



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 01-Nov-2022 | Report No: PIDA34977



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Cambodia	P179019	Cambodia Growth and Resilience Development Policy Operation Series (P179019)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	20-Dec-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Kingdom of Cambodia	Ministry of Economy and Finance		

**Proposed Development Objective(s)**

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

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	274.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	274.00
World Bank Lending	274.00

**Decision**

The review did authorize the team to appraise and negotiate



## B. Introduction and Context

### Country Context

**The proposed operation will support reforms to boost growth through a more competitive environment for the private sector and strengthen Cambodia’s fiscal, social, and environmental resilience.** This operation is the first in a proposed programmatic series of two and provides SDR [XXX] million (US\$274 million equivalent), sourced from a combination of Scale Up Window-Shorter Maturity Loans (SUW-SML) financing and Cambodia’s national IDA allocation. Based on the proposed operation’s alignment with the World Bank Group’s Global Crisis Response Framework (GCRF) and the COVID-19 Response Framework, US\$150 million equivalent will be financed from the SUW-SML. The remaining US\$124 million equivalent is drawn from Cambodia’s national IDA allocation and will be provided on SML terms.

**The economic shock caused by COVID-19 was severe, pushing Cambodia into its first recession in 30 years, and the economic rebound has been muted by external factors, particularly the war in Ukraine.** The pandemic’s impact was propagated through falling global demand, supply chain disruptions, and nationwide lockdowns. GDP growth dropped sharply from 7.1 percent in 2019 to -3.1 percent in 2020 and 3 percent in 2021. Simulations indicate that the economic contraction reversed two years of Cambodia’s poverty reduction progress, increasing the poverty rate by 2.8 percentage points and pushing around 460,000 individuals into poverty.<sup>1</sup> In November 2021, Cambodia adopted a strategy of “living with COVID-19”, which has helped to support a broad-based economic recovery. But Cambodia’s economy remains vulnerable to downturns in external demand and disruptions in global supply chains given its reliance on a relatively undiversified set of exports. The economy is projected to recover over the next few years, with growth strengthening further from the 4.8 percent expected for 2022. But a return to pre-pandemic growth rates of above 7 percent is not expected, largely reflecting the challenging external environment: the ongoing impact of the war in Ukraine and the associated terms-of-trade shock; the economic slowdown in the United States (Cambodia’s largest export market); and slowing growth in China.<sup>2</sup>

**The government has taken advantage of its fiscal space to respond to recent shocks, though buffers are now declining.** After years of running fiscal deficits, Cambodia achieved small fiscal surpluses in 2018 and 2019. But lower economic activity and pandemic-related tax relief reduced total revenues in 2020, while total expenditures increased because of higher spending commitments under the fiscal response program (including subsidies and transfers, which amounted to 2.9 percent of GDP in 2020). The COVID-19 pandemic turned a modest overall surplus into deficits of 4.3 and 5.7 percent of GDP in 2020 and 2021, respectively. The fiscal deficit is projected to widen further in 2022 before narrowing in 2023–2024. While fiscal buffers remain relatively robust — with government deposits standing at around 17 percent of GDP as of June 2022, and Cambodia assessed to be at a low risk of debt distress — increased attention to fiscal sustainability and resilience will be required to navigate the period ahead

### Relationship to CPF

**The proposed operation is an integral part of the WBG’s COVID-19 response in Cambodia and is aligned with the WBG’s**

<sup>1</sup> Poverty simulations are based on actual GDP, sectoral growth rates, and estimated employment figures for 2020. Simulations were implemented using the ADePT macro-simulation module and using the new national poverty line of KHR10,951/person/day in 2019/20 Phnom Penh prices.

<sup>2</sup> World Bank (2021). East Asia Pacific Economic Update: From containment to recovery. Washington, D.C. See <https://openknowledge.worldbank.org/handle/10986/35272>. See Section 2 for a detailed discussion on baseline and downside scenarios.



**broader corporate priorities.** It is aligned with pillars 2, 3, and 4 of the World Bank’s COVID-19 Crisis Response Approach, with 8 of the 9 prior actions supporting the recovery from COVID-19. It also builds on earlier relief efforts, particularly the *Relief, Recovery, and Resilience Development Policy Financing* (2021) operation (P176576), which provided US\$200 million in International Development Association (IDA) credits to support the government’s efforts to mitigate the immediate fallout of the social and economic crisis triggered by the COVID-19 pandemic.<sup>3</sup> However, by reorienting support to medium-term recovery, the proposed operation is more closely aligned with the Country Partnership Framework (CPF) for Cambodia for FY2019–2023 than the relief efforts were. In particular, the proposed operation includes prior actions that support the CPF’s objectives of enhancing financial sector development and fostering private enterprises and strengthening public sector accountability and public finance. Prior Actions #3, #7, and #8 align with the twin goals of ending extreme poverty and promoting shared prosperity. And Prior Actions #1, #2, and #5 are closely aligned with the Executive Directors’ statement to “build back better” in the post-COVID-19 economy through more ambitious structural reforms.

### C. Proposed Development Objective(s)

The proposed operation will support reforms to boost growth through a more competitive environment for the private sector and strengthen Cambodia’s fiscal, social, and environmental resilience.

#### Key Results

**The prior actions supported by the proposed operation address these evolving development challenges and are structured around three broad pillars: 1) boosting growth through a more competitive environment for the private sector; 2) strengthening fiscal resilience; and 3) enhancing social and environmental resilience.** These pillars directly support the private sector in driving a recovery from recent economic shocks while mitigating Cambodia’s existing vulnerabilities over the longer term. The first pillar creates an environment in which firms can enter, exit, and compete fairly. The second pillar enhances fiscal resilience by controlling spending on public pensions, enhancing efficiency, and mitigating the associated fiscal risks of capital expenditures and PPPs, while strengthening the government’s capacity to raise financing through sovereign bond issuance. The third pillar improves social and environmental resilience by institutionalizing shock-responsive social protection mechanisms.

### D. Project Description

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

**Prior Action #1:** *To streamline and standardize the process of business registration, the Recipient adopted amendments to the Law on Commercial Enterprises and the Law on Commercial Rules and Commercial Register, which remove minimum capital and company seal requirements.* The amendment to the LCE removes the minimum capital requirement (Article 144). The amendment to the LCRCR removes the requirements to submit proof of the company seal and paid-in minimum capital during company registration. It also references the unique business identification number (Articles 14 and 17).

<sup>3</sup> The World Bank also provided US\$20 million in support to Cambodia’s healthcare system through the COVID-19 Emergency Response Project (P173815) in 2020; activated US\$14 million of the Contingency Emergency Response Component (CERC) under the Cambodia Health Equity and Quality Improvement Project (P157291) in support of the country’s COVID-19 Master Plan; restructured the Cambodia Higher Education Improvement Project (P162971) to help minimize education disruption through a distance and online learning platform and curriculum; and delivered the Cambodia Agriculture Sector Diversification Project (P163264) to address food security for vulnerable populations.



**Prior Action #2:** *To promote competition and curb anti-competitive practices, the Recipient promulgated the Competition Law, issued a sub-decree to establish the Competition Commission of Cambodia (as per the provisions of the Law), and issued a decision to appoint its members.* The law regulates both coordinated and unilateral anticompetitive practices, establishes a merger control regime, develops sanctions for substantive and procedural infringements, and establishes legal bases for key enforcement tools including leniency and dawn raids. It also authorized the Competition Commission of Cambodia, which was subsequently established by sub-decree in February 2022 as the authority in charge of enforcing the Competition Law and promoting a competitive market economy.

**Prior Action #3:** *To enhance access to finance for small and medium enterprises affected by the COVID-19 pandemic, the Recipient, through the MEF, approved the SME Bank of Cambodia's Tourism Recovery Co-Financing Scheme, and through the Credit Guarantee Corporation of Cambodia, issued a decision to initiate its Women Entrepreneurs Guarantee Scheme.* The WEGS offers a guarantee of 80% of the loan value if at least two criteria are met: (i) a woman beneficially holds the majority of shares; (ii) the management or decision-maker is a woman; (iii) a woman represents the company on any legal business registration; or (iv) the majority of the employees are women. The TRCS is intended to support the tourism sector, which was severely impacted by the pandemic, and to help prepare for the return of national and international tourists. The scheme targets existing businesses in the tourism sector whose operations were partially or completely closed because of the pandemic.

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

**Prior Action #4:** *To control fiscal costs, the Recipient, through the MEF, adopted a decision to phase out the current civil service pension scheme and enroll new hires in the National Social Security Fund.* The prior action commits the Government to enrolling new civil servants into a new contributory national pension scheme and phasing out the old civil service pension scheme over time in line with international good practice. Under the new reform, all civil servants hired after a certain date (to be determined) will be enrolled in the new pension scheme, administered by the NSSF. Over time, civil service pensions will increasingly be financed by a combination of employer (government) and employee contributions. Integration will also facilitate labor mobility between public and private sectors in the future.

**Prior Action #5:** *To support fiscally sustainable and resilient infrastructure investment and help ensure value for money, the Recipient enacted the Law on Public-Private Partnerships and issued a sub-decree approving standard operating procedures for public private partnership projects that strengthen the institutional and legal framework for PPP approval and implementation.* The reform will help to strengthen the institutional and legal framework around PPPs in Cambodia. It also will provide potential PPP investors with more clarity and greater confidence in the commitment and ability of the RGC to support PPPs, which in turn should result in greater competition for projects and lower costs of finance.

**Prior Action #6:** *To establish an authorizing regulatory framework for the issuance of local currency government bonds, the Government issued three Prakases to approve regulations that support the implementation of the 2020 Law on Government Securities.* First, the Prakas on the Issuance of Government Securities identifies the roles and responsibilities of various parties involved in the issuance of government securities and sets out technical requirements. Second, the Prakas on the use of Government Securities in Monetary Operations by the NBC helps to incentivize local institutional investors to invest in Government Securities, including by providing assurance that such securities can be used as collateral in open market operations with the NBC. And third, the Prakas on the Organization and Functioning of Departments and Units under the Supervision of the General Department of International Cooperation and Debt Management of the Ministry of Economy and Finance sets out the roles and responsibilities of different parts of the MEF in relation to issuance of government securities and public debt management more broadly.



### Pillar 3: Enhancing social and environmental resilience

**Prior Action #7:** *To facilitate the timely provision of relief to vulnerable households in the event of a climate-related or economic shock, the Recipient, through the Prime Minister, issued a decision to expand eligibility criteria for the IDPoor database to include at-risk (near-poor and vulnerable) households, which will improve the RGC's capacity to rapidly identify households most in need of assistance.* This prior action expands the eligibility criteria for the IDPoor database to include at-risk households, defined as those which are both near-poor and have at least one vulnerability related to age, gender, or disability. It thereby supports a Shock Responsive Social Protection framework, which helps to build the climate resilience of poor and vulnerable households by supporting their capacity to prepare for, cope with, and adapt to the shocks they face.

#### E. Implementation

##### Institutional and Implementation Arrangements

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

**Monitoring and evaluation of the reform program will be undertaken jointly by the government and WBG teams.**

These two teams will engage regularly to monitor progress in implementing the agreed policy and institutional reforms supported by the operation, and to assess progress made towards achieving the expected results. Results indicators have been specifically selected to reflect available data sources in Cambodia. Further, the results chain has been defined to reflect the comparatively short time period of just one year from appraisal to closure and evaluation of the DPF.

#### F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

##### Poverty and Social Impacts

**The proposed measures in the DPF are expected to have beneficial impacts on the poor, particularly in the long-term.**

Prior Actions #1–#3 would support more and better jobs creation through an enabling environment for higher firm entry, firm survival, and firm performance, and are thereby expected to enable poorer Cambodians to participate in the growth process. Prior Action #5 has potential long-term indirect benefits for the poor through more infrastructure investment leading to higher growth, more jobs, and greater access to public services. Prior Actions #4–#5 also have the potential to create fiscal space that could be used to enhance spending on health, education, and social assistance. Prior Action #7 is expected to have significant direct positive impacts on the poor and vulnerable through more timely provision of benefits and financial inclusion.

**While public investments can provide positive externalities, they can also have potentially adverse social, health, and economic spillovers.** To mitigate possible negative externalities, existing institutions must adopt safeguard frameworks to avoid, mitigate, and minimize adverse environmental, poverty and social impacts; be able to compensate households affected by the investment; and impose taxes to reduce harmful externalities.



## Environmental, Forests, and Other Natural Resource Aspects

**The RGC has an appropriate legal and regulatory framework to identify and address potential environmental risks.** The primary legal requirements for EIA in Cambodia are set out in the Law on Environmental Protection and Natural Resource Management, (1996 EPNRM Law) and the Sub-Decree on Environmental Impact Assessment, 1999 (EIA Sub-Decree). The RGC has been developing a new Environment and Natural Resources Code to provide higher levels of environmental protection, openness, and accountability than is the case with virtually all of Cambodia's existing laws. The new Environmental Code, like all Cambodian laws, will need to comply with the Constitution, which includes a requirement for environmental protection. The proposed prior actions were assessed as per the requirements of OP 8.60 and they will not have any significant negative effects on the environment, forests, and natural resources. The policy actions supported under the proposed operation are not expected to create negative impacts on Cambodia's environment, natural resources, or forests. Prior Action #5 will promote public expenditures and PPPs for public investments, with all investments following well-established EIA guidelines and practices and lead to a positive impact. The new legal framework for PPP's includes relevant safeguards. The Implementing Agency is required to prepare a feasibility study that assesses the environmental and social impacts of the project—particularly with respect to land acquisition—and demonstrates that the project's services are affordable, including to "low-income users". Furthermore, the associated SOPs identify safeguards as one of the 7 basic requirements that are "absolutely necessary" to advance a PPP proposal and specify a full range of issues to consider Reform of Pension Schemes and issuance of bonds are unlikely to affect the environment, forests, and natural resources.

### G. Risks and Mitigation

**The overall risk of the proposed operation is "moderate".** The overall risk rating is based on a balance between substantial levels of political risk with moderate macroeconomic, institutional, and stakeholder risk, as well as the risk of a prolonged impact of the war in Ukraine and COVID-19 shock on Cambodia's economy, with a lower set of program risks reflecting the strong consensus around Cambodia's response to the COVID-19 recovery.

**The Political and Governance risk is "substantial".** Key governance risks relate to relatively weak institutional checks and balances and gaps in the implementation of policies. To mitigate these risks and enhance transparency and accountability, wide consultations with diverse stakeholders from within academia, civil society, and the private sector were undertaken to inform policy analysis and advice, underpinning this operation. This approach has helped to reinforce the consensus on the key reforms, which have anchored the budget support and technical assistance provided by Cambodia's development partners since the pandemic shock. It has resulted in a strong consensus around the three pillars of relief, recovery, and resilience, with a coordinated package of budget support and technical assistance from Cambodia's development partners deployed in support of this program. This strong consensus around Cambodia's response to COVID-19, with actions supported by multiple development partners, is the key mitigating factor for political and governance risks to the operation.



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**APPROVAL**

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**Approved By**

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