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ADB

# Country Partnership Strategy

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October 2019

## Cambodia, 2019–2023 —Inclusive Pathways to a Competitive Economy

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 2 October 2019)

Currency unit	–	riel/riels (KR)
KR1.00	=	\$0.00024
\$1.00	=	KR4,095

## ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
COL	–	concessional ordinary capital resources lending
CPS	–	country partnership strategy
FDI	–	foreign direct investment
GDP	–	gross domestic product
GMS	–	Greater Mekong Subregion
ICT	–	information and communication technology
ID	–	identification
IMF	–	International Monetary Fund
IPSAS	–	International Public Sector Accounting Standards
MFI	–	microfinance institution
OP	–	operational priority
PFM	–	public financial management
PPP	–	public–private partnership
PRC	–	People’s Republic of China
PSM	–	public sector management
PSOD	–	Private Sector Operations Department
RSIV	–	Rectangular Strategy Phase IV
TA	–	technical assistance
TVET	–	technical and vocational education and training
US	–	United States

## NOTES

- (i) The fiscal year (FY) of the Government of Cambodia and its agencies ends on 31 December.
- (ii) In this report, “\$” refers to United States dollars.

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## COUNTRY AT A GLANCE

<b>Economic</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
GDP (\$ billion, current)	16.8	18.1	20.1	22.2	24.6
GDP per capita (\$, current)	1,134	1,207	1,323	1,427	1,563
GNI per capita (\$, atlas method) <sup>a</sup>	1,020	1,060	1,140	1,230	1,380
GDP growth (% , in constant prices)	7.1	7.0	6.9	7.0	7.5
Agriculture	0.3	0.2	1.3	1.7	1.2
Industry	10.1	11.7	10.9	9.8	11.6
Services	8.7	7.1	6.8	7.0	6.7
Gross domestic investment (% of GDP)	22.1	22.5	22.7	22.9	23.4
Gross domestic saving (% of GDP)	17.0	17.8	18.7	21.5	24.4
Consumer price index (annual % change)	3.9	1.2	3.0	2.9	2.5
Liquidity (M2) (annual % change)	29.9	14.7	17.9	23.8	24.0
Overall fiscal surplus (deficit) (% of GDP)	(3.8)	(2.6)	(2.8)	(3.1)	(1.4)
Merchandise trade balance (% of GDP)	(23.1)	(21.9)	(19.2)	(19.3)	(23.7)
Current account balance (% of GDP)	(11.9)	(11.6)	(10.9)	(10.5)	(13.1)
External debt service (% of exports of goods and services)	1.2	1.1	1.3	1.3	1.5
External debt (% of GDP)	31.5	31.3	29.2	30.1	28.6

<b>Poverty and Social</b>		<b>Year</b>		<b>Year</b>
Population (million)	15.0	[2009]	16.4	[2019]
Population growth (annual % change)	1.8	[2009]	1.4	[2018]
Maternal mortality ratio (per 100,000 live births)	290.0	[2008]	161.0	[2017]
Infant mortality rate (below 1 year/per 1,000 live births)	68.0	[2009]	26.3	[2017]
Life expectancy at birth (years)	66.0	[2009]	69.3	[2017]
Adult literacy (%) (population 15+years)	87.5	[2009]	91.9	[2015]
Primary school gross enrollment (%)	121.9	[2008]	107.8	[2018]
Child malnutrition (% below 5 years old) <sup>b</sup>	40.9	[2010]	32.4	[2014]
Population below poverty line (%)	47.8	[2007]	13.5	[2014]
Population with access to improved water source (%)	71.3	[2012]	79.0	[2017]
Population with access to improved sanitation facilities (%)	36.8	[2012]	65.0	[2017]

<b>Environment</b>		<b>Year</b>		<b>Year</b>
Carbon dioxide emissions (tons) <sup>c</sup>	6.1	[2014]	8.0	[2015]
Carbon dioxide emissions per capita (tons)	0.3	[2009]	0.4	[2014]
Forest area (million hectares)	10.0	[2011]	8.7	[2016]
Forest area (% of land mass)	55.1	[2011]	44.8	[2015]
Urban population (% of total population)	20.0	[2009]	23.0	[2017]

<b>ADB Portfolio</b> (active loans and ADF grants) <sup>d</sup>	<b>As of 30 June 2019</b>
Total number of loans and ADF grants	
Sovereign	62.0
Nonsovereign	3.0
Total loan and ADF grants amount (\$ million) <sup>e</sup>	
Sovereign	1,344.0
Nonsovereign	43.1
Disbursements (sovereign)	
Disbursed amount, total (\$ million, 2019)	64.4
Disbursed amount, excluding PBL (\$ million, 2019)	49.4
Disbursement ratio, excluding PBL (%)	4.9

... = not available; ( ) = negative; [ ] = latest year for which data are available; ADB = Asian Development Bank; ADF = Asian Development Fund; e = estimate; GDP = gross domestic product; GNI = gross national income; M2 = broad money; OCR = ordinary capital resources; PBL = policy-based lending.

<sup>a</sup> World Bank data accessed on 4 July 2019.

<sup>b</sup> Prevalence of stunting among children under 5 years of age.

<sup>c</sup> Million metric tons.

<sup>d</sup> Covers ADF and OCR financing for projects and programs, including policy-based lending unless otherwise stated.

<sup>e</sup> Net of droppages and cancellations.

Sources: ADB staff estimates; Asian Development Outlook Database; Cambodian authorities; The World Bank, United Nations Children's Fund, World Health Organization.

## I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. Cambodia's economy was one of the fastest growing in the world during 1999-2018, with an average growth rate of 8% per annum that was driven by garment exports, agriculture and tourism.<sup>1</sup> A new government elected in 2018 has emphasized social stability and is keen to make Cambodia a technology driven, upper middle-income country by 2030. The Asian Development Bank's (ADB) new country partnership strategy (CPS) is timely and has been formulated through a broad consultative process. The CPS objective is to support the country become competitive and ensure inclusive development, for the long term, through stronger institutions that promote strategic investments, including in human capital, natural resources, infrastructure and technology. The CPS will support Cambodia's ongoing transition through an integrated package of investments, technical assistance, knowledge and policy advisory services.

2. **Key Development Challenges.** Cambodia has made remarkable progress in economic growth and poverty reduction. Gross national income per capita rose from \$290 in 1998 to \$1,060 in 2015, when Cambodia became a lower middle-income country, and reached \$1,380 in 2018. Growth has also been inclusive. The percentage of people living below the national income poverty line declined from 47.8% in 2007 to 13.5% in 2014.<sup>2</sup> Cambodia's income inequality is also low among the Association of Southeast Asian Nations (ASEAN).<sup>3</sup> Although good progress has been made in health, education, and other dimensions of human development, these gains remain fragile as many people are still vulnerable to poverty and gender-related disparities.

3. Further, an uncertain global trading environment and increased competition regionally means that Cambodia cannot continue to rely on its past sources of growth. High electricity costs, which add to the cost of doing business, are gradually being reduced but remain high, while rising labor costs have eroded the country's competitive advantage in garments and footwear. Although exports from this sector account for 70% of total exports, they remain geared to a low-quality and therefore, low-priced market segment in the European Union and the United States (US). Value addition in agriculture, tourism, and construction also remains limited. While there has been some diversification in light manufacturing towards higher-value products, such as electrical appliances, these constitute about 5% of exports so this transition is still at an early stage.

4. The upgrading and diversification of the economy, including through services and manufacturing, is constrained by skills shortages, gaps in key infrastructure and logistics, and a weak business enabling environment. To accelerate structural transformation and attain its target of achieving upper middle-income country status by 2030, Cambodia will need to increase its competitiveness by building credible institutions; creating a skilled and productive workforce to justify rising wages; attracting high-quality capital investment; and spurring job creation for its youth, including through entrepreneurship.

5. **ADB's strategic objective and priorities.** The CPS has four strategic pillars: (i) accelerate competitiveness and economic diversification; (ii) strengthen human capital and lifelong learning; (iii) foster green, sustainable, and inclusive development; and (iv) improve governance. The CPS will deliver on these priorities by (i) offering policy advice; (ii) supporting reforms; (iii) strengthening institutions, including for social and environment safeguards; (iv)

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<sup>1</sup> ADB staff calculations.

<sup>2</sup> New poverty estimates will be available in early 2020.

<sup>3</sup> The Gini coefficient for Cambodia was 0.41 in 2007, 0.27 in 2013, and 0.30 in 2014. World Bank. 2016. *World Development Indicators*. Washington D. C.

sourcing public and private sector finance and expertise, and (v) promoting gender equality. ADB will continue to pioneer the use of technology, including digital solutions, throughout its operations.

6. In terms of priorities, the CPS redirects ADB-led investments toward energy infrastructure, while continuing to focus on agriculture and natural resources, human capital, and urban development. This focus corresponds to four of the seven operational priorities (OPs) of ADB's Strategy 2030.<sup>4</sup> To support the government's vision of integrating into the global digital economy and benefiting from the fourth industrial revolution, the CPS mainstreams use of information technology including for better targeting of government programs toward underserved people. The CPS also includes a multi-media communication strategy to share ADB's deep operational experience and country knowledge.

7. **Alignment with government development policies and plans.** The CPS is guided by the overarching vision of the Cambodia Industrial Development Policy, 2015–2025 and the medium-term targets of the government's Rectangular Strategy, Phase IV (RSIV).<sup>5</sup> The CPS results framework shows ADB's contribution to the RSIV targets for growth and poverty reduction and is guided by the National Strategic Plan on Green Growth, 2013–2030; and the draft National Strategic Development Plan, 2019–2023, which integrates Cambodia's Sustainable Development Goals.<sup>6</sup>

8. **ADB's value addition.** First, the government appreciates ADB's impartial and professional advice which enables ADB to lead policy dialogue on complex issues such as the quality of foreign direct investment (FDI), governance, gender, as well as climate change. Second, the government draws on ADB's technical expertise in overseeing planning and execution road maps, identifying investment gaps and proposing financing options. Third, ADB is uniquely positioned to offer innovative and integrated solutions in terms of sovereign financing, public–private partnerships (PPP) advisory services, and non-sovereign financing. Fourth, given the regional public goods nature of many sustainable development goals (SDGs), ADB's convening role in supporting sub regional cooperation through initiatives such as the Greater Mekong Subregion (GMS) Program is well regarded.<sup>7</sup>

## II. COUNTRY DEVELOPMENT CONTEXT

9. **Peace and the transition to a market economy.** After 3 decades of civil conflict and instability, a new phase of state-building began for Cambodia in 1991 with the Paris Peace Agreement and the 1993 elections for a Constituent Assembly. Growth was achieved by transitioning to a market economy with openness to trade and capital flows, supported by development assistance, preferential market access to the European Union (EU) and the United States (US) and, more recently, large foreign direct investment (FDI). With large net FDI flows, estimated at 13% of GDP in 2018, net official development assistance now stands at only 6% of GDP.

<sup>4</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>5</sup> Government of Cambodia. 2015. *Cambodia Industrial Development Policy, 2015–2025*. Phnom Penh; and Government of Cambodia. 2018. *Rectangular Strategy for Growth, Employment, Equity, and Efficiency, Phase IV*. Phnom Penh.

<sup>6</sup> Government of Cambodia. 2013. *National Strategic Plan on Green Growth*. Phnom Penh; and Government of Cambodia. 2014. *National Strategic Development Plan, 2014–2018*. Phnom Penh.

<sup>7</sup> ADB and UNDP (2019). *Cambodia SDG Snapshot*.



10. **An evolving political economy.** While elections were held in July 2018, concerns related to political and human rights linked to these elections, may result in the loss of duty-free access to key export markets such as the European Union and the US. In the short term, this may lead to a loss of up to \$650 million in annual export revenues from the European Union.<sup>8</sup> For the longer term, socio-economic policy choices made by Cambodia will have a profound impact on its ability to attract diversified investment, realize productivity gains and sustain inclusive growth. Separating judicial, legislative, and executive powers; encouraging free and critical thinking; and promoting healthy checks and balances while maintaining openness are all needed if Cambodia is to achieve its goal of becoming a thriving middle-income country.

11. **The challenge of sustaining growth.** The structural transformation of Cambodia's economy is clearly underway with the share of agriculture in GDP growth and employment declining steadily. In turn, garments and footwear manufacturing and tourism services have been key sources of growth and job creation, each employing about 1 million people. Garments and footwear exports rose to \$8.0 billion in 2017, while international visitor arrivals were 5.6 million in 2017. Tourism receipts as a share of gross domestic product (GDP) reached 18.1% in 2017, the highest percentage among the member states of the ASEAN.

12. Although not yet large, promising new sources that can help sustain growth, such as sustainable ecotourism and niche organic products that capitalize on Cambodia's rich biodiversity and natural habitat, are taking root. Seventy five percent of Cambodians now have mobile internet access. Information technology start-ups and e-commerce companies are gearing to meet the demand of the country's youthful population and are opening pathways to a digital economy.

13. **Stable macroeconomic fundamentals, high foreign direct investment but low productivity.** Cambodia's macroeconomic management is based on a prudent fiscal policy, high levels of de facto dollarization and openness to trade and capital flows. Improved domestic revenue mobilization enabled the government to expand public services while maintaining a conservative approach to borrowing. Cambodia is at low risk of sovereign debt distress. Inflows of FDI and official development assistance have financed a large current account deficit, which averaged 12.1% of GDP during 2014–2018. The strong performance of the economy is not without macro-financial risks stemming from dollarization of the economy and high FDI inflows. Pervasive dollarization constrains the wider use of market-based instruments for monetary policy and reduces the National Bank of Cambodia's ability to act as a lender of last resort. The GDP growth rate is expected to decline to about 6% per year in the medium term, but there are several risks to this outlook. Despite high FDI, gross fixed capital formation is lower than comparator countries. Underinvestment in equipment and machinery could slow productivity growth in the medium term. About 35% of FDI inflows go to the banking sector, partly fueling the over investment in the construction and the real estate sector. The finance sector and real economy are therefore vulnerable to capital outflows resulting from a tightening of global financial conditions, a weakening of the trade environment, or corrections in the domestic real estate sector.

14. **Infrastructure gaps in energy, transport, and logistics undermine competitiveness.** Cambodia ranked 94th of 137 countries for infrastructure competitiveness during 2017–2018 in the World Economic Forum's Competitiveness Index.<sup>9</sup> Cambodia's private sector has identified reliable electricity supply as the most important input for manufacturing. Household electrification rates have increased to 72% in 2016. Yet, electricity is unreliable and expensive, curtailing growth of SMEs in rural and urban areas. Grid extension and reduced reliance on diesel are helping to lower the cost of generation but electricity prices are still high, and Cambodia had the third-highest

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<sup>8</sup> World Bank. 2019. *Cambodia: Economic Update*. Washington, DC.

<sup>9</sup> World Economic Forum. 2019. *Global Competitiveness Report 2018*. Geneva.

electricity prices in the region after Japan and the Philippines. Prices are also generally higher in rural areas than in towns and cities because of limited grid connectivity. Cambodia's Power Development Plan (2015) does not adequately consider the need to develop renewable energy such as solar to increase energy security, reduce costs, and limit environmental impact. The use of rooftop solar and renewable-based minigrids to increase access along with digital technologies for system management and grid stability are being considered.

15. Although there has been considerable investment in transport infrastructure, 95% of rural roads and 70% of provincial roads remain unpaved. The government is preparing an integrated transport master plan, which will include policies, strategies and investment plans for road, urban transport, railway, inland waterway transport, seaports and logistics. Large investments are needed to upgrade infrastructure and the government is considering different financing options such as the build–operate–transfer structure for the country's first expressway from Phnom Penh to the port city of Sihanoukville. Cambodia ranked 98<sup>th</sup> out of 160 countries in the World Bank's logistics performance index (2018) and is taking steps to implement its logistics improvement masterplan.

16. **A relatively poor business climate for local firms.** Cambodia's ranking in the 2018 Doing Business survey by the World Bank has also remained low. It ranked 135<sup>th</sup> out of 190 countries, compared with Viet Nam at 68<sup>th</sup> and Thailand at 26<sup>th</sup>. Cambodia has not improved its relative position to other countries since 2011. Cambodia's high costs of firm establishment and operations are often seen as related to structural weaknesses of the private sector, including the high share of informal businesses, the "missing middle" segment of businesses,<sup>10</sup> an absence of significant investment in backward integration of the largely foreign-owned garment sector,<sup>11</sup> and limited local entrepreneurship in the manufacturing sector. The capacity, financial, and institutional problems, which small and medium enterprises (SMEs) face and characterize the broader domestic business environment stand in stark contrast to the open, business friendly FDI and macroeconomic environment. Only 10% of Cambodia's agricultural goods are estimated to be processed within the country, and access to long term credit for commercial agriculture remains difficult.

17. **Cambodia's finance sector is dominated by banks, with rising concentration risks.** The current financial sector development strategy (2016–2025) aims to develop a sound financial sector that can contribute to poverty reduction by diversifying economic growth and increasing access to finance. To do this the constraints to be addressed, include: (i) limited financial inclusion, due to the lack of reasonably-priced credit in local currency and weak consumer protection mechanisms; (ii) the need for a functional financial stability framework; and (iii) weaknesses in key financial sector infrastructure relative to international norms and standards.

18. Nonbank financial subsectors such as leasing, capital markets (equity and bonds), insurance and pension funds, remain underdeveloped. Rapid growth in bank lending closely linked to expansion of real estate, construction and microfinance institutions (MFIs) has increased systemic risks.<sup>12</sup> Cambodian authorities have introduced new macro-prudential measures to improve finance sector resilience. This includes new minimum capital requirements for finance sector institutions, new reserve requirements on foreign borrowing, and an increase in the liquidity coverage ratio. However, there is a need to further strengthen banking supervision and finance

<sup>10</sup> Only 2% of businesses fall into the category of being SMEs that employ between 11–50 staff, while medium-sized enterprises with between 51–100 staff account for 0.2% of businesses.

<sup>11</sup> According to enterprise surveys, the share of imported inputs for the production process by foreign-owned manufacturing firms established in Cambodia, at 95%, is by far the largest among peer countries, limiting potential spillover benefits related to FDI (lower scope for backward linkages).

<sup>12</sup> Credit growth to the real estate sector has averaged 35% since 2016, driven by a few banks. Risks are heightened by real estate developers reportedly offering mortgages; an unmonitored and unregulated activity. International Monetary Fund (IMF). 2018. Cambodia: 2018 Article IV Consultation. Press release. 17 December.

sector regulation including provisions to counter money laundering. Cambodia lacks consumer protection mechanisms, such as deposit insurance, although efforts to strengthen consumer protection are underway with ADB support. To support comprehensive growth in the finance sector, the government will need to strengthen the legal framework and upgrade financial market infrastructure and systems for clearing, payments, and settlement. The launch of the Credit Bureau Cambodia in 2019 was a welcome development. The bureau covers banks and MFIs and could be expanded to cover other creditors.

**19. Financial inclusion improved but poor spending decisions add to risks of over indebtedness.** In 2017, only 34% of the population saved at banks and MFIs while 16% of the population borrowed from these institutions.<sup>13</sup> In contrast, 36% of the population in the Lao People's Democratic Republic borrowed from such institutions. However, the average loan size for MFIs that focus on the poorest households has increased from 45% of median income to 70% of median income. Household members often pool their income to service the increasing loan sizes. Low financial literacy has meant that households have used debt (often with land as collateral) for consumption or to repay debts, rather than for investment, and this adds the risk of overborrowing by households.

**20. Poverty has declined but vulnerability is widespread and social protection is limited.** The proportion of the population living below the national poverty line declined from 47.8% in 2007 to 13.5% in 2014.<sup>14</sup> However, Cambodia is still one of the poorest countries in Asia.<sup>15</sup> Poverty is concentrated in rural areas, with elderly women and households headed by women particularly vulnerable. Most poverty reduction during 2007–2012 was because of high agricultural commodity prices. Lower rice and rubber prices and adverse weather conditions in 2013 and 2015 led rural households to diversify to nonfarm wage employment and small businesses. Most Cambodians who are not in extreme poverty are either moderately poor or economically vulnerable. Social assistance covers less than 2% of the poorest quintile of the population. The government introduced a new Social Protection Policy Framework in 2017.<sup>16</sup> ID Poor, a central targeting mechanism for poor households, is the main tool for registering the poor and is managed by the Ministry of Planning. However, expanding social protection will be challenging unless targeting can be improved with better identification.

**21.** Although malnutrition has declined, 32.4% of children under the age of 5 were stunted in 2014. Access to improved and safe water (79.0 % in 2017) and sanitation facilities (65% in 2017) remains below the average for lower middle-income economies. Poor access to clean water and sanitation in rural areas is a major contributor to stunting, along with suboptimal infant feeding practices and low dietary diversity. Cambodia has a high maternal mortality ratio, at 161 maternal deaths per 100,000 live births in 2017, indicating insufficient quality and coverage of basic health care.<sup>17</sup>

**22. Challenges in developing a skilled workforce.** Skills gaps are emerging in almost all employment categories where higher level skills are needed to move up the value chain. These

<sup>13</sup> The figures exclude rural credit institutions.

<sup>14</sup> National Institute of Statistics. 2017. *Cambodia Socio-Economic Survey 2016*. Phnom Penh. Updated poverty measures are expected by early 2020.

<sup>15</sup> Cambodia is one of the 75 poorest countries in the world eligible for IDA. ADB also provides concessional lending or COL to Cambodia. Eligibility for IDA support depends first and foremost on a country's relative poverty, defined as gross national income per capita below an established threshold and updated annually (\$1,145 in FY2019), with a graduation period.

<sup>16</sup> Government of Cambodia. 2017. *National Social Protection Policy Framework, 2016–2025*. Phnom Penh.

<sup>17</sup> In 2015, the maternal mortality ratio was 197 per 100,000 live births in the Lao People's Democratic Republic, 54 per 100,000 live births in Viet Nam, and 178 per 100,000 live births in Myanmar. [www.who.int](http://www.who.int).

gaps need to be addressed to attract and retain investment. Almost all children complete primary school, and though 59% of children progress to secondary education, dropout rates are high at 16% for lower secondary school and 17% for upper secondary school. As a result, only 30% of Cambodia's working-age population have completed lower secondary education. Of this cohort, only 6.6% completed post-secondary education. Furthermore, quality remains low by international standards. In 2018, Cambodia's Program for International Student Assessment for Development reported that only 6% of students aged 15 years achieved the minimum level of proficiency in science and only 10% achieved the minimum level of proficiency in mathematics. The technical and vocational education and training (TVET) system is also weak. It lacks the links to industry that are needed to make training relevant.

**23. Concerted action needed to address gender disparities and risks to productivity.**

Cambodia's Human Development Index (2017) reveals notable gender disparities; women show lower gains on expected years of schooling, mean years of schooling, and per capita income than men. Since women account for a larger share of the population (there are 94 men to every 100 women)<sup>18</sup> and comprise 48.9% of the labor force, developing this critical human resource is key for productivity growth.<sup>19</sup> Cambodia owes much of its spectacular growth to women's participation in the garment and tourism sectors. However, with the garment industry's eventual decline, it will be important to ensure that women and girls have the skills needed to move into alternative and growing sectors, including services, higher-value industries and nontraditional sectors.

24. While women earn substantially less than men, the earnings gap narrows with the attainment of upper secondary and tertiary education, underscoring the importance of raising women's enrollment in these education levels. In 2014, only 5.3% of women in the labor force had post-secondary education compared with 8.0% for men.<sup>20</sup> Women's representation in leadership in the civil service has improved, although in 2018 only 15% of secretaries of state and undersecretaries were women. Women held only 20% of the seats in the national assembly, and 4 of the 26 provincial governors were women.<sup>21</sup> Women's visibility in leadership positions reflects a progressive public policy and can have a huge impact on the aspirations of younger generations.

**25. Agriculture in need for transformation.** The structural transformation of Cambodia's economy is evident in the fast-declining share of agriculture in value addition and employment. Nonetheless, agriculture still contributes 22% of the GDP. It is important to address major reasons for the sector's low productivity, and low resource efficiency which include (i) poor and climate vulnerable agricultural production and service infrastructure; (ii) underdeveloped agricultural value chains; and (iii) unsustainable natural resources management and water resources management exacerbated by climate change. Even in rural areas, income from agriculture accounted for only 20% of overall household income in 2017.

**26. Climate change and environmental degradation are growing threats.** Cambodia ranked 13th in the Global Climate Risk Index, 1995–2015 and 12th in the World Risk Index, 2018. While the country is known for its rich forest resources and forest habitat, uncontrolled land conversion, illegal logging, and urbanization have reduced the forest cover from 13.1 million

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<sup>18</sup> United Nations Fund for Population Activities. 2019. *General Population Census of the Kingdom of Cambodia*. Phnom Penh.

<sup>19</sup> IMF. 2019. *Finance and Development – Women and Growth*. Washington. D.C.

<sup>20</sup> Government of Cambodia, Ministry of Planning, National Institute of Statistics. 2018. *Cambodia Socio-Economic Survey 2017*. Phnom Penh.

<sup>21</sup> Government of Cambodia, Ministry of Women's Affairs. 2018. *Cambodia Gender Assessment: Women in Public Service and Leadership*. Phnom Penh.

hectares in 1973 to 8.7 million hectares in 2016.<sup>22</sup> Much of the remaining forest has been degraded by selective logging and unsustainable fuelwood extraction. Human-induced natural resource degradation and poorly planned development in low-lying areas have compounded the risks arising from climate change and increased the risk of natural disasters such as floods and droughts. They have also undermined sustainable water resource management. Concerted action is needed to address environmental degradation, reduce disaster risk, strengthen the management of forests and water resources, and ensure the availability of water for key sectors such as agriculture, urban and rural development.

**27. Poorly managed urbanization and persistent rural–urban disparities.** Most Cambodians live in rural areas, but the country is urbanizing rapidly. The urban population grew at an average rate of 7% per year during 2015–2017 and is projected to increase from 24% of the total population in 2018 to 30% by 2030. 50% of the national GDP is produced in urban areas. Urban infrastructure development to address higher density and spatial concentration has been hindered by the lack of an integrated approach, due to limited institutional coordination, and poorly defined jurisdictional and administrative boundaries. Rapid rates of expansion in the construction sector has been partly fueled by demand in cities such as Phnom Penh and Sihanoukville, which in turn has exacerbated the already limited provision of basic urban and municipal services. Provincial governments are heavily reliant on central government transfers and subsidies to support costs associated with recurrent expenditure, including asset maintenance and renewal.

**28.** Cambodia’s poorly planned urban development heightens its vulnerability to the impacts of natural disasters and climate change, which further constrain economic growth. While considerable progress has been made in providing roads, water supply, sanitation, and solid waste management services, large gaps remain. In 2017, only 77.0% of urban residents and 11.0% of rural residents had a piped water supply. More than 75% of urban residents did not have regular solid waste management services.

**29. Governance and institutional capacity remain weak.** Public sector management (PSM) reforms in Cambodia can be grouped into three longstanding programs: public financial management (PFM), decentralization, and public administration.<sup>23</sup> Improvements in PFM systems have been gradual but there have been significant achievements in areas such as tax collection. Decentralization has helped to improve public service delivery and citizen engagement. However, a large portion of subnational expenditures is allocated to recurrent costs such as salaries. As a result, development spending has been curtailed and financing local investment has proved to be challenging. It will be important to continue to build capacity at the subnational level while clarifying the division of responsibilities for subnational service delivery. Social and environment safeguards have been considerably strengthened with policies and standard operating procedures.

**30. Integrity institutions have moderately improved.** The implementation of the Law on Anti-Corruption and establishment of the Anti-Corruption Unit in 2010, contributed to strengthening institutions. However, Cambodia continues to languish in the bottom quintile of countries measured by Transparency International’s Corruption Perceptions Index, and placed 161st of 180 countries in 2018.<sup>24</sup> It also scores poorly on budget openness and transparency, and was in the bottom quintile of the 115 countries surveyed under the open budget initiative. The

<sup>22</sup> Cambodia has one of the largest protected area systems in Southeast Asia, covering about 30% of the country’s territory.

<sup>23</sup> Since 2005, the government-led Public Financial Management Reform Program has been implemented in stages. Stage 1 (2005–2008) improved budget credibility; Stage 2 (2009–2015) improved financial accountability; Stage 3 (2016–2020) aims to improve budget policy links; and Stage 4: will improve performance accountability (2021–2025).

<sup>24</sup> Transparency International. Corruption Perception Index 2018. <https://www.transparency.org/cpi2018>.

National Audit Authority is constrained by inadequate resources and capacity and a perceived lack of independence.

### III. COUNTRY STRATEGY FRAMEWORK

#### A. Lessons from Previous Strategy

31. Several lessons emerged during the implementation of the CPS 2014–2018. The CPS 2014-2018 final review validation by ADB’s Independent Evaluation Department, has rated the overall program as *less than successful on the borderline*. Given the rapid changes in Cambodia, these highlight the need for the current CPS to (i) support government leadership as it undertakes public sector management (PSM) reforms, for example in reducing fragmentation and overlapping mandates among line ministries, and improve screening of investments; (ii) adopt more comprehensive approaches, rather than building standalone infrastructure for net positive impacts such as rural and urban plans (with land use management, zoning, nature-based solutions); (iii) support local and municipal governments to raise funds for operations and maintenance; (iv) track technical assistance (TA) better to achieve more effective institutional capacity building; (v) increase engagement with the private sector ; (vi) undertake policy analysis to improve the business and regulatory environment for FDI diversification; and (vii) formulate more effective gender equality policies at the national level.<sup>25</sup> In addition, there is value in undertaking a sequenced approach to implementing ADB’s safeguards policy by building awareness, capacity and linking to other reforms such as land management.

#### B. National Development Strategy

32. **Visions 2030 and 2050.** The government is working toward upper middle-income status by 2030 and formulating a vision 2050 strategy with the aim of becoming a high-income nation by 2050. The CPS supports medium-term priorities under the RSIV, which include energy, transport infrastructure, urban development, and education and skills, to support the achievement of growth, employment, equity, and efficiency. Accelerating governance reforms, including strengthening the legal and regulatory framework and institutions remain at the core of the government’s strategy and therefore of ADB support.

#### C. Role of Development Partners

33. Cambodia has a robust development coordination structure with 16 sector-based technical working groups. Each group is chaired by a senior government representative with a development partner as a technical facilitator. ADB cochairs the PFM Reform Program and the Sub-National Democratic Development (decentralization reform) technical working groups and participates in other groups. The development coordination mechanisms help ADB work closely with lending and nonlending development partners.<sup>26</sup> Most development partners work across multiple sectors and specialize in selected subsectors.

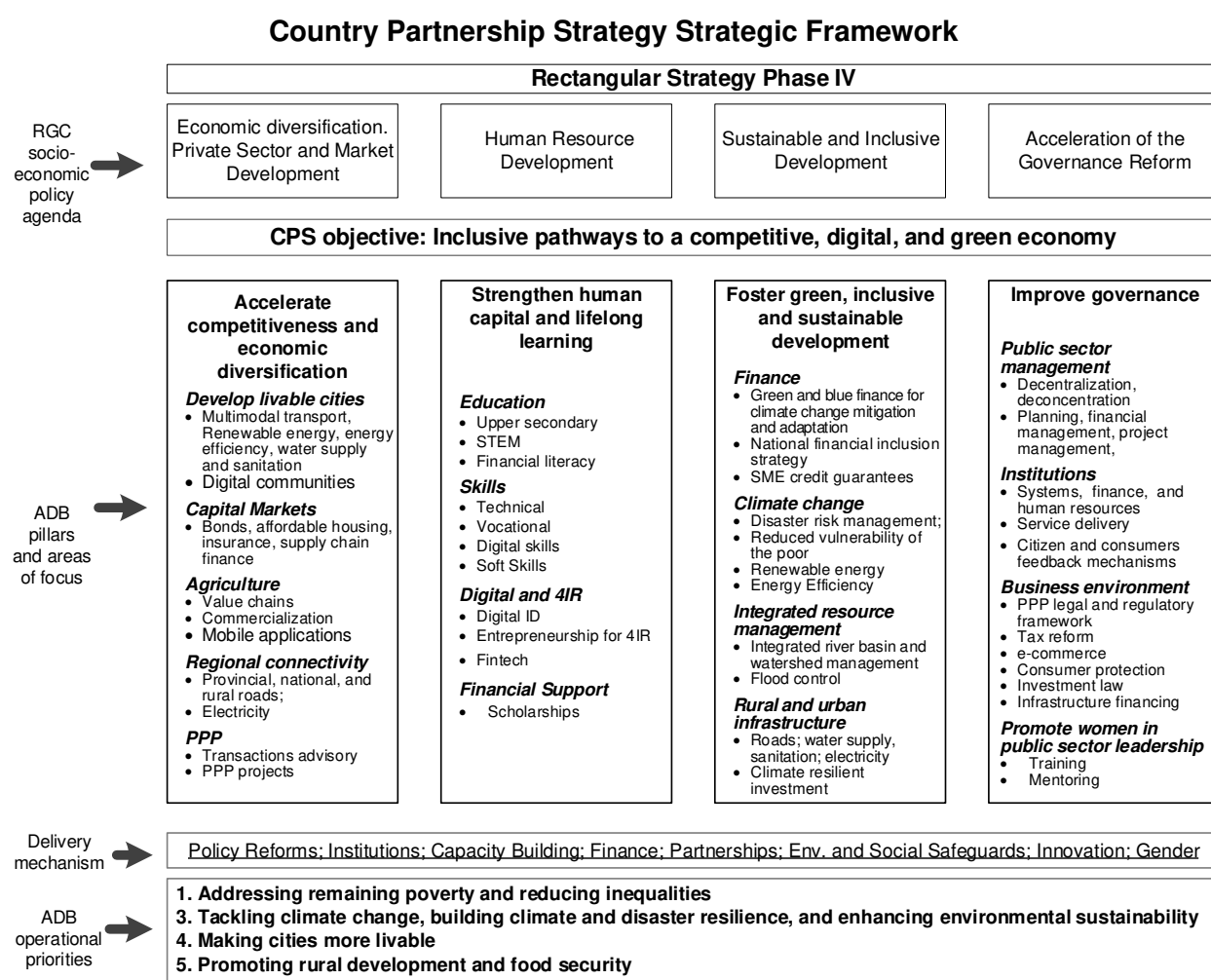
<sup>25</sup> More than 86% of all ADB-financed projects in Cambodia have gender elements. ADB. 2019. *Cambodia CPS 2014-2018. Final Review*. Manila.

<sup>26</sup> ADB will pursue opportunities for partnerships in areas of common strategic interest, including with traditional partners for cofinancing (Agence Française de Développement; Australia’s Department of Foreign Affairs and Trade, the Export–Import Bank of Korea, the International Fund for Agricultural Development, the Japan International Cooperation Agency, the World Bank , German development cooperation through KfW, the Nordic Development Fund, and the Swedish International Development Cooperation Agency) and global funds (the Bill & Melinda Gates Foundation; The Global Fund to Fight AIDS, Tuberculosis and Malaria; the Pilot Program for Climate Resilience; and the Urban Environmental Infrastructure Fund). ADB is also pursuing potential partnerships with UN agencies and civil society organizations as opportunities arise.

34. ADB, the Japan International Cooperation Agency, and the World Bank are key partners in Cambodia's development and conduct joint portfolio reviews. The combined commitments of these three development partners accounted for \$2.6 billion or 35.4% of the overall official development assistance in Cambodia in 2017. Development lending from institutions such as Bank of China and the Export–Import Bank of Korea is also significant. The transport sector received the most development assistance in 2017, followed by health.

#### D. ADB's Strategic Objective and Operational Priorities

35. ADB will deliver its strategy through four pillars that align very closely with the RSIV areas of focus: (i) accelerate competitiveness and economic diversification; (ii) strengthen human capital and lifelong learning; (iii) foster green, sustainable, and inclusive development and (iv) improve governance. These pillars are designed to reinforce each other for greater development impact (Figure).



4IR = fourth industrial revolution; ADB = Asian Development Bank; CPS = country partnership strategy; ID = identification; IT = information technology; PPP = public–private partnership; RGC = Royal Government of Cambodia, STEM = science, technology, engineering, and mathematics.

Source: Asian Development Bank.

36. **Pillar 1: Accelerate competitiveness and economic diversification.** ADB's strategy is to undertake several interrelated interventions to help Cambodia improve its competitiveness. At

the core of this will be building livable cities (Strategy 2030 operational priority [OP] 4: making cities more livable) that attract investment and talent, create production and service ecosystems, and link with supply chains that extend to rural areas. To do so, ADB will focus on comprehensive development of a few priority secondary cities with potential for significant economic activity, such as the border cities of Bavet and Poipet or tourism centers such as Kampot, Siem Reap, and Battambang.<sup>27</sup> Other development partners will work in other towns.

37. ADB will help create cities that are attractive to local and international businesses by supporting city administrations, with spatial planning, zoning, urban management, infrastructure development and financing mechanisms (including land and property taxation) to eventually become financially self-reliant. Innovative features being introduced include climate and disaster resilient infrastructure in support of OP3 (tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability), nature-based solutions, digital platforms and analytics for better operations and maintenance and efficient service delivery. Social inclusiveness will be led by government through affordable housing; all-weather infrastructure; and safe and efficient transport services, including waterways, that are designed to connect workers to jobs and thus help reduce disparities caused by gender inequality, poverty, or disability. Provision of electricity to consumers and power to industries, will be a critical aspect of building livable and competitive cities. Power supply reliability needs to be improved to attract higher end manufacturing and relieve congestion around major load centers. ADB has begun to invest in solar energy through competitive tenders promoting public–private partnerships (PPPs) that are establishing competitive and therefore lower price benchmarks. ADB will continue to invest in renewable energy and seek energy efficiency investments through grid extensions, including for cross-border power imports. ADB’s support for the finance sector, including capital market development, will help raise and channel suitable financing to companies; promote entrepreneurship; and increase consumer protection through legislation, supervision, and regulation by the National Bank of Cambodia and the Securities and Exchange Commission of Cambodia.

#### **BOX: SOLUTIONS FOR LIVABLE CITIES**

Building on the Strategy 2030<sup>a</sup> operational priorities, the Asian Development Bank (ADB) is committed to developing solutions for conserving water and nature, building resilience, ensuring equitable access to services, and adopting digital tools for improved urban planning and service delivery. ADB’s urban investments will address access to basic urban services (water supply, wastewater, municipal solid waste, and storm water drainage), area-based solutions for communities, and options for low-income and informal settlers. ADB will also support the establishment and growth of local-level institutions to ensure effective long-term planning and introduce cost-recovery options for sustainable service delivery.

<sup>a</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

38. Another core element of the strategy to drive Cambodia’s competitiveness and incomes is to increase the value of agriculture products. The CPS’s focus will shift from investment in standard irrigation schemes (which are increasingly being financed by bilateral partners) to a “whole of systems” approach to improve the productivity and commercialization of agriculture through (i) crop diversification, (ii) use of water-saving technologies, and (iii) strengthening of value chains for niche and uniquely branded Cambodian products such as pepper. The GMS Climate

<sup>27</sup> During the previous CPS period, ADB had sought to support basic needs in secondary towns in 15 of the 26 provinces by providing sanitation, landfills, water supply, wastewater treatment plants, and roads. The unexpectedly rapid urbanization without urban planning led to changes in designated infrastructure sites and implementation delays.



Friendly and Safe Agribusiness Value Chain Strategy 2017 identifies several other agricultural and horticultural products that Cambodia can focus on.

39. ADB's value lies in bringing together and working across line ministries, agencies, and local governments to create farm-to-market systems with the active inclusion of the private sector. This includes provision of small and medium-sized enterprise finance; post-harvest facilities to reduce waste; electricity; processing facilities; and logistics and connectivity, including e-commerce to increase outreach to regional markets such as ASEAN, India, and the PRC. ADB's sovereign and nonsovereign operations will work together to attract investments in these areas.

40. To support agriculture commercialization, access to markets and tourism, and facilitate trade ADB will continue to improve selected national, provincial and rural roads while exploring nonsovereign investments in information and communication technologies. ADB will also continue to support sanitary and phytosanitary measures and communicable disease control as part of the GMS initiative to ensure continuing access to markets.

41. All these initiatives will require finance—for governments, businesses, and consumers. While ADB will continue to focus on financial inclusion, it will increasingly work on financial intermediation and the development of bond markets to enable the government to tap local and international sources of financing. Floating a sovereign bond, as well as corporate bonds will help establish yield curves needed by institutional investors, and international rating agencies. Under the CPS, ADB's private sector operations will explore opportunities for insurance, and supply chain finance to help improve financial intermediation, and reduce concentration risks in the banking sector.

42. **Pillar 2: Strengthen human capital and lifelong learning.** Building Cambodia's human capital will be crucial not only for its plans for economic diversification, but also for sustaining poverty reduction (OP1: addressing remaining poverty and reducing inequalities), and it will require multisector interventions.<sup>28</sup> While Cambodia had 4 million direct jobs in agriculture in 2014, the main source of household income even in rural areas is from wage employment (construction, tourism, garments) and non-agriculture self-employment, which contributes 71.8% of rural incomes (Cambodia Socio Economic Survey 2017). The government will therefore need to create systems that allow workers to continually upskill and reskill, along with adequate incentives for workers to invest in their own lifelong learning.<sup>29</sup> Under the new CPS, ADB will focus on education, skills, tax incentives, financial literacy and financial inclusion including through financial technology or fintec. Specifically, ADB will strengthen science, technology, engineering, and mathematics education in upper secondary schools. It will also invest in qualifying teachers, a revised curriculum, and enhancing student assessment.

43. In addition to providing financing, ADB will help to develop road maps for secondary education and human resources development for 2020–2030 and will continue to foster private sector engagement in service provision. The government has taken the lead in creating the Skills Development Fund based on ADB advisory support. To improve the relevance of technical and vocational education and training (TVET) schemes, the fund allows the private sector to link with training providers and apply for grants. Under the new CPS, ADB will provide financial and institutional support for the fund's operations. ADB is also working with the Cambodian Federation

<sup>28</sup> There is a close link between sanitation, nutrition, and cognitive development. Lack of access to clean water and sanitation leads to intestinal disorders that result in low absorption of nutrients, lower cognitive ability and stunting.

<sup>29</sup> In 2017, only 30% of Cambodia's working-age population (aged 15–64) of 10.4 million had completed lower secondary education (grade 9) and only 10% had completed upper secondary education (grade 12). The working-age population includes 2.4 million youth (aged 15–24).

of Employers and Business Associations, and training institutes in Singapore to boost the quality of skills training and will ensure that digital and soft skills are integrated into TVET.

44. Unlike skills, entrepreneurship cannot be taught, but it can flourish in the right environment. The CPS will focus on promoting Cambodia's current and budding entrepreneurs by (i) exploring equity and debt investment in businesses, (ii) establishing mentoring programs for women with regional entrepreneurs, and (iii) improving visibility through use of multimedia communications. ADB has been working with the government to develop a national unique digital identification (ID) system. Under the new CPS, ADB will pilot the digital ID. Once established, the ID can be used to identify beneficiaries of multiple social protection schemes, allowing better targeting to reduce inefficiencies and leakages while safeguarding privacy. The ID can especially improve financial inclusion and access to other services for the bottom 40% of the population by income. Scholarships and access to finance can increase household livelihoods and incomes, which can then sustain investments in learning and other forms of human capital building.

45. **Pillar 3: Foster green, sustainable, and inclusive development.** The CPS is designed to help the government develop a green and low-carbon growth pathway and achieve its Nationally Determined Contributions and commitments under OP3 (tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability). ADB operations are designed to (i) promote sustainable management of natural resources, including along the Mekong River, the Tonle Sap Lake, and the national biodiversity conservation corridors linked to the GMS subregion; (ii) increase the share of renewable energy in the overall mix and promote energy efficiency; and (iii) advance policy dialogue and pricing incentives. ADB will support the creation of a national water resources information center and strengthen the national climate and flood forecasting system by building on its current support for hydrometeorological systems. ADB will also invest in fisheries value chain development, to promote the blue economy. ADB's operations in transport, agriculture, energy, water supply and sanitation and education are avenues for making vulnerable communities more aware of and resilient to disasters. Under the new CPS, ADB will continue to allocate grants and lending resources for disaster risk reduction, including flood risk. To raise incomes, ADB will support the National Strategy for Financial Inclusion as well as a new SME guarantee scheme, aimed at rural and female entrepreneurs.

46. **Pillar 4: Improve governance.** ADB's support for governance will continue to focus on PSM, including (i) PFM for greater transparency and accountability of public expenditures; and (ii) decentralization and deconcentration reforms to complement ADB's investments in infrastructure and public service delivery, especially in subnational administrations.<sup>30</sup> The government credits ADB with helping to sustain its PFM reform progress and sequence complex reforms. The new CPS plans to continue the ongoing strategic PFM and capacity-building activities with the Ministry of Economy and Finance and other selected ministries. Important areas of support include implementation of a new Budget System Reform Strategy, 2018–2023; the Subnational Administration Budget System Reform Strategy (2019–2025); the Revenue Mobilization Strategy, 2019–2023; work on public investment management;<sup>31</sup> and updating of the financial management information system including extension to subnational levels of government. ADB will also continue to support the Sub-National Investment Fund to provide additional funds for local

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<sup>30</sup> Subnational administrations include provincial, district, municipality, and commune.

<sup>31</sup> The International Monetary Fund (IMF) initiated a public investment management assessment for Cambodia in July 2019. Globally, the IMF estimates that lack of efficiency (including corruption and or mismanagement) leads to a 33% loss in public investment.

infrastructure development.<sup>32</sup> In doing so, ADB will also strengthen institutions, including those that improve the business environment through legal and regulatory support for the draft Public–Private Partnership Law,<sup>33</sup> tax reform; consumer protection; and e-commerce. Citizen and consumer feedback mechanisms are already being developed by government with the use of technology. Since leadership is a critical driver of reforms, ADB will increase the provision of leadership and management training to civil servants and councilors of subnational administrations, especially women.

## **E. Priorities for Knowledge Support**

47. ADB’s knowledge engagement will (i) facilitate evidence-based policy dialogue, (ii) be based on collaboration with development partners on priority reform issues, (iii) engage nonstate actors in dialogue on policy formulation, and (iv) support innovation and creative disruption. ADB-financed technical advisors will be engaged more proactively at the country level to promote cross-sector planning and management. The government has initially requested three international forums to learn from global best practices on power sector development, financial services, and skills for industrial development. The country knowledge plan supporting each of the four CPS pillars is in Appendix 2.

## **IV. STRATEGY IMPLEMENTATION**

### **A. Indicative Resource Parameters**

48. Cambodia is classified as a Group A country, with access to concessional ordinary capital resources (COL) only.<sup>34</sup> The country allocation of COL resources for Cambodia during 2019–2022 is \$1,097.7 million. This includes \$20.00 million in ADF grants and \$40.00 million in COL from the disaster risk reduction financing mechanism under ADF 12.<sup>35</sup> Funding from the disaster risk reduction financing mechanism will support incremental costs in strengthening the disaster resilience of investments. A total of \$1,264 million in concessional lending is planned for 2019–2022. This over programming allows for slippage so the full COL allocation can be realized. An additional \$197 million in grants and cofinancing is planned, bringing the total planned program to an average \$365 million per year. The nonlending program will support transaction TA and knowledge and support TA. ADB will continue to expand its nonsovereign operations beyond the average of \$20 million per year during 2016–2018. Cost-sharing parameters are unchanged.<sup>36</sup>

### **B. Implementation Priorities**

49. **Programmatic long-term approaches.** ADB will build the capacity of line ministries to develop sector road maps, investment estimates, financing plans, and strong financial management practices. Such prerequisites for programmatic approaches will facilitate effective institutional

<sup>32</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan and Project Loan for Subprogram 2 to the Kingdom of Cambodia for the Decentralized Public Service and Financial Management Sector Development Program*. Manila.

<sup>33</sup> Government of Cambodia. 2019. *Draft Law on Public Private Partnerships*. Phnom Penh. In 2012, ADB and the *Agence Française de Développement* developed an assessment of PPPs in Cambodia. The PPP law follows the Law on Concessions (2007).

<sup>34</sup> ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila; and ADB. 1998. *A Graduation Policy for ADB’s DMCs. Corrigendum 1*. Manila.

<sup>35</sup> ADB. 2016. *Supporting Disaster Risk Reduction*. Paper prepared for the second ADF XII replenishment meeting. Kathmandu. 24–27 February.

<sup>36</sup> Cost-sharing ceilings for loans and TA will be maintained at 99%. There will be no specific cost-sharing ceiling for specific sectors; no country limit will be applied to recurrent cost financing; and taxes and duties will be eligible for ADB financing.

capacity development, sustains reforms, and ensure value for money in procurement. A mix of suitable modalities will be used for operations including those that enhance the program's ability to improve project readiness. This will also encourage fewer and larger investments in selected sectors.

50. **Selectivity.** ADB's support under the new CPS and the resources allocated have been chosen carefully to: (i) address emerging constraints to inclusive growth in Cambodia, such as a shortage of technical skills; (ii) help transform the energy and agriculture sectors with greater private sector participation; and (iii) utilize ADB's long-term engagement and credibility in leading complex reforms and coordinating development finance in certain areas. In addition, sector selection was determined after an assessment of current ADB staff skills as well as future skills needed to deliver the program. Under the new CPS, 78% of ADB's programmed operations will therefore be in four sectors: agriculture and natural resources (25%), water supply and other municipal infrastructure and services (21%), education (18%), and energy (14%). ADB will aim to achieve greater subsector selectivity through a well-targeted project selection approach that covers one or more CPS pillars, for example energy infrastructure development that covers pillars 1 and 3.

51. **Strengthening project readiness and implementation.** During the CPS implementation period, ADB and the government will engage project management units earlier to undertake detailed engineering design and facilitate advance contracting. Staff will work with the government to encourage the use of the project design advance and the small expenditure financing facility, for detailed engineering design. Use of the multitranche financing facility where feasible will also help enhance project readiness. Capacity building, particularly at local government levels, will continue to increase understanding of financial management, procurement, and safeguards requirements and practices to expedite implementation.

52. **Private sector development and operations.** ADB's staff from sovereign, nonsovereign and PPP operations will continue to work closely under the One ADB approach to implement the CPS. The National Solar Park Project provides a good model for collaboration for future projects.<sup>37</sup> Capacity building and implementation support will continue for investment climate reforms and facilitating PPPs. ADB will continue to explore nonsovereign financing to support trade finance, supply chain finance, energy, and small and medium-sized enterprise development. Credit enhancement will be offered where needed.

53. **Gender equity.** Gender equity will be promoted through operations that deliver specific and tangible benefits to women, particularly in secondary education and TVET, ICT, and rural development. ADB will support gender mainstreaming, capacity development in gender analysis and advocacy work, and pilot projects to support women's entrepreneurship and strengthen women's leadership in public service. Under the Asian Women Leaders Program, ADB will continue to train senior and mid-career female civil servants and introduce Economic Dividends for Gender Equality (EDGE) certification programs.<sup>38</sup>

### C. Monitoring of Results

54. ADB will monitor implementation of the CPS using the country and sector results frameworks, which will be updated annually during the country portfolio review and country programming missions (Appendix 1). ADB will strengthen the monitoring capacity of executing

<sup>37</sup> ADB. 2019. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan, Grant, and Technical Assistance Grant to the Kingdom of Cambodia for the National Solar Park Project*. Manila.

<sup>38</sup> This is a global program for assessing, certifying, and benchmarking organizations on gender equality.

agencies in all projects. The CPS results framework draws on indicators from the government's development plans, which are tracked (on a gender-disaggregated basis where relevant).

#### **D. Risks**

55. **Fiduciary risks.** The main governance risks relate to (i) poor financial management, (ii) inadequate procurement systems and capacity, and (iii) weak anticorruption institutions. Financial transparency remains weak at both central and subnational levels because of partial implementation of the financial management information system, underdeveloped budget policy links, and weak internal and external controls. The capacity to implement laws remains weak, with widespread use of noncompetitive procurement methods, no independent procurement regulator or anticompetition commission, and low identification and prosecution of procurement irregularities. There are two procurement oversight and regulatory bodies under the Ministry of Economy and Finance; the Department of Public Procurement and the Department of International Cooperation and Debt Management for externally financed projects. For externally financed projects, the procurement regulations are well developed but implementation capacity remains weak. The government is in the initial stages of assessing the requirements for establishing a single procurement regulatory agency.

56. In coordination with other development partners, ADB will continue to support the government (i) update standard operating procedures and manuals for financial management and procurement to improve the fiduciary controls, and (ii) build the capacity of ministries and government agencies. ADB will encourage the development of an electronic procurement system once an independent procurement regulatory agency is established. ADB is also supporting the establishment of an electronic procurement accreditation system. For financial management, ADB and other development partners have supported the alignment of the National Financial Reporting Standards with the International Public Sector Accounting Standards (IPSAS). The government has submitted a draft road map of its plans and commitments to transition toward the IPSAS. Measures under the CPS include (i) developing financial management manuals and disseminating them to more provinces, (ii) improving Cambodia's accounting framework, and (iii) providing technical support for Cambodia's compliance with IPSAS.

57. In addition to measures at the central government level, ADB operations will mainstream good governance practices, especially in financial management, procurement, and combating corruption, in all projects at the local government level. ADB's decentralization support will be targeted to address problem areas in project implementation.

58. **Procurement risks.** ADB will support the strategic procurement planning process during the preparation of all projects taking into consideration the operating environment, market analysis, and risk assessment. Procurement contracts that are considered high-risk will be subject to ADB's prior review. The decision on post review is based on the procurement capacity assessment of the executing and implementing agency's capability. Nominally, simple contracts with a value of less than \$3 million are subject to prior review for the first procurement exercise and post review thereafter. Quarterly and joint annual portfolio reviews, including safeguard reviews, have been agreed with government and will be undertaken jointly with the Japan International Cooperation Agency and the World Bank.

59. **Accountability and transparency.** The CPS was designed in a consultative manner and its projects and programs will continue to be designed in consultation with local communities and other key stakeholders. ADB will abide by its Access to Information Policy (2018), Safeguard Policy (2009), and Anticorruption and Integrity policy (1998) to promote a culture of accountability and transparency, and support government-led programs and risk-mitigation measures.

## COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

<b>Country Development Impact Indicators with which the CPS is Aligned</b>				
1. Proportion of people living below national poverty line (based on consumption): 9.5% by 2023 from 13.5% in 2015 2. Annual GDP growth: 7% from 2018 to 2023 3. Literacy rate (over 15-year old adults): 89.8% by 2023 from 82.5% in 2018				
<b>CPS Strategic Objectives</b>	<b>Priority Areas</b>	<b>Key Outcomes that ADB Contributes to</b>	<b>Outcome Indicators</b>	<b>CPS Resources</b>
Accelerate competitiveness and economic diversification	Improved competitiveness through access to markets (aligned with OP7: fostering regional cooperation and integration and OP5: promoting rural development and food security)	Agriculture and rural development promoted	Annual value added in agriculture sector increased from KR21,706 billion in 2018 to KR25,690 billion by 2023  Land improved through climate-resilient irrigation infrastructure and water delivery services from 1.48 million ha in 2018 to 1.60 million ha in 2023	<b>Ongoing portfolio:</b> As of 30 June 2019  Sovereign loan projects Number: 62 Amount: \$1.34 billion  Nonsovereign projects Number: 3 Amount: \$43.1 million  <b>Planned operations and contribution</b> (3-year pipeline as per latest COBP):  <b>Sovereign operations</b> \$1,451 million of COL and \$75 million in disaster risk reduction loans and grants for 2019–2023
	Improved competitiveness through development of capital markets, investment and PPPs (aligned with OP6: strengthening governance and institutional capacity)	Global and regional trade and investment opportunities expanded	Length of national, provincial and rural roads with performance-based maintenance contracts under ADB financing increased from 380 km in 2018 to 510 km in 2023  Government Bonds issued increase from 0 in 2018 to 1.0 by 2021	
	Making urban areas more efficient for a competitive economy (aligned with OP4: making cities more livable)	Capital Markets developed	Foreign Direct Investment in capital formation	
Strengthen human capital and lifelong learning	Strengthening skills and education for a diversified economy (aligned with OP1: addressing remaining poverty and reducing inequalities)	Education, science, and technology technical training strengthened	Upper secondary education survival rate increased from 34.9% in 2018 to 40.0% by 2023  Female student enrollment in science, technology, engineering, and mathematics at the bachelor's level increased from 27.1% in 2018 (17.1% female) to 30.0% (22% female) by 2023	<b>Technical assistance</b> Access to regional nonlending of \$48 million per year
		Secondary school graduates' skills in math and science improved	Women's enrollment in technical and vocational education and training advanced.	

CPS Strategic Objectives	Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
Foster green, sustainable and inclusive development	<p>Inclusive access to finance for a sustainable economy (aligned with OP1: addressing remaining poverty and reducing inequalities)</p> <p>Inclusive access to basic services (aligned with OP1: addressing remaining poverty and reducing inequalities)</p> <p>Greening energy generation (aligned with OP3: tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability)</p>	<p>Development of finance sector promoted</p> <p>Rural and urban infrastructure developed</p> <p>Energy linkages promoted, sustainable environment ensured, and climate change preparedness enhanced</p>	<p>Adults using a bank account, including microfinance, increased from 69% in 2018 to at least 80% by 2023 (sex-disaggregated)</p> <p>Number of people trained in financial literacy increased from 0 in 2018 to 500,000 by 2023</p> <p>Number of people with access to safe drinking water increased from 74.1% in 2017 to 80% by 2023</p> <p>Solar photovoltaic capacity in the national grid increased from 75 MW in 2019 to 415 MW by 2023</p>	
Improve governance	Accelerating public sector reforms (aligned with OP6: strengthening governance and institutional capacity)	Institutional capacity and reform promoted	<p>Number of line ministries with FMIS connected to MEF to improve Budget management increased from 20 in 2018 to at least 30 by 2023</p> <p>PEFA assessment rating of budget credibility improved from C+ (2015) to B (2023)</p> <p>Number of government staff and management trained in grievance redress mechanisms and environment and social safeguards increased from 115 in 2019 to 300 by 2023</p> <p>Number of female government staff and management trained in leadership skills increased from 24 in 2019 to 1000 by 2023</p> <p>Number of secretaries, undersecretaries, and directors general who are female increased from 15% of total civil service positions in 2018 to 20% of total civil service positions by 2023</p>	

ADB = Asian Development Bank, COBP = country operations business plan, COL = concessional OCR lending, CPS = country partnership strategy, FMIS = financial management information system, KR = Cambodian riel, OP = operational priority, PEFA = public expenditure and financial accountability, PPP = public-private partnership. Sources: Asian Development Bank estimates; Government of Cambodia, 2019, Draft National Sustainable Development Plan, Phnom Penh.

## COUNTRY KNOWLEDGE PLAN

1. The Cambodia Country Knowledge Plan, 2019–2023 aims to support the strategic approach of the country partnership strategy (CPS) for Cambodia, 2019–2023 through three avenues: (i) enriching the quality of ADB and developing member country knowledge capabilities for development effectiveness; (ii) promoting ADB’s knowledge assets; and (iii) resourcing high-quality knowledge solutions through human resources, information systems, and communication.

### A. Knowledge Needs

2. Under Strategy 2030, ADB emphasizes it will combine finance, knowledge, and partnerships to fulfill its expanded vision to respond effectively to the changing needs of its developing member countries.<sup>1</sup>

3. The Government of Cambodia has identified knowledge needs for its four priority areas under the Rectangular Strategy, Phase IV: competitiveness and economic diversification, human capital, inclusive and sustainable development, and governance.<sup>2</sup>

4. **Competitiveness and economic diversification.** The government expects Cambodia to maintain a solid growth momentum, with continued growth in foreign direct investment, increased in domestic demand, and improved international trade. The government is developing steady macroeconomic policies and financial stability mechanisms to ensure sustainable and equitable growth. To promote industrial competitiveness and economic diversification, the government requested assistance for improving logistics, mobilizing finance for infrastructure, and strengthening capacity to prepare investment projects.

5. **Human resources development.** Cambodia ranks 136 of 187 countries in the United Nations Development Programme Human Education Index.<sup>3</sup> The human capital and skills mismatch requires greater investment in primary and secondary school education as well as in vocational and higher education. The government’s goals include strengthening the quality of education, technical training, and gender equity. The knowledge needs are (i) reviewing and strengthening school management systems; (ii) preparing comprehensive curriculum frameworks; and (iii) updating plans such as the masterplan for technical education and, potentially, the National Social Protection Policy Framework, 2016–2025. Quality jobs and enterprise development are also emphasized.

6. **Inclusive and sustainable growth.** The government recognizes the benefits of inclusive and green growth. Cambodia was the first less-developed country in the region to develop a National Green Growth Roadmap in 2009 with the aim of conserving and restoring the natural capital base to sustain economic growth. This was followed by the National Strategic Plan on Green Growth, 2013–2030. Proposed knowledge work includes (i) developing a master plan for agriculture development; (ii) strengthening urban planning and management through geographic information system for land use mapping; (iii) information technology for municipal systems; and (iv) infrastructure plans to build climate resilience.

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<sup>1</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>2</sup> Government of Cambodia. 2018. *Rectangular Development Strategy, Phase IV*. Phnom Penh.

<sup>3</sup> United Nations Development Programme. Human Development Reports. <http://hdr.undp.org/en/content/education-index>.



7. **Governance reforms.** Decentralization reforms began in early 2002. The government has emphasized acceleration of reforms with a focus the building capacity of the public sector, especially at the subnational level; strengthening public disclosure systems; and amend legal and regulatory measures to strengthen governance.

## **B. Scope of ADB's Planned Knowledge Operations**

8. To support Cambodia's transition toward an upper middle-income status, there is an increasingly important role for ADB in providing knowledge solutions. The government has identified three priorities for ADB's knowledge support: (i) stable and reliable energy to support economic growth, (ii) rethinking skills development approaches, and (iii) promoting financial services and inclusion. ADB will mainstream the use of digital technology in all interventions including knowledge solutions. ADB will also deliver back-end support by providing critical training and cross-learning opportunities through exposure visits to regional countries. Table A2 provides an indicative list of planned and potential knowledge support.

9. **Economic diversification and competitiveness.** Government and ADB is considering a three-level approach: (i) understanding existing government incentives that facilitate investments for manufacturers at the local level; (ii) analyzing key constraints in production zones and special economic zones relating to infrastructure (transport, urban, and power); factors of production; policy and regulatory issues; and skilling requirements; and (iii) identifying country-level infrastructure and policies for prioritized industries. Consultations with prioritized industries e.g., garment, electronic, and agro-processing industries will help understand the barriers to growth, employment generation, and investment to enable competitive supply chains and determine strategies for micro, small, and medium-sized enterprises. Planned knowledge products include an industrial diversification study, master plans for urban development and enhanced connectivity, bond market development, and potential support toward implementing the Cambodia Industrial Development Strategy 2015–2025 and a strategic framework to develop a digital economy.

10. **Human capital development.** ADB is supporting the government through technical assistance to develop a 10-year human resources development road map. The government also aims to ensure Cambodians have at least 10 years of schooling, forming the basic building block for a much more productive workforce, and “prepares students for further specialized vocational or tertiary education that matches employee skills to employer needs. ADB will plan to hold discussions to help assess an education and skills strategy for the government and design capacity development programs. Capacity development will be undertaken to enhance employment opportunities through youth training systems, labor market studies, establishing skills councils, and mentoring programs for female entrepreneurs.

11. **Sustainable and inclusive growth.** This cross-cutting theme covers all infrastructure sectors—transport, urban, and power—as well as agriculture and natural resources. ADB will support plans for integrated natural resources management, renewable energy, climate and disaster resilience, and urban transport and smart cities. Initiatives include urban development masterplans for select cities, renewable energy solutions, a study on developing agricultural value chains, and the creation of a national water resources information center. A potential area for knowledge work is to carry out an assessment of the National Strategic Plan on Green Growth, 2013–2030 and the short-, medium-, and long-term interventions identified in the strategy.

12. **Governance.** ADB will support the government in identifying key reforms including e-governance. It will support the government undertake reforms in public financial management, including local governance finance and decentralization. Further, capacity development of institutions

to implement policy reforms is needed and will be supported, with a focus on building leadership capacity of female civil servants. As the country is working toward digitizing its economy, ADB also plans to support the development of digital identities as a basis for provision of social services.

13. As part of the annual country programming mission, ADB and the government will hold a knowledge planning workshop to identify key knowledge needs by March 2021. ADB will liaise with other knowledge providers in preparation of the workshop. The knowledge engagement will be demand-driven to develop and initiate government reform initiatives and innovations, facilitate evidence-based policy dialogue, collaborate closely with development partners, and will engage nonstate knowledge users who are becoming increasingly important in policy formulation dialogue. The support will extend toward the preparation of projects, monitoring the portfolio and evaluating operations. ADB will also respond to emerging issues and unplanned requests from the government.

### **C. Areas of Collaboration with Partners**

14. The government has identified plans to expand the range of analysis of issues, improve inclusion of Cambodian knowledge-related institutions to better capture lessons learned, and strengthen regional and local knowledge partnerships. ADB will help build on this and collaborate with development partners to enhance the relevance and impact of its knowledge support, and deepen relationships with Cambodian academia, think tanks, civil society, and the private sector to facilitate their engagement in research and policy advisory services. ADB will use the preparation of the annual list of indicative knowledge publications and events as an opportunity to discuss potential collaboration with government counterparts and external stakeholders. ADB will also explore two-way learning to capture and share lessons and experiences of addressing complex development challenges with other member countries to strengthen regional knowledge cooperation.

15. ADB will use existing knowledge platforms such as ADB's publications website, the activities page under ADB's country website for Cambodia, and the ADB–World Bank provincial public information centers. ADB will also use social media to increase direct engagement and share knowledge with audiences. Other traditional avenues for knowledge dissemination will be used such as seminars, workshops, conferences, and investor forums in collaboration with partners. ADB will continue to collaborate with the media to disseminate its knowledge to the public.

### **D. Resource Allocation**

16. Knowledge work will be financed by ADB-administered technical assistance and other external resources. This will require about \$1.5 million over the CPS period or \$250,000 per year. The country director of the Cambodia Resident Mission will be the knowledge custodian. The resident country economist will serve as the knowledge focal point and will work closely across ADB and the Asian Development Bank Institute in carrying out knowledge support in Cambodia. The resident external relations focal point will support the sharing and dissemination of knowledge products and services to target audience and/or end users.

### **E. Knowledge Competence or Expertise**

17. The CPS will draw on specialized skills and financial resources of ADB's operations and support departments and Department of Communications to deliver its knowledge solutions regionally and internationally.

**Table A2: Indicative List of Knowledge Support under the Country Partnership Strategy Strategic Pillars**

<b>Strategic Pillars</b>	<b>Areas for Knowledge Solutions, 2019–2023</b>
Competitiveness and economic diversification (covering private sector investment, public–private partnership, finance sector development, financial inclusion, and regional markets)	<p><b>Planned</b></p> <ul style="list-style-type: none"> <li>• Growing Cambodia: Study on economic diversification</li> <li>• Roadmap for Bond market development</li> <li>• Policy Paper and Policy Brief on de-dollarization</li> <li>• Policy Paper and Policy Brief on property tax</li> <li>• Master plans for enhanced multi-modal connectivity</li> <li>• Master plans for Urban development</li> <li>• Power development plan</li> <li>• Advisory services for public–private partnership (renewable energy and logistics)</li> <li>• Policy Brief on Water Supply and Demand in Cambodia’s River Basins</li> <li>• Case studies on agricultural value chains</li> <li>• Workshop on integrating smartphone technologies into agriculture and natural resource initiatives</li> <li>• Futures Thinking and Foresight training</li> </ul> <p><b>Potential</b></p> <ul style="list-style-type: none"> <li>• Study on infrastructure financing gap</li> <li>• Review of the Industrial Development Plan</li> <li>• Strategic framework for developing a digital economy</li> <li>• Banking sector risk assessment</li> </ul>
Human capital development (including upper secondary education, technical and vocational education and training, and social protection)	<p><b>Planned</b></p> <ul style="list-style-type: none"> <li>• 10-year human resources development road map</li> <li>• Analysis of the population census (2019)</li> <li>• Support for upper secondary education reforms by strengthening teacher training programs and building schools of excellence</li> <li>• Policy dialogue for strengthening technical and vocational education and training system</li> <li>• Study for identifying skills demand in emerging industries</li> <li>• Support for establishing skills councils</li> <li>• Case studies on child centered learning methodologies</li> </ul>
Sustainable and inclusive growth (covering integrated natural resources management, renewable energy, climate and disaster resilience, urban transport, and smart cities)	<p><b>Planned</b></p> <ul style="list-style-type: none"> <li>• Policy dialogue on poverty, inequality and social protection</li> <li>• Feasibility studies on climate resilient multimodal infrastructure and sustainable transport</li> <li>• Case study on international carbon trading experience (California, Ontario, and Quebec) and implications for Asia</li> <li>• Policy dialogue on social and environment safeguards</li> <li>• Renewable energy solutions</li> <li>• Establishment of a national water resources information center</li> <li>• Guidelines for ecosystem-based adaptation for climate resilience in the water sector</li> <li>• Mainstreaming gender into adaptation investments: guidance manuals for policy makers and practitioners</li> <li>• Brochure on indigenous and traditional practices for enhancing climate resilience in Cambodia</li> <li>• Workshop on innovative financing mechanisms for ecosystem payments.</li> </ul>

	<p><b>Potential</b></p> <ul style="list-style-type: none"> <li>• Review of the National Strategic Plan on Green Growth, 2013–2030 and the short-, medium-, and long-term interventions identified in the strategy.</li> <li>• Policy brief on governance reforms</li> </ul>
Governance, public financial management, and decentralization	<p><b>Planned</b></p> <ul style="list-style-type: none"> <li>• Policy Dialogue on social and environment safeguards</li> <li>• Capacity development on grievance redress mechanisms and implementation of environment and social safeguards</li> <li>• Capacity support for establishment of digital identification for provision of social services</li> <li>• Case studies on government reforms for local government finance and decentralization</li> <li>• Review of effective social accountability mechanisms at the <i>Sangkat</i> (commune) level</li> <li>• Leadership and Management training for female civil servants</li> </ul> <p><b>Potential</b></p> <ul style="list-style-type: none"> <li>• Capacity development for corporate governance</li> </ul>

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/CPS/?id=CAM-2019>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix
3. Indicative Country Operations Business Plan