEs and handicrafts.</p>	<p>The prior action is a new addition that strengthens the reform content by adding further improvements to the ease of registering businesses, and reinforces DPO1's Prior Action #1. The addition also allows for a single integrated Result Indicator across both DPOs. The Prakas on insolvency administrators (IT#1) was completed and moved into Section 4.2 to ensure consistency with the RI.</p>
<p><b>Results Indicator #1:</b> Annual new business registrations</p> <p>Baseline: RI #1: 5,824 (2020)</p> <p>Target: RI #1: 12,000 (2025)</p> <p><b>Results Indicator #2:</b> Number of Insolvency Administrators admitted to the profession and licensed by the regulator</p> <p>Baseline: RI #2: 0 (2021)</p> <p>Target: RI #2: 20 (2025)</p>	<p><b>Results Indicator #1:</b> Annual new companies registered through the online business registration portal</p> <p>Baseline: RI #1: 7,459 (2021), of which 2717 with a female director</p> <p>Target: RI #1: 10,000 (average for 2022-24), of which 4000 with a female director</p>	<p>Reflecting comments from the review meeting we have removed the output based RI on number of Insolvency Administrators and kept an Outcome RI which connects the PA1 of both DPO's. The indicator was specific as annual new companies registered through the online business registration portal. The target has been set at an average of 10,000 new business registrations over 2022-24, to reflect the structural trend in the growth. The baseline was updated to 2021 as the online portal was relatively new in 2020.</p> <p>Gender breakdown has been added to the indicator as per Gender Team Guidance.</p>
<p><b>Indicative Trigger #2:</b> To support the effective implementation of the regulatory framework for competition, the Recipient, through the Ministry of Commerce, has issued a Prakas to limit the anticompetitive effects of mergers and acquisitions;</p>		<p>The action is complete and has been mentioned in the LDP but dropped from the matrix as it did not have a material effect on the results indicator.</p>



grant exemptions to the competition law for efficiency-enhancing practices; and strengthen the anti-cartel policy through a leniency framework.		
<p><b>Results Indicator #3:</b> Number of decisions on anticompetitive practices issued by the CCF.</p> <p>Baseline: RI #3: 0 (2021)</p> <p>Target: RI #3: 2 (2025)</p>	<p><b>Results Indicator #2:</b> Number of decisions concerning the implementation of the Competition Law issued by the CCC or CCF</p> <p>Baseline: RI #2: 0 (2021)</p> <p>Target: RI #2: 4 (2025)</p>	Minor reformulation of the wording to include the name of the implementing body of the CCC, which is the CCF. Also doubled the target number to increase the ambition of the target.
<p><b>Indicative Trigger #3:</b> To promote SME development, the Recipient approved the SME Law, which will provide incentives to formalize and improve SME access to credit.</p>	<p><b>Prior Action #2:</b> To promote access to credit for SMEs, (i) the National Bank of Cambodia has issued a Prakas to assign a zero risk weight to the guaranteed portion of loans; and (ii) MEF and the CGCC have established Portfolio Guarantee Schemes for SMEs to eliminate the need for case-by-case reviews of individual guarantees.</p>	The IT was dropped after it was mutually decided an SME Law would not provide the desired outcomes, while other instruments to increase SME access to credit would have more direct results including the new actions undertaken in PA2 and the Informal Economy Policy supported by PA1.
<p><b>Results Indicator #4:</b> Number of beneficiary businesses supported by the Women Entrepreneurs Guarantee Scheme and the Tourism Recovery Co-Financing Scheme and Portfolio Guarantee Schemes.</p> <p>Baseline: <b>RI #4:</b> 0 (2021)</p> <p>Target: <b>RI #4:</b> 650, of which 325 are female-owned (2025)</p>	<p><b>Results Indicator #3:</b> Number of beneficiary businesses supported by the Women Entrepreneurs Guarantee Scheme, the Tourism Recovery Co-Financing Scheme, and Portfolio Guarantee Schemes.</p> <p>Baseline: <b>RI #3:</b> 0 (2021)</p> <p>Target: <b>RI #3:</b> 1000, of which 400 are female-owned (2025)</p>	The team has added the number of firms benefiting from DPO2 PA2 (hence, from the Portfolio Guarantee Schemes) to the number of beneficiaries from DPO1 to create a combined RI. As such, the target has increased from 650 firms to 1000 firms.
<p><b>Indicative Trigger #4:</b> To control fiscal costs, the Recipient, through the MEF, issued a Prakas to automatically index civil service pensions to inflation.</p>	<p><b>Prior Action #3:</b> To control fiscal costs and reduce uncertainty MEF has issued a Decision to automatically index civil service pensions to inflation.</p>	Unchanged.



<p><b>Results Indicator #5:</b> Estimated size of the unfunded liability associated with the civil service pension scheme, as a share of GDP.</p> <p>Baseline :</p> <p><b>RI #5 :</b> 42 percent (2025 BAU)</p> <p>Target :</p> <p><b>RI #5:</b> 30 percent (2025)</p>	<p><b>Results Indicator #4:</b> Estimated size of the unfunded liability associated with the civil service pension scheme, as a share of GDP.</p> <p>Baseline :</p> <p><b>RI #4 :</b> 41 percent in 2020</p> <p>Target :</p> <p><b>RI #4:</b> 30 percent (2025)</p>	<p>The endline remains unchanged, but we have updated the baseline to be the 2020 value (instead of 2025 BAU)</p>
<p><b>Indicative Trigger #5:</b> To strengthen the regulatory framework for the management of PPPs and public investments, the Recipient has: i) issued a Prakas on guidelines for fiscal management of PPP projects, ii) approved guidelines and set conditions under the Standard Operating Procedures when a direct selection methodology for private partners can be used; and iii) approved public investment management manuals that support the implementation of the sub-decree on public investment management.</p>	<p><b>Prior Action #4:</b> To strengthen the management of PPP related fiscal risks, MEF has issued a Prakas establishing new guidelines for fiscal management of PPP projects, that sets out an institutional and regulatory framework to assess, approve, budget and manage both fiscal commitments as well as contingent liabilities associated with PPP projects.</p>	<p>The second and third components of the IT have been dropped from the formulation of the PA as they were adopted earlier than expected and beyond the 12 month window from ROC April 2024 (in November 2022).</p>
<p><b>Results Indicator #6:</b> The fiscal commitments and contingent liabilities associated with all PPPs approved between 2023 and 2025 have been assessed in accordance with the provisions of the PPP Law and supporting SOPs</p> <p><b>Baseline:</b></p> <p><b>RI #6: 0 percent (2021)</b></p> <p>Target:</p> <p><b>RI #6: 100 percent (2025)</b></p>	<p><b>Results Indicator #5:</b> The fiscal commitments and contingent liabilities associated with all PPPs approved between 2023 and 2025 that have been assessed in accordance with the provisions of the PPP Law and supporting SOPs.</p> <p><b>Baseline:</b></p> <p><b>RI #5: 0 percent (2021)</b></p> <p>Target:</p> <p><b>RI #5: 100 percent (2025)</b></p>	<p>Unchanged.</p>



<p><b>Indicative Trigger #6:</b> To support the regular issuance of government bonds over the longer term, the Recipient, through the Ministry of Economy and Finance, issued a Comprehensive Policy Framework on the Development of Government Securities.</p>	<p><b>Prior Action #5:</b> To support the regular issuance of government bonds, MEF has issued a Policy Framework on the Development of Government Securities that establishes the selection of instruments for primary market operations, issuance methods and channels, and the use of proceeds from government bond issuance.</p>	<p>Unchanged in content but we have expanded the description.</p>
<p><b>Results Indicator #7:</b> Government debt issued in the domestic market.</p> <p>Baseline:</p> <p><b>RI #7:</b> US\$0 (2021)</p> <p>Target:</p> <p><b>RI #7:</b> US\$300 million (1 percent of GDP) (2025)</p>	<p><b>Results Indicator #6:</b> Government debt issued in the domestic market.</p> <p>Baseline:</p> <p><b>RI #6:</b> US\$0 (2021)</p> <p>Target:</p> <p><b>RI #6:</b> US\$150 million (2025)</p>	<p>Target reduced to \$150 million reflecting weaker demand due to higher funding costs and less liquidity than expected.</p>
<p><b>Indicative Trigger #7:</b> To facilitate a more efficient and inclusive social protection response to climate-related and other shocks, the Recipient has i) approved the Shock Responsive Social Protection Policy, which provides a set of tailored policy options that allow for a rapid scaling-up of social assistance depending on the type and severity of the shock.</p>	<p><b>Prior Action #6:</b> To enhance resilience to climate-related shocks through a more efficient and inclusive social protection system and to facilitate financial and fiscal resilience, (i) Prime Minister and MEF have approved the Shock Responsive Social Protection Policy which enables a rapid scaling-up of social assistance in response to shocks, including natural disasters and, (ii) MEF has adopted the Disaster Risk Financing Policy that establishes new disaster risk financing instruments to improve fiscal and financial resilience.</p>	<p>The second part of this Prior Action is new since DPO1, as we sought to include more climate adaptation measures for DPO2.</p>
<p><b>Results Indicator #8:</b> Number of households in the IDPoor database</p> <p>Baseline:</p> <p><b>RI #8:</b> 700,000 households (18 percent of all households) (2022)</p> <p>Target:</p>	<p><b>Results Indicator #7:</b> Number of poor and vulnerable households eligible for emergency social assistance following eligible flood and drought events</p> <p>Baseline:</p> <p><b>RI #7:</b> 0 (2022)</p> <p>Target:</p>	<p>Unchanged.</p> <p>Gender breakdown has been added to the indicator.</p>



<b>RI #8:</b> 1,060,000 households (26 percent of all households) (2025)	<b>RI #7:</b> 1,060,000 of which 550,000 are female headed (2025)	
<b>Indicative Trigger #9:</b> To support climate and environmental resilience, the Recipient, through the Ministry of Environment, has approved regulatory measures which act to enhance reliance and mitigate climate impacts.	<b>Prior Action #7:</b> To strengthen participation in carbon markets for increased environmental sustainability, the Council of Ministers has approved and endorsed the Operations Manual for the Implementation of Article 6 of the Paris Agreement to establish the criteria and regulatory framework for carbon trading under Article 6.	The indicative trigger previously did not specify specific measures but Prior Action #7 and #8 now add regulatory measures focusing on climate mitigation and adaptation, respectively.
<b>Results Indicator #10:</b> The quantity of annual verified Emission Reductions from REDD+ Projects in Cambodia's Protected Areas compared to the last UNFCCC submission evaluating REDD+ emission reductions.  Baseline:  <b>RI #10:</b> 46.3MtCO <sub>2</sub> e (2018)  Target:  <b>RI #10:</b> A 25 percent increase to 57.9MtCO <sub>2</sub> e (2025)	<b>Results Indicator #8 :</b> Completion of a National GHG Emissions Reductions Registry to support the tracking of GHG Emissions Reductions projects.  Baseline:  <b>RI #8:</b> No (2022)  Target:  <b>RI #8:</b> Yes (2025)	This indicator has been updated as the previous indicator was no longer relevant to the reforms in this prior action.
	<b>Prior Action #8:</b> To promote the sustainable use of energy, the Prime Minister has approved a National Energy Efficiency Policy (NEEP) that sets targets and actions to improve energy efficiency, and, to implement the NEEP, has issued an accompanying sub-decree on management and improvement of energy efficiency of electrical appliances.	The indicative trigger previously did not specify specific measures but Prior Action #7 and #8 now add regulatory measures focusing on climate mitigation and adaptation, respectively.
	<b>Results Indicator #9:</b> The proportion of residential electrical appliances with energy efficiency standards.  Baseline:  <b>RI #9:</b> 15 percent (2023)	This indicator has been updated as the previous indicator was no longer relevant to the reforms in this prior action.



	<p>Target:</p> <p><b>RI #9:</b> 21 percent (2025)</p>	
<p><b>Indicative Trigger (originally #8):</b> To promote financial inclusion and increase the efficiency of government payments, the Recipient has: i) through the Ministry of Social Affairs, Veterans and Youth Rehabilitation (MoSVY), issued a Prakas that allows recipients of social benefits to receive their benefits in a general-purpose account at any eligible bank or payment service institution of their choice.</p>	<p><b>Prior Action #9:</b> To promote financial inclusion and increase the efficiency of government payments, the MoSVY, has issued a Prakas that allows recipients of social benefits to receive their benefits in a general-purpose account at any eligible bank or payment service institution of their choice.</p>	<p>This is unchanged.</p>
<p><b>Results Indicator (originally #9):</b> Percentage of beneficiaries receiving social benefit payments into general purpose transaction accounts.</p> <p>Baseline:</p> <p><b>RI (originally #9):</b> 0 percent (2021)</p> <p>Target:</p> <p><b>RI (originally #9):</b> 30 percent (2025)</p>	<p><b>Results Indicator #10:</b> Percentage of beneficiaries receiving social benefit payments into general purpose transaction accounts.</p> <p>Baseline:</p> <p><b>RI #10:</b> 0 percent (2021)</p> <p>Target:</p> <p><b>RI #10:</b> 10 percent, of which 50% are women (2025).</p>	<p>The target is updated to reflect the later than expected introduction of this action.</p>