Report Number: ICRR0023570

1. Operation Information

Operation ID	Operation Name
P176756	Cambodia DPF
Country	**Practice Area (Lead)**
Cambodia	Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-69500	31-May-2022	182,822,400.00
Bank Approval Date	**Closing Date (Actual)**	
24-Jun-2021	31-May-2022	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	200,000,000.00	0.00
Revised Commitment	200,000,000.00	0.00
Actual	182,822,400.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Miria A. Pigato	Judyth L. Twigg	Jennifer L. Keller	IEGEC

2. Program Objectives and Pillars/Policy Areas

a. Objectives

The *Cambodia Relief, Recovery, and Resilience Development Policy Financing (DPF)* operation was a single-tranche standalone credit designed “to support the Royal Government of Cambodia to effectively deal with the COVID-19 crisis and its aftermath” (Program Document, PD, page 2). The effective Program Development Objectives (PDOs) were to:

- (i) continue to provide timely and targeted relief to the affected population;
- (ii) facilitate robust recovery through structural reforms; and
- (iii) build resilience against future economic shocks.

b. Pillars/Policy Areas

The PD and Implementation Completion and Results (ICR) Report structured the program around three pillars.

- Pillar 1: Continuing to provide timely and targeted relief to the affected population;
- Pillar 2: Facilitating robust recovery through structural reforms; and
- Pillar 3: Building resilience against future economic shocks.

c. Comments on Program Cost, Financing and Dates

The IDA credit of US$200,000,000 (165,600,000 Euros) was a single-tranche operation based on eight prior actions. Approved on June 24, 2021, it became effective on October 1, 2021, and closed on May 31, 2022. Withdrawal took place in the spring of 2022, in Euros. In dollars, the equivalent value was $182,000,000. Differences in exchange rates are the sole cause of the difference with the initial value of $200,000,000.

3. Relevance of Design

a. Relevance of Objectives

Relevance to country context

Cambodia was significantly affected by the COVID-19 global pandemic. The first COVID-19 cases were reported at the end of January 2020. The Royal Government of Cambodia (RGC) acted swiftly to prevent the spread of the virus, by closing schools, factories, and public gatherings. Despite these measures to contain the virus, the economy suffered from a decline in international travel and tourism, supply bottlenecks for imports, and a collapse in external demand for its most important exports, garments, and footwear. Thousands of workers were laid off, while approximately 100,000 Cambodian migrant workers were forced to return home from neighboring countries. A reduction in the economic growth rate from 7.1 percent in 2019 to - 3.1 percent in 2020 was accompanied by Cambodia's first recession in 25 years.

The crisis highlighted the vulnerability of Cambodia’s growth model. The low competitiveness of Cambodian firms made it difficult for them to diversify outside the textile and footwear industries. Risks associated with high private debt, particularly in the construction and real estate industries, were on the rise. The weak social security system left most households exposed to economic shocks, which threatened to reverse progress in reducing poverty. Additionally, large external imbalances, 9.7% of GDP in 2019, and the widespread dollarization of the economy (ICR, p. 7) further undermined the ability of monetary authorities to respond to shocks and heightened economic risks.

A combination of higher spending and lower tax revenues resulted in a fiscal deficit of 2.7 of GDP in 2020. While the government managed to reduce capital and non-essential expenditures, fiscal space remained tight as a result of lower tax revenues, tax relief measures, and reduced economic activity; in addition, spending for the COVID-19 relief program increased. Further limiting fiscal space was the financial assistance provided by the government to the population affected by the devastating floods of 2020.

The situation deteriorated in February 2021, when Cambodia experienced its largest outbreak of the COVID-19 virus. Infections spread quickly; by mid-April, Cambodia had confirmed over 136,000 cases and more than 3,000 deaths. Meanwhile, the economy was impacted by the European Union's withdrawal of the tariff preferences granted under its Everything But Arms (EBA) trade scheme due to alleged violations of the human rights principles enshrined in the International Covenant on Civil and Political Rights. In response to the new outbreak, the RGC reintroduced severe virus control measures and a vaccination program, intensified the delivery of the relief actions initiated in 2020, and requested assistance from the World Bank – as well as from other donors -- for a budget support operation.

Relevance of Objectives

Objective 1 - to *provide timely and targeted relief to the affected population* - was relevant to addressing the effects of the pandemic, particularly given the uncertainty on the length of the crisis at the time of appraisal.

Objective 2 - *facilitating a robust recovery through structural reforms* -- and Objective 3 -- *building resilience in the face of future economic shocks* – were aligned with the government's economic recovery program and supported by a substantial body of analytical work. Nevertheless, they were set at a level too high for meaningful accountability and were too broad and ambitious to be achieved within the timeframe of a stand-alone operation dealing with the effects of a crisis. As recommended by the Independent Evaluation Group (IEG) in a report assessing the World Bank Group's response to the global financial crisis of 2008–2009, "*to design and implement a meaningful program of policy reforms requires time, and the DPFs prepared during the crisis could at best support reforms already underway."* [1]

Relevance of financial assistance

World Bank assistance in the form of a quick-disbursing operation was relevant to "*support the Royal Government of Cambodia to effectively deal with the COVID-19 crisis and its aftermath"* because the funding from the operation was needed (i) to close a sizeable fiscal gap and prevent further fiscal deterioration and (ii) to maintain fiscal sustainability, an important outcome in a dollarized economy where fiscal policy is the key instrument to respond to shocks.

Relevance to CPF and Country Development Strategy

The WBG Country Partnership Framework (CPF) 2019–23 did not envisage any development policy financing. In line with the objectives of the COVID-19 crisis response, Bank management decided to proceed with the DPF because of the need to address the economic and social impacts of the crisis in Cambodia [2]. The objectives of the operation were consistent with the CPF's themes of boosting private sector development, fostering human development, and improving institutions.

The design of the reforms supported by the operation was informed by the RGC's emergency response program and Post-COVID-19 Economic Recovery Plan, as well as WBG's extensive technical assistance and analytical work in these reform areas. Specifically, it was aligned with the following focus areas included in the government's Rectangular Strategy Phase IV and in the NSDP 2019–23 [3]: (i) promoting state efficiency and boosting private sector development, and (ii) fostering human development.

Finally, the DPF was part of a joint response package by several development partners (World Bank, Asian Development Bank, European Union, Japan International Cooperation Agency) aimed at supporting the RGC in its relief efforts and rising fiscal needs. As a result of the financial support received from development partners, the ratio of government debt to GDP increased to 37.2%. Despite this expansion, the Debt Sustainability Analysis (DSA) indicated that the country was not at risk of debt distress (PD, p. 18), partly because Cambodia had long avoided non-concessional external borrowings and domestic bank financing.

[Note 1] See IEG (Independent Evaluation Group). 2012. The World Bank Group's Response to the Global Economic Crisis—Phase II. Washington, DC: Independent Evaluation Group, the World Bank Group.

[Note 2] The "*Bank Group COVID-19 Crisis Response"* aims at helping countries to address the health threat and the social and economic impact of the COVID-19 crisis. It is organized around three stages (relief, restructuring, and resilient recovery).

[Note 3] Cambodia's policy development framework is defined in the "Rectangular Strategy for Growth, Empowerment, Equality and Efficiency." This is represented as an "integrated structure of interlocking rectangles" at the core of which is good governance, supported by (i) enhancement of agricultural development, (ii) development of the private sector and job creation, (iii) rehabilitation and reconstruction of physical infrastructure, and (iv) capacity building and human resources.

b. Relevance of Prior Actions

Rationale

The operation contained eight prior actions (PAs) divided into three clusters. A "Theory of Change" summarizing the underlying diagnostic and rationale for each PA (drawing on the PD) was included in the ICR (Diagram 1).

Table 1: Prior Actions (PAs)

PA1: To strengthen social protection for the poor and economically vulnerable, the Recipient has: (i) extended the COVID-19 Cash Transfer Program for IDPoor Households including the new poor up to June 2021; and (ii) appointed the Ministry of Social Affairs, Veterans and Youth Rehabilitation as the implementing agency for the Cash Transfer Program for Pregnant Women and Children Under Two and finalized guidelines for monitoring and evaluating said Program.
PA2: To strengthen employment-based social insurance, the Recipient has enacted the Non-Bank Financial Authority Law that mandates supervisory authority over the National Social Security Fund.
PA3: To enhance access to finance for small and medium enterprises (SMEs), the Recipient has launched the new Business Recovery Guarantee Scheme and the risk-sharing facility for SME credit as part of the COVID-19 response.
PA4: To reduce non-tariff barriers and lower trade costs, the Recipient has reduced the number of tariff lines requiring trade permits and updated the list of prohibited and restricted goods.

PA5: To reduce the cost of doing business, the Recipient has launched an online portal for business registration with streamlined procedures and reduced registration fees.
PA6: To strengthen public finance management practices and increase transparency, the Recipient has published in the Royal Gazette: (i) the Law on Government Securities; and (ii) the Public Investment Management Sub-decree, which creates a common framework for a public investment management system across all sources of financing and at all levels of government.
PA7: To modernize the legal framework for anti-money laundering and combatting the financing of terrorism, the Recipient has enacted the Law on Anti-Money Laundering and Combating the Financing of Terrorism and issued a Directive on Customer Due Diligence Measures (AML/LFT).
PA 8: To improve the efficiency of revenue collection, the Recipient has launched a centralized and online system for value-added tax and corporate income tax filing

PDO 1: Continuing to provide timely and targeted relief to the affected population.

Prior to the COVID-19 crisis, Cambodia lacked a meaningful social security program, did not offer employment-based social insurance, and had inadequate access to finance for small and medium-sized enterprises (SMEs). Many of the reforms supported by the DPO were long overdue, and the COVID-19 pandemic provided an excellent opportunity to pursue them. When the COVID crisis was at its peak, high-frequency World Bank surveys showed that poor and vulnerable households were highly impacted by the crisis and that SMEs was under threat (PD, pp. 22-23). The three prior actions under Pillar 1 were relevant because they directly addressed the constraints to the well-being of poor and vulnerable households and of SMEs affected by the crisis. These prior actions made a substantive contribution to achieving the objective. They also established the basis for a long-term social security system in a country where spending on social assistance was among the lowest in the world, covering less than 2 percent of the poorest quintile of the population.

PA1. In response to the crisis, the Cambodian Government developed the COVID-19 Relief Program for poor and vulnerable households. This program used the existing "IDPoor" identification system and built upon the infrastructure of the nationwide Cash Transfer Program for Pregnant Women and Infants Under Two. PA1 was relevant because it supported the expansion of this program to those who had become poor as a result of the COVID crisis, thus contributing directly to the achievement of the PDO. Additionally, it ensured greater accountability by establishing the Ministry of Social Affairs, Veterans and Youth Rehabilitation as the implementing agency for the Cash Transfer Program for Pregnant Women and Children Under Two and by finalizing guidelines for monitoring and evaluating the program. This PA was based on World Bank and country-specific analytics and recommendations. For example, it followed up on the suggestions of (i) the 2017 Cambodia Systematic Country Diagnostic (SCD), which recommended that cash transfer programs be scaled up in order to provide a more effective safety net for poor families; and (ii) the 2018 World Bank Policy Note on Social Assistance, which recognized the urgent need to reform Cambodia's social assistance programs. Overall, the PA made a major contribution to the achievement of the PDO. **Rating: Highly Satisfactory.**

PA2. PA2 aimed to strengthen the employment-based social insurance system for private-sector workers. While the principle of expanding pension coverage to private sector employees was already embedded in the 2019 Social Security Law, the responsible entity, the National Social Security Fund (NSSF), had not implemented it. The enactment of the Nonbank Financial Authority (NBFA) Law, backed by PA2, changed the rules of the game by giving the NBFA the authority to oversee all nonbank financial services, including the NSSF. This ensured that common standards in the areas of governance, reporting, and investment policy were also applied to the new pension fund that was established within the NSSF in 2022 (PD, p. 25). PA2 was consistent with the approach set forth in the 2017 SCD, which noted the fragmentary nature of existing social assistance programs and recommended the development of an integrated social protection framework. PA2 represented a necessary, though partial step forward in strengthening the employment-based social insurance system for private-sector workers. **Rating: Moderately Satisfactory.**

PA3. According to World Bank surveys, 45 percent of companies listed access to loans as one of their top three priorities for dealing with COVID-19 (PD, p. 26). The lack of credit at affordable rates was particularly acute for SMEs. PA3 aimed to improve access to finance for SMEs impacted by the COVID-19 pandemic by supporting the launch of a Business Recovery Guarantee Scheme (BRGS) and of a risk-sharing facility for SME credit. Technical support for establishing these instruments was provided by the World Bank Financial Sector Development Technical Assistance Program. The BRSG provided the collateral for 70 to 80 percent of the individual loan amount borrowed by SMEs, thus helping them to survive and recover from the economic crisis. The scheme also applied a favorable credit guarantee fee for working capital and investment or business expansion loans. The risk-sharing facility provided credits at subsidized interest rates to SMEs. It is unlikely that many SMEs would have survived without these facilities. PA3 was relevant as it addressed some key constraints that prevented SMEs from weathering the crisis effectively. There was an explicit and credible chain of results that linked PA3 to the achievement of the PDO. **Rating: Satisfactory**.

PDO 2: Facilitating robust recovery through structural reforms.

Objective 2 included measures to reduce trade and business costs. They were based on an large amount of analytical work, including the 2017 Cambodia SCD, the 2018 Doing Business Memorandum, the 2019 Investment Climate Assessment, the Cambodian compendium for the 2020 World Development Report, and the Cambodia Country Economic Memorandum for 2021. Trade and business facilitation measures represented positive steps to lower trade and business costs, but they were not structural reforms and therefore were not designed to overcome the biggest obstacles to growth. The measures supported by PA4 and PA5 contributed moderately toward achievement of objective 2, as they left unaddressed the most fundamental constraints to a robust recovery.

PA4. At the time of appraisal, many products still required import and export permits that were administered by multiple ministries or agencies, creating a significant bottleneck for traders. PA4 aimed to lower both the number of tariff lines requiring a permit and the number of prohibited and restricted goods, thus reducing the costs associated with cross-border trade. Lower trade costs may boost the country's competitiveness, but they would need to be accompanied by other reforms, including improving skills and the business climate and investing in infrastructure. PA4 focused on a relatively minor step to achieve the development objective. **Rating: Moderately Satisfactory.**

PA5. Cambodia has consistently ranked low on ease of doing business rankings, despite adopting regulatory reforms intended to enhance competitiveness since 2004. For example, according to the Doing Business survey, registering a business still took 99 days and nine procedures in 2020. PA5 supported the launch of an online business registration system allowing investors to register both their businesses and taxes on the same platform. This measure was expected to reduce the amount of red tape and the time and cost of starting up a company, from three months to eight days. Launching an online registration system was one of the recommendations included in the 2018 Doing Business Memorandum and in the 2019 Investment Climate Assessment. PA5 addressed some constraints associated with the achievement of the objective, but the link with the PDO - facilitating a robust recovery - was indirect. The evidence about firms leaving their informal state and becoming more productive by registering online is controversial. Formalization brings taxes and higher regulatory burdens. Productivity cannot increase if enterprises – particularly those operating in poor areas – continue to be subject to power outages, lack of local government services, and poor infrastructure, whether they are registered online or not. **Rating: Moderately Unsatisfactory**

PDO 3: Building resilience against future economic shocks.

Objective 3 was to increase resilience to economic shocks* through three prior actions aimed at (i) improving public finance management practices and increasing transparency; (ii) modernizing the legal framework for combating money laundering and terrorism financing; and (iii) improving revenue collection. The formulation of these prior actions benefitted from the analysis and recommendations included in the Cambodia Public Expenditure Review (PER), and in the 2017 Mutual Evaluation Report of the Asia Pacific Group on Money Laundering. Overall, the three prior actions did contribute directly to their specific objective, but the link with the PDO was sometimes weak, partly because the concept of "resilience against future economy shocks" was not clearly defined in the program document.

PA6 supported key elements of Cambodia's Public Investment Management System Reform Strategy 2019-2025. Specifically, it supported the implementation of regulations to manage public investments and domestic government bond issuance. Sub-decree 41 established the rules of a common framework for a public investment management system across sources of financing and at all levels of government (PD, p. 30). This measure enabled the government to fund public investment projects domestically rather than from external sources. Moreover, the publication of the Government Securities Law, also supported by PA6, provided a legal regulatory framework for issuing, trading, and managing government securities in a transparent, accountable, and effective way. Together, these pieces of legislation were relevant to improve public financial management and increase transparency. **Rating: Moderately Satisfactory.**

PA7: In 2019, Cambodia was placed on the grey list of the Financial Action Task Force (FATF), a global watchdog that promotes common standards to mitigate money laundering and terrorism financing risks. Being grey-listed indicates that the country's ability and efforts to combat money laundering, terrorist financing, and proliferation financing are below international standards. During 2021-23, Cambodia made significant progress toward improving its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. Most important was the passage of a revised Law on AML/CFT and the implementation of a directive on Customer Due Diligence (CDD), both supported by PA7. As a result of these and other measures, Cambodia was removed from the grey list of the FATF in February 2023. To comply with the revised law and Directive (PD, p. 32), financial and non-financial institutions were asked to revise their internal AML/CFT policies and procedures and to introduce CDD measures. PA7 was based on credible analytics at the national and international levels. The modernization of the legal framework for AML/CFT contributed to increasing the financial sector's resilience to money laundering and terrorism financing risks. **Rating: Satisfactory.**

PA8: Improvements in the efficiency of revenue collection were an important objective of Cambodia's revenue mobilization strategy for 2019-2023. The time spent to comply with filing and paying taxes, which took up to 173 hours, increased compliance costs and was a constraint to business development (PD, p. 32). PA8 aimed to improve revenue collection efficiency by supporting the launch of a centralized and online system for value-added tax and corporate income tax filing. Reducing compliance costs was one – though arguably not the most relevant – among the recommendations suggested by the International Monetary Fund to improve the efficiency of revenue collection: reducing exemptions; simplifying taxes, procedures, and structures; limiting tax holidays; and curbing corruption related to tax evasion (IMF, Article IV, 2022 [1]). PA8 made only a modest contribution to the achievement of the relevant PDO. **Rating: Moderately Satisfactory.**

Overall Prior Actions Relevance ratings

The overall relevance is Satisfactory, with one action rated highly satisfactory, two actions rated satisfactory, four actions rated moderately satisfactory and one action rated moderately unsatisfactory.

* While the program document does not clearly define the concept of "resilience," the RGC's Strategic Framework and Programs for Economic Recovery in the Context of Living with COVID-19 in a New Normal 2021-2023 (ERP 2021-23) defines economic resilience as diversification and enhanced competitiveness, capable to sustain different risks. It includes the idea of a fiscal system with efficient revenue collection and targeted expenditures, and a financial system with proper risk management, able to resist any negative consequences.

[Note 1] IMF (2022) Cambodia, Article IV, Volume 2022: Issue 371, https://doi.org/10.5089/9798400228520.002

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

The DPF used nine results indicators (RIs) to track the impact of eight PAs in making progress toward the objectives. Most RIs were relevant to the proposed actions and easily measurable, although some of them were insufficient to capture the achievement of the results of those actions. RI5 and RI6 were no longer available at the operation's closure due to the discontinuation of the Doing Business Report, and alternative indicators had to be identified. The 2019 baseline was zero for many RIs, and data were generally available. Table 1 shows the nine RIs, their relevance rating, baseline values, target values, and achievement ratings (ICR, Table 2, pp. 10-12).

Table 1: Results indicators (RIs) by objective and PAs; baseline and target values; status and achievement

Results indicator (RI)	Associated PAs	RI Relevance	Baseline: 2019	Target date: June 2022	Actual value at the target date	Actual as % of targeted change	RI Achievement rating
PDO 1: Continuing to provide timely and targeted relief to the affected population							
<u>RI 1</u>: Number of IDPoor beneficiary households having received COVID-19	PA1	Satisfactory	0 beneficiary households	688,841 households	690,000 beneficiary households	99.8%	High

cash transfers.							
RI 2: Number of eligible beneficiaries (poor pregnant women and children under two) having received maternal and child health cash transfers.	PA1	Satisfactory	58,324 beneficiaries	360,000 beneficiaries (140,000 poor pregnant women and 220,000 children)	273,590, with pregnant women (170,135) and children (103,455, well below the target).	76%	Modest
RI 3: Number of National Social Security Fund reports submitted to the social security regulator, an arm of the Non-Bank Financial Authority, in compliance with reporting requirements.	PA2	Moderately Satisfactory	Zero	1	2	Over 100% of targeted change	High
RI 4: Number of beneficiary businesses supported by the SMEBC risk-sharing facility for SME Credit.	PA 3	Satisfactory	Zero beneficiary businesses	500 beneficiary businesses	1,054 beneficiary businesses by March 2022	Over 100% of targeted change	High
PDO 2: Facilitating robust recovery through structural reforms							
RI 5: Cost to import (documentary and border compliance)	PA4	Moderately Satisfactory	US$84	US$76.1	US$75.6	99% of targeted change	Substantial

Alternative indicator: Average import fee per declaration							
RI 6: Business registration fees as a percentage of income per capita.	PA5	Moderately Satisfactory	53.4 percent	40 percent	38.6 percent in 2022	Over 100% of targeted change	High
PDO 3: Strengthen public finance management practices and increase transparency							
RI 7: Publication of public debt statistics	PA6	Unsatisfactory	Biannual	Quarterly	Public Debt Statistical Bulletin Volume 14 – Data as of End-Q1 2022 was published on May 25, 2022	Over 100% of targeted change	[High]
RI 8: Number of banks applying simplified CDD [4] measures for low-risk clients	PA7	Moderately Unsatisfactory	Zero banks	43 banks	45 commercial and specialized banks, of which 43 commercial banks	Over 100% of targeted change	[High]
RI 9: Number of businesses that file tax online	PA8	Moderately Satisfactory	Zero businesses	30,000 businesses	39,687 businesses	Over 100% of targeted change	High

Note: RI achievement ratings note achievement of the targeted change for the RI. Ri achievement ratings in brackets reflect ratings that may have been adjusted based on weak relevance of the results indicator (discussed in efficacy section).

PDO 1: Continuing to provide timely and targeted relief to the affected population

RI 1: This indicator was to measure the progress made in the number of eligible IDPoor households receiving cash transfers from the COVID-19 program, a product of reforms supported by PA1. RI 1 was clearly defined, measurable, and explicitly related to the objective of *continuing to provide timely and targeted relief to the affected population*. **Rating: Satisfactory**.

RI 2: This indicator was clearly defined, easy to measure, and entirely attributable to PA1 reforms. It established an overall target for beneficiaries receiving maternal and child health care, as well as sub-targets for women and children. By making this distinction, it is recognized that during times of public health crises, both groups experience greater challenges, but these challenges may also differ among them. **Rating: Satisfactory**.

RI 3: PA2 supported an improved employment-based social insurance system extending pension coverage to private-sector workers (PD, p. 26). Following the enactment of the Non-Bank Financial Authority law, public pension funds had to adopt common standards of good practice including in the areas of governance, reporting, and investment policy, in order to improve their performance and accountability (ICR, p. 17). This information was expected to be reflected in the NSSF reports submitted to the social regulator. RI 3 involved submitting one NSSF report to the National Business Federation's social security regulator by June 2022 [1]. The results chain linking this indicator to the PDO was only partially convincing. The publication of NSSF reports represents -- at best -- a preliminary step toward improving employment-based social insurance. **Rating: Moderately Satisfactory.**

RI 4: RI4 measured the impact of PA 3. The SME Bank of Cambodia (SMEBC) risk-sharing facility was developed to bring financial support to SMEs affected by the impacts of the COVID-19 crisis. As part of the SME co-financing program, beneficiaries were provided loans with subsidized interest rates. RI 4 was simple and directly related to the objective of providing targeted assistance to SMEs. **Rating: Satisfactory**.

PDO 2: Facilitating robust recovery through structural reforms

RI 5: RI 5 was designed to measure the documentation and border compliance costs of importing, which was tracked by the Doing Business report. The indicator could not, however, be assessed due to the discontinuation of the report. The average import fee per declaration was then selected as an alternative RI (ICR, pp. 17-18). This indicator was narrower than the original one, as it covered only the cost of documentation and not border compliance costs. However, these are likely to be much more important than the documentation costs, partly because of the presence of informal fees (PD, pp. 27-28). Hence, RI 5 may not accurately reflect the true cost to import. **Rating: Moderately Satisfactory**.

RI 6: The online business registration system, supported by PA 5, enabled investors to register their businesses and pay their taxes from one platform, saving them both time and money. RI 6 captured one important reason why business registration fees went down, i.e. the use of the online registration system. However, as part of the same reform, on April 1, 2020, the RGC decided to sharply reduce registration fees, a measure that strongly contributed to the success of the indicator. Business registration fees went down from 300,000 to 180,000 riel for new enterprises; from 1,680,000 to 1,010,000 riel for non-enterprise companies; and from 40,000 to 25,000 for company-name reservation services [2]. **Rating: Moderately Satisfactory.**

PDO 3: Building resilience against future economic shocks.

RI 7: RI 7 was a simple and measurable indicator, but not very relevant. First, in addition to the biannual reports, there was already a version of public debt statistics published every six months. Second, the PD did not explain what different features were included in the quarterly publication (apart from the obvious use of more recent data) that would "strengthen public finance management practices and increase transparency." Finally, as also noted by the ICR (ICR, para. 38), the relationship between the publication of public debt statistics and Objective 3 is only partially convincing. **Rating: Unsatisfactory.**

RI 8: Following the enactment of the Law on Anti-Money Laundering and Terrorist Financing (AML/CFT) and the approval of the National Bank's Directive on Customer Due Diligence (CDD), financial institutions in Cambodia were asked to develop customer acceptance policies and procedures, to address ML/CFT risks. The Directive stated that a bank could apply simplified CDD measures to a class of customers provided it had undertaken a written risk assessment demonstrating that these customers had a low risk of ML/TF. RI 8 measured the number of banks applying CDD. It was a simple and easy-to-monitor indicator, but as noted by the ICR (ICR, para. 39), its relevance to the DPO was limited as it did not address the significant deficiencies identified in the AML/CFT evaluation of Cambodia. A more meaningful indicator could have been "*the number of banks applying* ***enhanced*** *customer due diligence measures"* (as defined in Article 4.7 of the National Bank's directive for high-risk clients). Rather than concentrating on banks with well-behaved customers, the resilience of the banking sector is likely to increase by focusing on institutions with high-risk clients. **Rating: Moderately Unsatisfactory.**

RI 9: PA 8 aimed to enhance the efficiency of revenue collection by establishing an online and centralized system for filing value-added tax and corporate income tax returns. Filing taxes online can save time and money (if the instructions on how to do it are sufficiently clear). Given that improvement in the efficiency of revenue collection is a long-term objective, RI 9 helped move in that direction. As discussed earlier, it addressed one of the constraints to increasing tax efficiency, and its relevance in terms of building resilience against future economic shocks could be defined as small but positive. **Rating: Moderately Satisfactory**.

[Note 1] An example, available on the government website, is the 2022 Annual Report of the NSSF (the first since 2017). See Report - National Social Security Fund (nssf.gov.kh)

[Note 2] See: https://www.phnompenhpost.com/business/public-service-fees-reduced-growth

[Note 3] See https://gdicdm.mef.gov.kh/en/cat/documents-and-publications/bulletins

[Note 4] The Customer Due Diligence process involves collecting and verifying information about a customer's identity and financial and business activities, and monitoring of the customer's activities to identify any changes that may indicate an increased risk of illicit activity. See the Directive of the National Bank of Cambodia: https://cafiu.nbc.gov.kh/Directives/2-%20Directive_on_CDD_Measures_ENG.pdf

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Continuing to provide timely and targeted relief to the affected population

Rationale

Of the four indicators used to measure the achievement of results for objective one, three were deemed to be relevant, and one (RI 3) was moderately satisfactory. By the target date, RI 1, RI 3, and RI 4 had achieved or exceeded their targets. As for RI 2, the achievement was modest because one of the sub-targets - the number of children under two receiving cash transfers - had not been reached well beyond the target date.

RI 1: By June 2022, the target date, 688,841 households had received COVID-19 cash transfers, just short of the target of 690,000 households (ICR, Table 2). Having reached 99.8 percent of the target, the ICR rightly considers the target materially achieved. By February 2023, 706,648 households had received COVID-19 cash transfers. One of the reasons for this success was that the government did not invent a new system, but instead strengthened the existing IDPoor verification and registration process. The digital infrastructure - linking local and national databases - also contributed to improving the speed and transparency of cash disbursements. **Rating: High.**

RI 2 set a target for the number of total eligible beneficiaries (poor pregnant women and children) having received maternal and child health cash transfers, with separate targets for the two groups of beneficiaries. Against the baseline of 58,324 beneficiaries in 2019, a target of 360,000 beneficiaries by June 2022 (140,000 poor pregnant women and 220,000 children) was set. Barely seventy-six percent (273,590 beneficiaries) of the aggregate target was achieved by June 2022. The number of pregnant women receiving cash transfers (170,135) exceeded the target by a large margin, whereas only half of the children expected to receive cash transfers actually received them (103,455). Several factors may have contributed to these results, including the difficulty of reaching remote and rural areas during the flood season and the fact that many poor households relocated to join family members in urban areas (ICR, pp. 16-17). The ICR also noted that by February 2023, the target for young children under two was yet to be achieved, having reached only 110,859 (half the target). **Rating: Modest.**

RI 3 measured the number of National Social Security Fund reports submitted to the social security regulator. The target was to publish one report by June 2022 against a baseline of zero in 2019. Two reports were issued by the target date. Moreover, the ICR found that by December 2022, the NSSF had issued four reports to the social security regulator (ICR, p. 17). **Rating: High.**

RI 4 targeted the number of beneficiary businesses supported by the SMEBC risk-sharing facility. By March 2022, the SMEBC risk-sharing facility had provided support to 1,054 businesses, double the target of 500 businesses expected to be reached by June 2022 as compared to a baseline of zero businesses in 2019. **Rating: High**.

Rating

Satisfactory

OBJECTIVE 2

Objective

Facilitating robust recovery through structural reforms

Rationale

Only one (RI 5) of the two indicators chosen to assess the achievement of results for Objective 2 was relevant. Both made some progress towards achieving their target by the closing date.

RI 5 measured the average import fees per declaration. Import fees decreased from US$84.5 in 2019 to US$75.6 by June 2022 and were just below the target of US$76. **Rating: Substantial.**

RI 6 measured business registration fees as a percentage of per capita income. By June 2022, business registration fees represented 38.6 percent of income per capita, even lower than the target of 40 percent, compared to a baseline of 53.4 percent in 2019. The launch of the online portal in June 2020 was expected to result in a reduction in registration fees, and it did. **Rating: High.**

Rating

Satisfactory

OBJECTIVE 3

Objective

Building resilience against future economic shocks

Rationale

Two RIs (RI 7 and RI 8) achieved their targets by the closing date but they were not relevant for measuring achievement of the objective. The last indicator, RI 9, fully achieved and even surpassed its target by the closing date.

RI 7 measured the frequency with which public debt statistics were published. The authorities were able to publish not only one - the June 2022 target - but two quarterly debt statistics reports. Since then, several others have followed. The ICR stated that these reports contained high-quality data and analysis (ICR, p. 18). However, in line with the unsatisfactory relevance rating, achievement of RI 7 does not constitute strong evidence of progress toward the objective. **Rating: Negligible.**

RI 8 measured the number of banks applying simplified CDD measures for low-risk clients. RI 8 achieved its target by June 2022, with 43 out of 59 commercial banks and two (out of 9) specialized banks applying simplified Customer Due Diligence (CDD) measures. However, in line with the unsatisfactory relevance rating, achievement of RI 8 does not constitute strong evidence of progress toward the objective. **Rating: Modest.**

RI 9 reported the number of businesses that filed their taxes online. By June 2022, 39,687 businesses had filed their taxes online, far exceeding the target of 30,000 businesses compared to a baseline of zero businesses in 2019. The number of businesses that filed their taxes electronically reached 44,352 as of December 2022. **Rating: High.**

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

The achievement ratings of the three objectives are: satisfactory, satisfactory and moderately satisfactory.

Overall Efficacy Rating

Satisfactory

6. Outcome

Rationale

The overall outcome rating is Satisfactory, as the relevance of prior actions is rated satisfactory and efficacy satisfactory.

a. Rating

Satisfactory

7. Risk to Development Outcome

Cash transfers and other measures taken in this DPF to prevent people from falling into poverty could be jeopardized by slow economic growth and a resurgence of COVID-19 in Cambodia and partner countries. However, the Cambodian economy has continued to recover in 2022 and early 2023, despite a slowdown in consumer demand in advanced countries, tighter global financial conditions, and a surge in inflation (IMF, Press Release No. PR22/439). Following up on this DPF, the World Bank has supported Cambodia's efforts to promote a resilient recovery from economic shocks with a US$274 million Growth and Resilience Development Policy Operation. This DPF will continue to support the reforms initiated with the operation approved in 2021 (Press release # 2022/037/EAP), thus minimizing the risks to sustaining the development outcomes.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The COVID-19 approach paper "Saving Lives, Increasing Impact and Getting Back on Track" provided guidance on measures related to cash transfers and other mechanisms to protect the poor and vulnerable households and SMEs. The Bank deserves credit for responding quickly and effectively to the government's request for budget support. The DPF objectives were relevant to the context of the country and to the government's program.

The design of the operation was aligned with the CPF focus areas and complemented other WBG operations (PD, p. 35). The reform program was based on solid analytics, such as the 2017 Cambodia SCD, the 2018 Doing Business Memorandum and 2019 Investment Climate Assessment, and the Cambodia Public Expenditure Review (PD, Table 4). The generality of objectives 2 and 3 made meaningful evaluation of results more difficult, since some PAs represented only partial steps in a results chain that would require a more comprehensive and sustained program of actions for effective implementation.

Results chain

The ICR (Diagram 1, p. 13) provided a simple and mechanical "Theory of Change" table summarizing the underlying diagnostics and rationale, drawn from the PD, for each policy action in relation to the PDOs. The results related to the objective of providing timely and targeted relief to the affected population were clearly direct and did not require an elaborate chain of steps. However, an explicit, step-by-step chain describing how to get the results for the measures designed to build resilience against future economic shocks (the third objective) and facilitate a robust recovery through structural reforms (the second objective) was lacking.

Risk identification and mitigation

The PD (p. 45) identifies the overall risk of the operation as “moderate," the balance between relatively high levels of political, macroeconomic, institutional, and stakeholder risk with a lower set of program risks resulting from Cambodia's successful handling of the COVID-19 crisis and the assistance provided by the World Bank and other donors. The new dialogue on policy reforms with the Prime Minister and other ministries, as well as the joint monitoring of the program, helped mitigate risk.

Stakeholder consultations

Stakeholder consultations were extensive (ICR, p. 21), despite the fact that the operation was prepared in a very short time. In addition to government agencies, the team consulted closely with Korea, Australia, China, the Asian Development Bank, the European Union, the Japan International Cooperation Agency, the Asian Infrastructure Investment Bank, and the European Investment Bank to determine how each development partner would contribute to addressing Cambodia's large financing needs (ICR, p. 17).

Rating

Satisfactory

b. Bank Performance – Implementation

Rationale

Monitoring

The government and the World Bank jointly monitored the reform program (PD, p. 44-45). . In general, the RIs were relatively adequate for monitoring the implementation of the program, except for RI 5 and RI 6, which were not available due to data discontinuation (ICR, pp. 17-18). However, there was no explicit monitoring of whether the actions under objectives 2 and 3 led to the achievement of the intended objectives.

Adaptation

As a single operation, there was little opportunity for observing weaknesses and adapting accordingly.

Rating

Satisfactory

c. Overall Bank Performance

Rationale

Both design and implementation are rated Satisfactory, yielding an overall rating of Satisfactory.

Overall Bank Performance Rating

Satisfactory

9. Other Impacts

a. Social and Poverty

The 2022 Cambodia Poverty Assessment [1] indicated that absent government intervention, the pandemic could have increased poverty by 4.7 percentage points in 2020, reversing Cambodia's progress in reducing poverty by three years. According to the Poverty Assessment, almost 300,000 people were prevented from falling into poverty by 2020 due to cash transfers under COVID-19. Additionally, cash transfers reduced inequality, with the Gini index rising by 0.2 points as opposed to 0.4 points. The program was, however, unable to completely offset all the negative effects of the pandemic on the poor. Per capita consumption declined by 25 percent among the lowest quintile of the population despite cash transfers. Additionally, the COVID-19 relief cash transfer program had little impact on households outside of the lower-income distribution, since they were largely excluded from the program.

[Note 1] World Bank (2022), The Cambodia Poverty Assessment, Toward a More Inclusive and Resilient Cambodia, page 8.

b. Environmental

The operation was unlikely to have had significant effects on the environment, forests, and other natural resources of the country. The DPF, however, missed the opportunity to expand eligibility criteria for the IDPoor to include households at risk of climate-related economic shocks following the floods of 2020. The majority of these households, located in rural areas, did not receive any relief assistance unless they were affected by the COVID-19 crisis. Approximately a year later, this action was included as part of the Cambodian Growth and Resilience DPF Series (P179019).

c. Gender

The Cash Transfer Program for Pregnant Women and Children (CTP-PWC) Under Two, supported by PA1, increased access to maternal and child health care. Cash transfers were given to poor women who visited a health facility regularly during pregnancy and the first two years of their child's life. Moreover, considering that 70 percent of micro and small businesses are headed by women, PA3 was also a gender-sensitive prior action. The credit guarantee schemes announced by the government in the late 2020s to reduce the impact of COVID-19 on businesses helped make SMEs more bankable by lowering collateral requirements and promoting SME development in the long run.

d. Other

---

10. Quality of ICR

Rationale

The ICR presented a coherent narrative of the context at the time of appraisal, the reasoning behind the operation, and the tough economic situation the country was in. It discussed the broad achievement of targets within reform areas and provided useful suggestions. For example, regarding RI 5 and RI 6, the ICR suggested that had a formal monitoring mechanism been in place, the team would have easily recognized the discontinuation of the data on these indicators and would have been able to identify alternative indicators much sooner. The ICR’s recommendation of a more formal approach to monitoring, including issuing monitoring reports was a good suggestion. The ICR created a results chain by mechanically filling in a table listing prior actions, outputs, and outcomes in the absence of an explicit results chain in the PD. The ICR could have better questioned the relevance of the PAs aimed at building resilience against future economic shocks while noting the incomplete results chain that undermined the implementation of these PAs.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Satisfactory	
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

A standalone DPF is an adequate tool to use in the event of a pandemic or other crisis. The success of a policy program is, however, determined by the availability of existing knowledge, the ability of the government to implement and monitor reforms, and the willingness of development partners to contribute meaningfully to reform formulation and share the financial burden. Cambodia's success with the DPF - despite it being the first budget support operation in 15 years - is a testament to its government, the World Bank, and its development partners. As a result of this success, a series of DPFs were followed up in 2022. (ICR, para. 59).

Cambodia's cash transfers have proven to be highly effective in cushioning the poor and vulnerable from the worst effects of the crisis and preserving poverty reduction gains, although not entirely. It was possible to achieve this because a basic infrastructure for social safety nets already existed.

Without pre-existing diagnostics and subsequent follow up, a standalone DPF is not suitable for implementing structural reforms to accelerate the recovery process or adopting a green, resilient, and inclusive development approach.

13. Project Performance Assessment Report (PPAR) Recommended?

No