

OVERVIEW



CAMBODIA

SUSTAINING STRONG GROWTH
FOR THE BENEFIT OF ALL

A Systematic Country Diagnostic

This booklet contains the overview from the Cambodia Systematic Country Diagnostic - Sustaining strong growth for the benefit of all. A PDF of the final, full-length report, including references, is available at:

<http://documents.worldbank.org/curated/en/620151496155751423/Cambodia-Sustaining-strong-growth-for-the-benefit-of-all>

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Abbreviations

ASEAN	Association of Southeast Asian Nations
CCT	conditional cash transfer
CSES	Cambodia Socio-Economic Survey
CSO	civil society organization
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GNI	gross national income
HEF	health equity fund
HIV/AIDS	human immunodeficiency virus/acquired immune deficiency syndrome
HR	human resource
IWRM	integrated water resources management
LDC	least developed country
LGBTI	lesbian, gay, bisexual, transgender, and/or intersex
L-MIC	lower middle-income country
MDG	Millennium Development Goal
MFI	microfinance institutions
NDC	Nationally Determined Contribution
NGO	non-governmental organization
ODA	official development assistance
OOP	out-of-pocket
PIM	public investment management
PPP	public-private partnership
PPP	purchasing power parity
RBS	risk-based supervision
RGC	Royal Government of Cambodia
SCD	Systematic Country Diagnostic
STEM	science, technology, engineering, and mathematics
TB	tuberculosis
TVET	technical and vocational education and training
US	United States
USD	United States dollar

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Overview

Over the past two decades, Cambodia has achieved stellar economic growth and poverty reduction

Thanks to rapid and sustained growth, Cambodia has become one of the world's leaders in poverty reduction and shared prosperity. Official estimates show that the percentage of Cambodians living under the national poverty line fell from 47.8 percent in 2007 to 13.5 percent in 2014. Poverty reduction was particularly dramatic during the 2007-2009 period, when poverty declined by 25 percentage points and 3.3 million people escaped poverty, thanks in large part to an expansion of cultivated area and high international food prices which benefited both farmers and agriculture workers. Other indicators of living standards such as asset ownership, housing amenities, and human development outcomes have also improved, with Cambodia successfully achieving most of the Millenium Development Goals by 2015 (Box 1).

Cambodia sustained an average growth rate of 7.6 percent in 1994-2015, ranking sixth in the world, and has now become a lower middle-income economy. Growth has been driven by exports of goods and services (mainly garments and tourism), which grew by a blistering 19.6 percent a year, with Cambodia ranking second in the world after Equatorial Guinea and ahead of stellar performers such as Vietnam and Bangladesh. Agriculture and, more recently, construction and real estate have also been main engines of strong economic growth. As a result, gross national income (GNI) per capita more than tripled from USD 300 in 1994 to an estimated USD 1,070 in 2015, the year in which Cambodia became a lower middle-income economy. Cambodia's impressive achievements have been built upon openness to trade and capital flows and driven by preferential trade treatment and large inflows of official development assistance (ODA) and foreign direct investment (FDI).

To a large extent, Cambodia's success has ridden on employment creation. With its growing working-age population, Cambodia is still in the early phases of its "demographic dividend" and has so far been extremely successful in creating jobs

Key Findings

"Around 3.6 million net jobs in industries and services have been created in Cambodia over the past twenty years."

Box 1: MDG attainment and LDC graduation criteria

Overall, Cambodia has made significant progress in achieving the Millennium Development Goals (MDGs). For example, the country has more than halved extreme poverty (from 33 percent in 2004 to 10 percent in 2011), more than halved maternal mortality (from 1,020 per 100,000 live births in 1990 to 161 in 2015), reduced child mortality (from 117 per 1,000 in 1990 to 28 in 2015), increased the primary education enrollment rate (from 92.1 percent in 2000 to near-universal enrollment of 94.7 percent in 2014), and made significant progress in combating HIV/AIDS (with the incidence rate declining from 0.08 per 100 people in 2001 to 0.01 in 2013).

However, achievements are mixed for a few MDGs, including tuberculosis (TB), environmental sustainability, demining, and gender equality. TB incidence and death rates remain high. Although the pace of deforestation has slowed down slightly thanks to recent policy changes, it has remained high over the past two decades. Similarly, although the percentage of contaminated land cleared of unexploded ordinances has increased to 45 percent, it still falls far short of the target of 100 percent.



for youth and women in labor-intensive activities. The country has benefited from a large structural transformation—meaning the reallocation of economic activity across the three broad sectors of agriculture, manufacturing, and services—with around 3.6 million net jobs created in industry and services and 0.7 million in agriculture and fisheries over the past two decades.

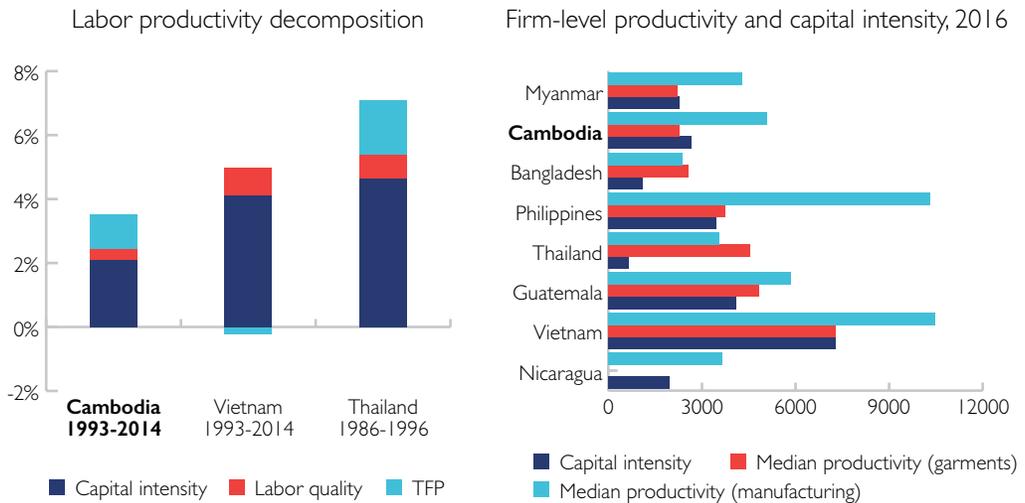
Growth has also been driven by the country's rich and diverse natural capital, which supports the livelihoods of millions of Cambodians. Agriculture, which depends heavily on natural resources and ecosystem services, contributed to 30 percent of gross domestic product (GDP) in 2015. More than five million people rely on agriculture and fisheries to supplement their income and support their food security, and 88 percent of the population still relies on traditional biomass for cooking. Tourism, another engine of economic growth, is also dependent on natural resources and environmental sustainability.

As a lower middle-income economy, Cambodia is facing new challenges to sustaining strong economic growth

Going forward, Cambodia may not be able to rely on the same factors that drove strong growth and poverty reduction over the past two decades. Cambodia's eventual graduation from being a least-developed country (LDC) will bring a progressive decline in donor financing and an erosion of preferential trade treatment. At the same time, salaries are rising, and it will be increasingly difficult for Cambodia to keep exporting unprocessed rice and low-end garments. In the case of agriculture, the outlook for commodity prices is not positive, and Cambodia's scope for further gains in cultivated area is more limited nowadays, especially considering the need for environmental sustainability.

Notably, the productivity of labor has increased more slowly than in other rapidly growing economies, partly due to the relatively low use of capital in production. During 1993-2014, Cambodia registered 3.5 percent growth in labor productivity compared to the 4.7 percent achieved by Vietnam during the same period and the 7.1 percent average growth rate in Thailand during the boom years of 1986-1996 (Figure 1, left). Productivity in the garment industry remains lower than in most comparator countries, and evidence indicates relatively little investment in

Figure 1. Labor productivity gains have been lower than in comparators (left), partly due to the specialization on low capital intense industries (right)



Source: World Bank staff calculations using National Accounts and WDI; World Bank staff estimates from Enterprise Survey 2016.

equipment and machinery upgrading (Figure 1, right). Gross capital formation as a percentage of GDP averaged less than 20 percent of GDP over the past two decades, lower than comparator countries and much lower than Vietnam and Thailand during boom years.

In the face of declining competitiveness, Cambodia's low-value production and heavy concentration in garments and tourism will become increasingly challenged. Most of Cambodia's garment export items are targeted to the low-quality/low-price segment of the U.S. and EU markets. Only in recent years have some garment factories started to move toward higher value addition (embroidery, washing, printing), likely spurred by declining external competitiveness in the context of U.S. dollar appreciation and the rapidly rising minimum wage (from USD 80 a month in 2013 to USD 153 a month in 2017, now on par with Vietnam). While some nascent higher-value export products (including bicycles, television parts, and ignition wires) have been observed in recent years, most of the activities in Cambodia are still mainly labor-intensive assembly, with little to no production

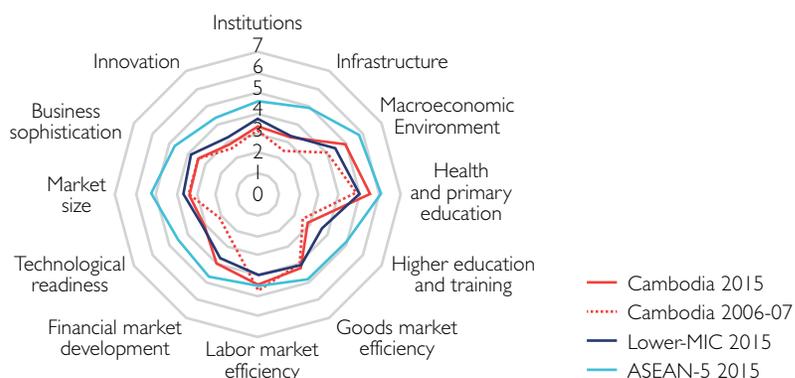
of pieces and parts. Tourism is also coping with U.S. dollar appreciation and rising wages, and challenges in infrastructure and environmental sustainability constrain diversification of activities within the sector.

Key Findings

“With 87 days needed on average to start a business, Cambodia ranks 180th out of 189 countries in the world.”

A number of institutional, human capital, and, to a lesser extent, infrastructure constraints hamper competitiveness as well as the creation of a vibrant private sector in Cambodia. While some progress has been made, Cambodia lags behind other lower middle-income economies in these areas (Figure 2). Burdensome formalization processes make Cambodia one of the most difficult places in the world to register a business—Cambodia ranks 180th out of 189 countries on this dimension, with 87 days needed to start a business (compared to 25.9 in East Asia and the Pacific). Low educational attainment also constrains economic diversification and upgrading: although net enrollment in primary education increased significantly, lower secondary education completion rates (43 percent in 2013) remain significantly below the average for lower middle-income economies (71 percent). Entrepreneurs report that school certificates and degrees, even at the tertiary level, are not a signal of worker competence, pointing to quality challenges. Moreover, technical and vocational education and training (TVET) faces negative

Figure 2. Cambodia still lags behind on some dimensions of economic competitiveness



Source: *Global Competitiveness Indicators, World Economic Forum.*

Key Findings

“Thirty-nine percent of grade 6 pupils had a below basic proficiency rating for reading in Khmer, and a third of the children under five are stunted.”

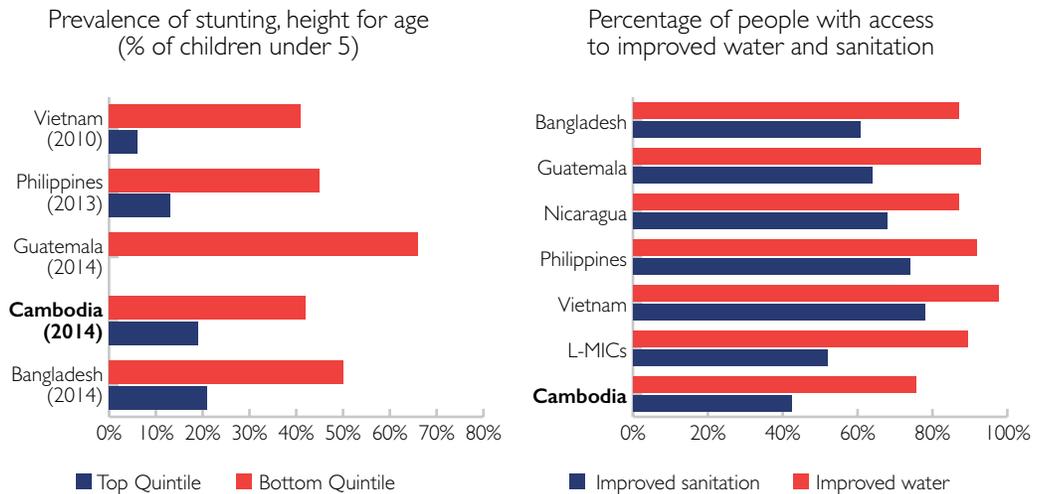
perceptions and does not seem to provide the skills that are in demand by the private sector. In terms of infrastructure, significant improvements in power supply have been achieved in recent years, but the price of electricity remains high compared to neighboring countries: the average tariff for large industrial consumers remains at least 35 percent higher than in Thailand, Myanmar, or Vietnam.

To ensure that growth will continue to be inclusive, a series of constraints that particularly affect poorer households should be overcome

Limited human capital hinders socioeconomic mobility. Most Cambodians not in extreme poverty are by international standards either moderately poor or vulnerable to falling into poverty, with two-thirds of the population living under USD 5.50 a day PPP. The slow growth of an economically secure consumer class can be explained in part by low household endowments in terms of education, health, and land. A national assessment of student achievement found that 39 percent of grade 6 pupils had a below basic proficiency rating for reading in Khmer. Such poor learning outcomes—which can be attributed to fewer and inadequately trained teachers and fewer hours compared to peers—affect the ability of individuals to climb the socioeconomic ladder.

Human capital limitations begin early in life due to poor nutrition, lack of nurturing care, and absence of early stimulation. Having grown up in a period of very high poverty and maternal and child undernutrition, the majority of Cambodia’s current cohort of young workers likely experiences some of the lifelong, negative consequences of childhood malnutrition and other early life deprivations. About 33 percent of children under age five are stunted (Figure 3, left), and only 35.9 percent of 3-5 year olds were enrolled in early childhood education during the 2014-2015 academic year. Access to improved water and sanitation facilities (at 75 and 42 percent of total population, respectively) remains significantly below the average for lower middle-income economies (90 and 52 percent, respectively, Figure 3, right) and is a major contributor to stunting, along with sub-optimal infant feeding practices and low dietary diversity. In addition, despite significant improvement, Cambodia still has one of the highest maternal mortality rates in the region (161 per 100,000 live births in 2015), which points to problems in health care quality and access.

Figure 3. Prevalence of stunting is higher among the poor (left), and Cambodia lags behind other countries in access to improved water and sanitation facilities (right)



Source: UNICEF (left); WHO/UNICEF Joint Monitoring Program (right).

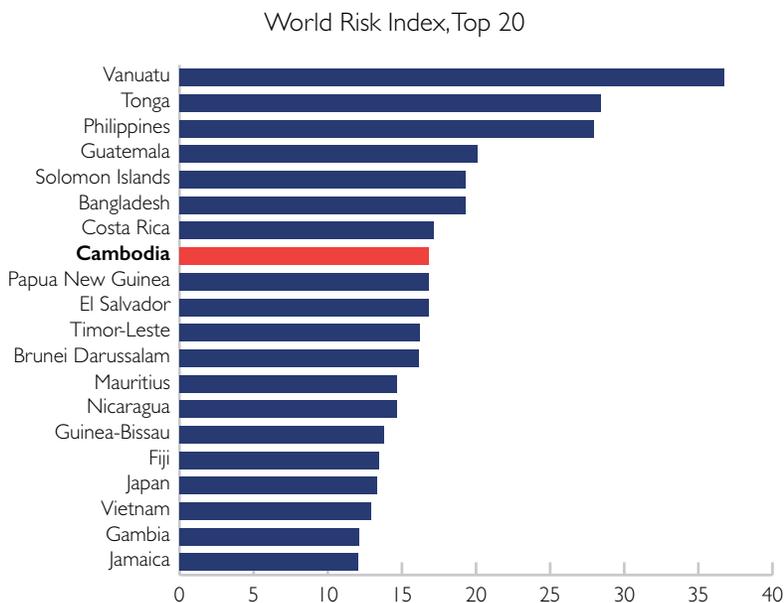
Socioeconomic mobility is also hampered by high exposure to financial and weather shocks, with very limited social protection to help households manage shocks. Approximately 6.3 percent of the population had catastrophic spending in 2013, and 3.1 percent had to incur debt to pay for health expenditures. Cambodia ranks among the world's top ten countries in terms of out-of-pocket (OOP) health spending, with OOP payments for health services at 60 percent of all health expenditure. Disasters are another source of catastrophic spending, with Cambodia ranked as the 8th most disaster-prone country in the world in 2015 by the United Nation's World Risk Index (Figure 4). A 2013 post-flood needs assessment found that the average monthly incomes of those affected dropped more than 25 percent, amounting to USD 37.6 million. Meanwhile, social protection systems are still in the initial stages, with Cambodia spending less than 0.1 percent of GDP on social assistance compared to the world average of 1.6 percent.¹

Key Findings

“Cambodia ranks among the world's top ten countries in terms of out-of-pocket (OOP) health spending, 60 percent of all health expenditure.”¹

¹ ASPIRE database. Accessible at datatopics.worldbank.org/aspire/.

Figure 4. Compared to other countries, Cambodia is highly exposed and vulnerable to disasters



Source: United Nations University (2015).

Persistent gender gaps in earnings and job quality also pose a challenge to achieving shared prosperity. Female labor force participation in Cambodia, at 79 percent in 2014, is among the highest in the world, and female-owned enterprises comprise more than half of all business establishments in Cambodia. However, female-owned businesses are generally smaller, less profitable, and less likely to be registered than male-owned businesses. While women represent 85 percent of the garment sector labor force, most are engaged in assembly, while the higher-paying quality and supervision work is done by men. Moreover, according to the Cambodia Socio-Economic Survey (CSES) 2014, the gender earnings gap in 2014 was as high as 30 percent among those with low education, notably dropping to 7 percent among college graduates, which underscores the importance of closing the educational attainment gap. In terms of political representation, women account for only 7 percent of ministerial posts, placing Cambodia in the bottom 20 percent globally (Inter-Parliamentary Union, 2016).

Consultations with civil society organizations (CSOs) highlighted that some population groups still experience marginalization and exclusion, heightening their vulnerability and preventing them from sharing the benefits of growth. For example, approximately 10 percent of the Cambodian population suffers from at least one form of disability. About 45 percent of adults with disabilities do not earn an income, and household wealth for people with disabilities is about half that of non-disabled people. People who are lesbian, gay, bisexual, transgender, and/or intersex (LGBTI) continue to face stigmatization by their families, communities, and the media, along with discrimination in workplaces and schools. Although ethnic minorities do not have significantly higher poverty rates than the average, they are highly vulnerable to the loss of land. In 2007, it was estimated that indigenous communities had lost 30 percent of their traditional land since 1989, and conflict over land remains a highly contentious issue in the country.

Key Findings

“The gender earnings gap in 2014 was as high as 30 percent among those with low education, notably dropping to 7 percent among college graduates.”

While not preventing strong growth and poverty reduction thus far, governance challenges affect firm competitiveness, the quality of public service delivery, and access to assets and opportunities. The incidence of bribery (affecting 63 percent of reporting firms in 2016) has somewhat declined, but remains by far the highest among peer countries. In the 2015 Corruption Perceptions Index, Cambodia ranked 150th, with only Afghanistan and North Korea performing worse in the Asia-Pacific region. Government spending on health and education remains below average for a lower middle-income economy, and overreliance on donors for public service delivery persists. While substantial progress has been achieved in public financial management (e.g., Single Treasury Account, the implementation of program budgeting, and a financial management information system), some fundamental weaknesses remain (RGC, 2015a). Patronage, misallocation of human resources, and limited capacity are still prevalent in the civil service. Finally, in a context of poor rule of law, land disputes and displacement have disproportionately affected the poor and vulnerable, although notable progress has been made over the past 15 years.

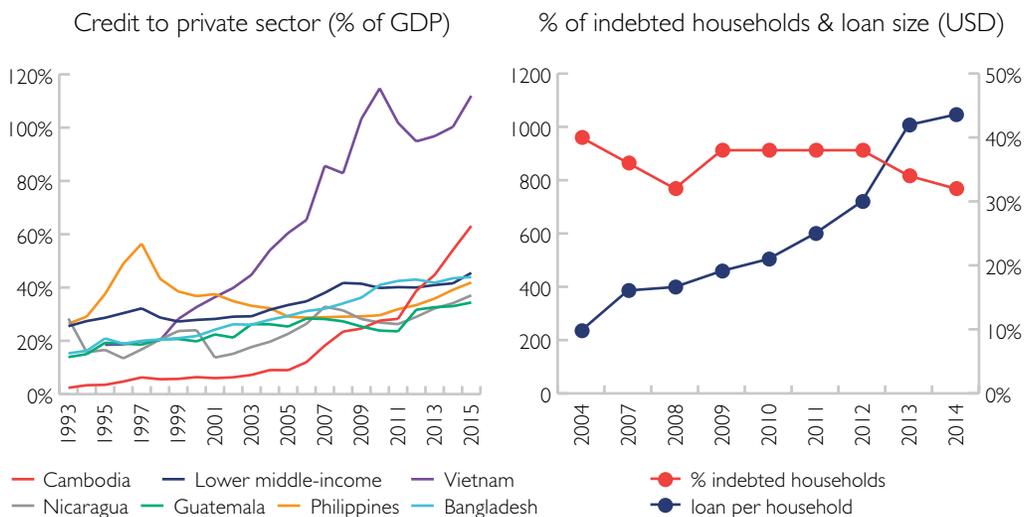
Risks stemming from rapid credit growth and natural resource degradation could affect economic sustainability

A number of rising risks could potentially affect Cambodia’s development path, including increasing exposure to microfinance debt and financial overheating.

While Cambodia presents low risk of debt distress (IMF, 2016), a programmed fourfold increase in the public sector wage (between 2013 and 2018) is increasing fiscal pressures, since the public payroll already represents around 40 percent of revenue. In terms of macro-financial risks, Cambodia's credit to the private sector is booming and jumped from 2 percent of GDP in 1993 to 63 percent in 2015, already above the average for lower middle-income economies (Figure 5, left). Credit at microfinance institutions (MFI) is also booming, growing at annual rates of more than 40 percent in recent years. In a decade, average loan sizes have increased from around USD 200 to USD 1,000, doubling the pace of expansion of income per capita in 2004-2014 (Figure 5, right). Notably, in 2016 and 2017, the National Bank of Cambodia enacted a series of macroprudential measures that are expected to help mitigate the risks related to fast credit growth.

Climate change, coupled with natural resource degradation and unplanned urbanization, is also anticipated to affect future growth. Average damages from disasters have been estimated at USD 235 million per year (Germanwatch, 2016).

Figure 5. Cambodia has had one of the fastest capital deepening episodes among its peers (left); MFI loan sizes have increased (right)



Source: IMF Financial Access Survey and World Bank staff calculations from CSES 2004-14; Source: World Development Indicators, National Bank of Cambodia.

In the future, climate change will heighten Cambodia's vulnerability to natural disasters—based on the scenario of a 2°C temperature rise by 2050, initial estimates suggest that climate change will reduce the country's total GDP by at least 1.5 percent in 2030 and 3.5 percent in 2050 (RGC, 2015b). Cambodia's natural capital is also being degraded rapidly by unsustainable economic activities. Official estimates indicate that forest cover declined from nearly 60 percent in 2006 to less than 47 percent in 2014, and approximately 45 percent of the country's original, natural wetland area has been lost. Such losses have wide-ranging impacts, including on the productivity of the agricultural and fisheries sectors, hydropower generation, and tourism assets. In addition, urbanization could bring negative consequences for economic growth. Although urbanization in Cambodia is still in its early stages, the average population density in urban areas is already higher than in Vietnam or China, and a large percentage of the population lives in urban poor settlements.

Key Findings

“Cambodia has experienced one of the fastest episodes of credit deepening around the globe.”

In light of these challenges, a set of ten priority areas for development has been identified

Based on in-depth analysis and extensive consultations, this Systematic Country Diagnostic (SCD) identified ten key areas of development for ensuring strong, inclusive, and sustainable growth going forward. Identification of the priority interventions involved a two-step process. First, in-depth analytical work and a literature review, together with an extensive consultation process,² informed the selection of ten development areas for action. Second, following consultations, a two-tier methodology was applied to assess the constraints to growth and asset accumulation and to identify the most pressing priorities within those ten areas for development (Table 1). Interventions in the identified areas for development contribute to three different “pathways” or avenues for achieving the twin goals of poverty reduction and shared prosperity in Cambodia. These pathways would also benefit from cross-cutting public administration and public finance reforms to strengthen the capacity of the public sector.

² Extensive engagement with key stakeholders (government, civil society, private sector, development partners, academia, and the National Assembly) comprised nine meetings held in four different regions of the country. Participants provided feedback on the key development opportunities for achieving poverty reduction and inclusive growth in a sustainable manner in Cambodia.

The areas for development were ranked based on (i) their impact in creating and enhancing households' participation in better economic opportunities, (ii) the share of the population affected, and (iii) their complementarity with other interventions. The areas for development identified as "highest priority" have the largest impact on the twin goals in terms of boosting firms' ability to create more productive jobs, sustaining growth, and raising household income. "High priority" areas have a moderate immediate direct impact on the twin goals but form the building blocks for sustained growth and increased income-generating capacity of households. "Moderate priority" areas include those actions that may not yet address the most significant constraints but have consequential implications in the long term or those that have high but localized impacts. Some selected policy options in each of the ten areas are shown in Table 1. A brief description of each area for development is also provided below.

Table 1. Cambodia SCD pathways and identified priority areas for development

Pathway	Area for development	Priority	Selected policy options in this area	
i. Increasing economic competitiveness and diversification to sustain strong growth and create jobs	1. Reducing the costs of firm establishment and operation (including business environment, informal fees, trade facilitation, electricity costs)	Highest	Create a task force to improve the business environment and curb informal fees	Establish a National Single Window for trade facilitation
	2. Boosting public and private investment in infrastructure and machinery acquisition while developing capital markets	High	Pass a PIM Sub-decree and develop manuals and procedures	Develop an internal bond market (including sovereign and private)
	3. Strengthening regulation and supervision of the financial sector to mitigate risks from strong credit growth, while building further financial inclusion	Moderate	Introduce a Risk-Based Supervision approach	Enhance crisis preparedness, and establish a financial safety net
	4. Fostering agricultural modernization in the aftermath of the commodity price boom	High	Facilitate knowledge and technology adoption throughout the value chain (via PPPs, incubators, pluralistic extension)	Strengthen systems and stakeholder capacities to manage product quality, food safety and risks

Table 1. *continue*

Pathway	Area for development	Priority	Selected policy options in this area	
ii. Building human assets to facilitate economic mobility and shared prosperity	5. Endowing people with skills by boosting attainment and learning outcomes of secondary and higher education	Highest	Implement the Lower Secondary School Effectiveness Standards	Improve accreditation and quality assurance mechanisms in higher education and TVET
	6. Investing in the early years (nutrition, pre-primary education)	High	Implement the Fast Track Road Map for Improving Nutrition	Expand access to opportunities for early learning and stimulation through community centers
	7. Protecting households from shocks (OOP in health, DRM, social protection)	Moderate	Expand Health Equity Funds to other vulnerable groups	Strengthen the ID Poor targeting system and establish conditional cash transfers
iii. Ensuring a sustainable growth pattern by investing in natural capital, climate resilience and urban development	8. Maintaining and developing natural capital, while strengthening climate resilience	High	Adopt an integrated approach to natural resource management in the Cardamom Mountains and Tonle Sap landscape	Improve sustainable management and conservation in protected areas and forests
	9. Promoting competitive, sustainable, and inclusive cities through integrated urban planning	Moderate	Implement an integrated urban planning agenda	Develop a centralized sanitation network, and solid and liquid waste management solutions
iv. Cross-cutting	10. Public administration and public financial management reforms for improved service delivery	High	Upgrade human resource management systems and introduce performance monitoring	Enhance citizen feedback mechanisms to improve public service delivery

Source: World Bank staff analysis in consultation with stakeholders.



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Pathway 1: Increasing economic competitiveness and diversification to sustain strong growth and create jobs

Rapid growth in exports has been an important driver of growth and employment but may not be sustainable unless the economy becomes more competitive and more diversified. As mentioned earlier, Cambodia is expected to see a progressive decline in preferential trade treatment and an increase in labor costs, coupled with more intense competition in garments from neighboring countries such as Vietnam and Myanmar. Moreover, under the managed float/peg, the recent U.S. dollar appreciation makes Cambodian goods relatively more expensive in the European markets and vis-à-vis other competitors. In order to sustain strong growth and create jobs, Cambodia needs to enhance export competitiveness and economic diversification. This could be achieved through a series of measures that help facilitate firm operations, encourage domestic savings as well as investment in the tradable sector, strengthen regulation and supervision of the financial sector, and modernize the agriculture sector.

In particular, to regain competitiveness in the short to medium run, one of the most pressing needs is to reduce the costs of firm establishment and operation. Reducing the costs of firm establishment could involve measures such as creating a single window to streamline the procedures and costs for opening a business, and reducing or eliminating the minimum capital requirement to be deposited in a bank before a company is registered. Firm operations would be facilitated by abolishing unnecessary procedures and informal fees and gifts, for which a Special Task Force could be created. Reducing the costs and time involved in trading across borders will also be important, for example by completing the automation of border procedures, removing unnecessary documentation requirements, and establishing a National Logistics Council to help ensure that Cambodia's hard and soft logistics infrastructure supports trade expansion. Finally, a stronger institutional and regulatory framework is needed to improve energy efficiency and lower electricity costs. Measures could include setting up a declining medium-term tariff policy, developing a medium-term system expansion plan informed by public consultation, ensuring that large projects are competitively procured, and developing a comprehensive policy for expanding regional cooperation with Vietnam, Lao PDR, and Thailand. It will also be important to fully assess the environmental and social impacts and externalities of the various energy options.

To facilitate value addition and economic diversification, these interventions could be complemented by efforts to boost infrastructure and mechanization while developing capital markets. To move away from reliance on donors for infrastructure investments and help boost infrastructure in an effective and sustainable way, it will be important to build up public investment and asset management. Public investment management (PIM) for government-funded investments could be strengthened by passage of a PIM Sub-decree, the development of project selection and implementation manuals, and capacity building at core and line ministries. For externally funded projects, enhancing donor coordination, avoiding a piecemeal approach to project selection, and ensuring adequate operation and maintenance budgets would help ensure project effectiveness and sustainability. Cambodia could also streamline its existing tax incentives in a new Investment Law (as envisaged in the government's Industrial Development Policy) to help move away from tax holidays toward a more targeted incentive system that fosters private investment in machinery, research and development, and training. This would help increase productivity and foster diversification by encouraging investment in higher value-added sectors. In addition, promoting the use of the national currency and developing an internal bond market would help foster domestic savings and provide a higher degree of exchange rate flexibility in the medium run, which would help the economy regain competitiveness in the context of U.S. dollar appreciation under dollarization.

It will also be critical to mitigate the risks from strong credit growth while increasing financial inclusion. While fast credit expansion has been one of the main factors fueling economic growth, it is important to address the mounting risks, especially those stemming from a potential construction bubble and over-indebtedness which can hurt macroeconomic stability, poorer households, and the environment. Banking and micro-finance supervision need to be strengthened, for example through a risk-based supervision (RBS) approach that complies with the latest international Basel standards. A series of macro-prudential, data quality, and oversight measures would also help strengthen financial sector stability, including introducing limits on multiple loans and introducing loan-size-to-income limits for household lending. Authorities could also consider developing secondary regulations for the microfinance sector and adopting lending guidelines to prevent predatory lending to households who have little capacity to repay. At the same

time, it will also be important to support crisis preparedness, establish a financial safety net, and strengthen financial inclusion, for example by facilitating access to banking services and mobile banking through digital finance.

At the same time, given the continued importance of the agricultural sector to growth and poverty reduction, Cambodia will need to foster agricultural modernization. Now that the commodity price boom is over, different sources and drivers of agricultural growth must be nurtured. In particular, irrigation could play a larger role in fostering agricultural productivity and diversification, with greater emphasis on ensuring the functioning of existing irrigation schemes. Several measures could help in this regard: applying clear procedures and adequate financing for irrigation system operation and maintenance, increasing technical and financial support for farmer water user groups, and facilitating the adoption of alternative small-scale irrigation technologies. To spur broader productivity gains in agriculture, interventions that help facilitate knowledge and technology adoption are needed. Non-traditional (and non-state) forms of farm advisory and other technical services could be encouraged, including those applying technology. Channels to facilitate collaboration among public sector, private sector, and academic institutions on applied agricultural research and innovation will also be important for increasing productivity. Another priority is to strengthen the availability of core public goods while differentiating Cambodia's agriculture (and agro-industry) based on quality, for example by enhancing systems for managing quality and food safety. At the same time, Cambodia's agriculture and overall food system should play a stronger role in improving local nutritional outcomes, with the government helping to ensure that a diverse range of high-nutrient foods is readily available and affordable and that consumers are aware of the importance of these in their diets.



Pathway 2: Building human assets to facilitate economic mobility and shared prosperity

Stronger human capital is crucial not only for enabling people to take up better job opportunities in the non-farm sector but also for facilitating economic diversification and job creation. Cambodia has the opportunity to improve the quality of learning and increase educational attainment in order to help increase the chances of the poor and economically vulnerable to attain economic security. Such jobs may not be aligned with the diversification and competitiveness strategy but would instead provide economic opportunities to the large share who will remain outside the global value chains. Emerging priorities for achieving this goal are a new focus on investing in the early years of children and increasing the transition to and completion of high-quality secondary and tertiary education as well as TVET. This would also require improvements in public service delivery and could be complemented by strengthened and expanded social protection systems, not only to reduce vulnerability but also to equalize access to high-quality education and improve nutrition outcomes for the poor.

One key priority is to endow people with skills by boosting attainment and learning outcomes of secondary and higher education. Addressing both supply- and demand-side constraints to access to education is key. One demand-side priority is to change the incentives for the poor to invest in more education and make education more affordable for them, for example by prioritizing pro-poor school grants and by making the targeting of the national scholarship program more equitable. On the supply side, effective implementation and expansion of the Lower Secondary School Effectiveness Standards is needed to strengthen the system of education service delivery and hold schools accountable for student learning. The quality and relevance of tertiary education can also be improved through greater autonomy for public higher education institutions, strengthened accreditation and quality assurance mechanisms, and more active use of public resources to encourage science, technology, engineering, and mathematics (STEM) subjects. To improve education more generally, better matching the supply of skills training with employer demand, including strengthening the role of intermediaries, is also needed. One option is for the RGC and development partners to subsidize the development of industry-specific training centers to ensure that training is aligned with employers' needs and with industry and growth trends.

Another priority for building human assets is to invest in the early years to prevent constraints on children's development. This requires ensuring that children are well-nourished, start school early (at the prime time for brain development), and have an adequate learning environment. On the nutrition front, results-based mechanisms such as Service Delivery Grants and Health Equity Funds (HEFs) could be used to improve the availability and quality of nutrition services outlined in the Fast Track Road Map for Improving Nutrition (FTRM).³ Government financing could also be scaled up for social and behavior change communication aimed at harmonizing nutrition-relevant messages across sectors. Such supply-side improvements can be complemented by demand-side incentives (e.g., targeted cash transfers, transportation allowances, and community-level incentives such as commune councils / commune social funds) to encourage behavior change and consumption of essential early years services. To expand access to opportunities for early learning and stimulation, non-institutional modalities such as the Home-Based Care / Parental Education Program and Community Preschool could be used and expanded in rural areas. Another important factor for child nutrition is access to water and sanitation, which could be improved by the establishment of a well-funded program for implementation of the National Action Plan for Rural Water and Sanitation, expansion of piped water service in rural areas, and capacity building for water operators to improve service performance and efficiency.

In addition to building the assets of the poor and near-poor, it will be important to help them protect their gains. Measures aimed at mitigating shocks and building resilience would help shield household income and prevent households from falling into poverty. To improve financial protection against catastrophic health expenditures, the HEFs could be expanded with a deeper benefit package for the poor and some basic protection for other vulnerable groups. As a basis for any expansion of safety net coverage, the ID Poor targeting system should be reviewed

³ The Fast Track Road Map for Improving Nutrition (2014-2020) outlines five packages of nutrition interventions to be delivered at scale: (i) Nutrition counselling during antenatal care; (ii) micronutrient supplementation and deworming for mothers and newborns; (iii) treatment of severely wasted children; (iv) micronutrient supplementation for prevention and treatment strategies; and (v) behavior change communication focused on the 1,000 day window of opportunity. Three additional activities are proposed to enable the scaling up of these packages: (vi) remove financial and human resources barriers to scale up efficient interventions; (vii) leverage support through other ministries and initiatives; and (viii) improve nutrition data in existing information systems.

and refined, with an eye toward eventually having a list and ranking of the poor as well as non-poor that is linked to a civil registry system and can be used for all public safety net programs. Another social protection program for consideration is a conditional cash transfer (CCT) program which could provide a much-needed safety net for the poor, softening the impact of shocks as well as fostering desirable behaviors such as school attendance or feeding habits to fight stunting. A CCT could also serve as a delivery vehicle for consolidating a number of schemes (e.g., public pensions for the elderly poor, support to the disabled, support to poor households with pregnant women and/or small children). In preparation for aging, pension reform is also needed, starting with harmonization of the different ongoing schemes with the aim of achieving full portability. In addition, exposure to natural disasters could be reduced through risk-sensitive planning and design, while further efforts could aim at enhancing risk assessment capacity and improving disaster preparedness capability and rapid fiscal response.



Pathway 3: Ensuring a sustainable growth pattern by investing in natural capital, climate resilience, and sustainable urban development

Cambodia faces several critical decisions on the tradeoffs in supporting its food, energy, and water needs while also conserving its natural systems. As discussed earlier, while urban development has contributed substantially to growth and poverty reduction, unsustainable economic activities and management practices have significantly degraded Cambodia's natural resource base over the last two decades. Compounding these issues are expected changes in the water regime in Cambodia from the Mekong River, with impacts from upstream hydropower development and increased water use for agriculture and domestic needs. Given the interlinkages between natural resource-based ecosystems and man-made urban environments, addressing these challenges requires spatially integrated approaches. For natural resources, this means taking into account natural challenges and trade-offs related to modernizing agriculture, improving fisheries, expanding sustainable tourism, and developing hydropower within a specified landscape, in coordination with managing and restoring degraded forests and aquatic ecosystems and strengthening resilience to climate change and natural disasters. For urban planning, this means developing a long-term strategy for implementing reforms across various urban sectors, including water, sanitation, transport, and disaster risk management, in a specified city. With such measures, Cambodia will substantially strengthen its capacity to achieve its long-term growth and poverty reduction objectives, along with its climate adaptation and mitigation commitments in its Nationally Determined Contribution (NDC).

Efforts to implement and scale up Cambodia's existing national-level reforms and programs on natural resources and climate change would go a long way toward preserving the country's natural capital. For example, the development of targeted public expenditure programs would help address financing gaps for the RGC's national strategies, action plans, and practices related to natural capital, climate change, and green growth as well as increase support to local authorities for implementation. To reduce the high costs of unsustainable economic activities, environmental impact assessments and strategic environmental assessments could be institutionalized for all public and private projects with likely impacts on the

environment and livelihoods. Specific to the forestry sector, further efforts are needed to combat deforestation and move toward sustainability, for example through the development of a strategic plan and policy framework for the management of conservation corridors, expansion of alternative livelihood opportunities from non-timber forest products and eco-tourism, improvements to the zonation of land use and tenure, and development of sustainably managed plantations for fuelwood and timber. The management of Cambodia's water resources and highly productive fisheries also requires stronger implementation of existing plans, policies, and practices for the Mekong River and Tonle Sap ecosystems. As a first step, Cambodia should continue to improve the implementation of Integrated Water Resources Management (IWRM), particularly through further support for water information systems and local government capacity building. Importantly, given the interlinked nature of Cambodia's terrestrial and aquatic landscapes, a spatially integrated approach to natural resource management is needed, with stronger co-management, less fragmentation, and common targets across different sectors among both national and local governments.

Sustainable growth will also depend on the development of competitive, sustainable, and inclusive cities through integrated urban planning. An integrated urban planning agenda should bring together land use and disaster resilience plans with investments in transportation networks and infrastructure. To date, only Phnom Penh and Battambang have developed detailed urban master plans, with limited progress in their enforcement and implementation. In parallel, master plans for urban transport, solid waste management, drainage and sewage, and water supply plans have been developed for Phnom Penh. Strengthening the coordination and implementation of these plans is important for urban development and management. Stronger institutions and innovative financing mechanisms such as public-private partnerships are also needed, as most municipalities do not have enough resources to strengthen their institutional capacity or to make adequate investments in infrastructure. Within these integrated plans, priority areas include urban sanitation and transport, as well as the upgrading of urban poor settlements and implementation of a transparent and coordinated land registration and titling process.

Cross-cutting: Public administration and public financial management reforms for improved service delivery

All of the reform priorities identified in the SCD require significant public sector capacity to implement reforms and deliver services. The success of all the proposed interventions rests on improving the quality of public service delivery, which in turn depends on the government's ability to generate sufficient revenue for important public spending and investment requirements, spend the available resources efficiently and with accountability, and maintain a well-functioning public administration staffed by competent civil servants. Cambodia has started to pursue decentralization and deconcentration reforms aimed at improving public service delivery by increasing the responsibilities and decisionmaking autonomy of frontline service providers. The rebalancing of responsibilities requires a corresponding reallocation of funding and human resources across different levels of government.

Deepening of ongoing public financial management reform, together with overarching public administration reform, would thus be key to improving capacity for public service delivery. Modernization of human resource (HR) information management tools would also be important for supporting the management of staff performance and overall HR management functions of the public sector. In addition, a change management approach, together with enhanced mechanisms for citizen feedback on the quality of services provided, would help increase value for money in the use of public funding and improve accountability and oversight. Finally, it is worth noting that a series of identified weaknesses in statistical capacity indicators call for improving the capacity of the statistical system to inform an evidence-based decision making process, as well as to monitor and evaluate progress in development in the coming years.

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Note: in order to facilitate the reading, only a limited selection of sources has been quoted in this Overview.

For a full bibliography, please refer to the final, full-length Cambodia Systematic Country Diagnostic report, available at: <http://documents.worldbank.org/curated/en/620151496155751423/Cambodia-Sustaining-strong-growth-for-the-benefit-of-all>



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