



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 06-Jul-2022 | Report No: PIDC34411

**BASIC INFORMATION****A. Basic Project Data**

Country Cambodia	Project ID P179019	Project Name Cambodia Growth and Resilience Development Policy Operation Series (P179019)	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Board Date Dec 22, 2022	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Kingdom of Cambodia	Implementing Agency Ministry of Economy and Finance		

Proposed Development Objective(s)

The objective of the proposed series of two development policy operations is to support a private sector-led recovery from recent economic shocks, and to strengthen Cambodia's fiscal, social, and environmental resilience over the longer term.

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

Total Financing	200.00
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DETAILS

Total World Bank Group Financing	200.00
World Bank Lending	200.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

The objective of the proposed series of two development policy operations is to support a private sector-led recovery from recent economic shocks, and to strengthen Cambodia’s fiscal, social, and environmental resilience over the longer term. The series encompasses a US\$200.0 million operation in FY 2023 and a second operation of at least US\$100.0 million in FY 2024, both on IDA blend credit terms. While the economic shock associated with the global pandemic was severe, Cambodia has adopted a strategy of “living with COVID-19”, enabling a broad-based economic recovery to take shape. The COVID-19 shock, propagated through falling global demand, supply chain disruptions, and nationwide lockdowns, hit Cambodia’s main drivers of growth. GDP growth fell sharply from 7.1 percent in 2019 to -3.1 percent in 2020 and 3.0 percent in 2021.

Prior to the pandemic, Cambodia’s growth was fast and relatively inclusive. The country sustained an average real growth rate of 7.6 percent in 1995–2019, which increased per capita income from US\$323 to US\$1,623 (current US\$) over the period and enabled it to become a lower middle-income economy in 2015. Cambodia’s success has been built on a few labor-intensive and export-oriented sectors, including tourism, agriculture, and garments—the latter being particularly beneficial for women—and, more recently, a booming construction sector. Consequently, growth has been inclusive, with consumption per capita for the poorest 40 percent of the population growing by an average 2 percent per annum and the poverty headcount ratio falling from 33.8 percent to 17.8 percent between 2009 and 2019.¹

The fiscal space available to the government to respond to these crises and support structural reforms is declining. After years of running fiscal deficits, Cambodia achieved a fiscal surplus in 2018 and 2019 (of about 0.4 percent and 1.5 percent of GDP, respectively). 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.

Relationship to CPF

The proposed operation is an integral part of the WBG’s COVID-19 response in Cambodia. It builds on earlier relief efforts, particularly the *Relief, Recovery, and Resilience Development Policy Financing* operation (P176756), approved in June 2021, 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. 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. 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

¹ 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.



operation includes Prior Actions (PAs) that support the CPF's objectives of enhancing financial sector development and fostering private enterprises, strengthening public sector accountability and public finance, and strengthening management of water and land use.

C. Proposed Development Objective(s)

The objective of the proposed series of two development policy operations is to support a private sector-led recovery from recent economic shocks, and to strengthen Cambodia's fiscal, social, and environmental resilience over the longer term.

Key Results

The PAs supported by the proposed operation address these emerging 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 -which are firmly anchored in the Government's Economic Recovery Plan- reinforce a reform agenda which directly contributes to a private-sector led economic recovery from the ongoing impacts of the global pandemic (as well as the more recent global price shock emanating from the Russia-Ukraine war), while mitigating Cambodia's existing vulnerabilities over the longer term, several of which have been exposed by recent shocks. The first pillar supports reforms that improve the environment for private sector firms to be able to enter, exit, and compete fairly. The second pillar enhances fiscal resilience by supporting reforms that control spending on public pensions, increase the efficiency and mitigate the associated fiscal risks of capital expenditures and PPPs, and strengthen capacity to raise financing through sovereign bond issuance. The third pillar improves social and environmental resilience by establishing shock-responsive social protection, supporting climate mitigation and adaptation actions, and establishing an enabling environment for sustainable ecotourism projects.

D. Concept Description

Please note the following PAs are subject to revision at the later stage of project preparation.

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

Prior Action #1: *To streamline the process of business registration, the Recipient, through its Parliament, has approved amendments to the Law on Commercial Enterprises (LCE) and the Law on Commercial Rules and Commercial Register (LCRCR), centralizing and standardizing the process and removing minimum capital and company seal requirements.*

The amendment to the LCE removes the minimum capital requirement and introduces the regulation of sole proprietorships (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 and references unique business identification numbers (Articles 14 and 17).

Prior Action #2: *To establish the regulatory and institutional framework for competition, the Recipient, through its Parliament and Prime Minister, has approved the Competition Law and issued a sub-decree to create the Competition Commission of Cambodia, which will enforce the provisions of the law.*

The competition 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 authorizes the Competition Commission of Cambodia (CCC), which will be established by sub-decree (expected in June 2022) to be the authority in charge of enforcing the Competition Law and promoting a competitive market economy.

Prior Action #3: *To enhance access to finance for micro, small and medium enterprises (MSMEs), the Recipient, through the Credit Guarantee Corporation of Cambodia (CGCC), has initiated a Co-Financing Guarantee Scheme and Women Entrepreneur Guarantee Scheme to support SME operators affected by the COVID pandemic.*

The CGCC's Co-Financing Guarantee Scheme (CFGs) of USD 50 million offers individual credit guarantees to new Term Loans up to USD 500,000 per borrower for both working capital and capital expenditures. The scheme acts as collateral for 70-80 percent of loan amount at the guarantee fee of 1-1.5% at the maximum term of 7 years. Both secured and unsecured new term loans lent out under the SMEBC's Co-Financing Scheme II which are not in the Negative list are eligible under this CFGs. In addition, to support women and women-owned businesses, the Women Entrepreneur Guarantee Scheme (WEGS) scheme of USD 30 million offers a higher guaranteed coverage of 80% and lower guarantee fees of 1% per annum for all type of loan facilities (term loan, overdraft, trade facility, etc.) and for all economic sectors.

Pillar 2: Strengthening fiscal resilience

Prior Action #4: *To control fiscal costs, the Recipient has adopted a decision to phase out the defined-benefit civil service pension scheme and enroll public employees hired after a set future date in a new pension scheme administered by the National Social Security Fund (NSSF).*

The PA 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. The PA will mean that all civil servants hired after *a set future date* will be enrolled in this new pension scheme, administered by the NSSF, which will result in a gradual reduction in the government's unfunded pension liabilities in the long run. During the transition, the government will partially prefund future pensions through contributions to the NSSF. The central budget will continue to fully finance pension entitlements accrued before the reform. Over time however, 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 needed infrastructure investments and help ensure value for money through the use of PPPs, the Law on Public-Private Partnerships has been enacted, which strengthens the overall institutional and legal framework for PPP approval and implementation.*

The Law on Public-Private Partnerships strengthens the institutional and legal framework around PPPs in Cambodia, providing potential PPP investors with more clarity and greater confidence in the commitment and ability of the RGC to support PPPs. This 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 has approved three regulations supporting the implementation of the 2021 Law on Government Securities.*

The government has approved three regulations (Prakas) in order to support the implementation of the Law on Government Securities. The Prakases establish the regulatory and operational framework governing the issuance of



government securities in the Cambodia market. Firstly, the Prakas on the Issuance of Government Securities, enacted on March 3, 2022, identifies the roles and responsibilities of various parties involved in the issuance of government securities, and sets out technical aspects among others, for the listing of government securities, payment and settlement processes, assessment of withholding tax. Second, the Prakas on the use of Government Securities in monetary transactions by the National Bank of Cambodia (NBC) helps to and 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. 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 units under the General Department in relation to issuance of government securities and public debt management more broadly. This includes the newly established Office of Government Securities (OGS) within the Debt Management Department, whose tasks are (among others) to consult with market participants and prepare and announce the Government Securities Issuance Plan.

Pillar 3: Enhancing social and environmental resilience

Prior Action #7: *To improve the RGC's capacity to rapidly identify shock-affected households in the event of shock, the Recipient, through its National Social Protection Council, has approved a policy expanding the eligibility criteria for the IDPoor database to include vulnerable households' ex ante, allowing for timely provision of relief.*

In mid-2022, the National Social Protection Council is expected to approve a policy to expand the eligibility criteria for the IDPoor database to include households beyond the pre-existing definitions of IDPoor 1 and IDPoor 2. The expansion will be implemented by digitizing information from all surveyed households, including households that were initially listed as probable poor or near-poor households. Expanding coverage to the near-poor, is one of the objectives stated in the National Social Protection Policy Framework 2016-2025 (NSPPF).

Prior Action #8: *To implement the government's policy goal of increasing the efficiency of social benefit payments, the Recipient, through MOSVY, expands the cash transfer payment system to include an option for beneficiaries to receive benefits (COVID-19 relief, pregnant women and children) into general purpose accounts, in addition to the cash option currently available.*

This PA will allow beneficiaries of ongoing social benefit programs in Cambodia to gain access to basic financial services by opening a general-purpose account, into which the benefits will be transferred.

Prior Action #9: *To establish the enabling environment for ecotourism, the recipient, through Ministry of Environment, will issue a Prakas that sets guidelines and procedures for small ecotourism investment projects, including site assessment, pole demarcation and installation, company registration, and zoning.*

The Eco-Tourism Prakas' will address issues around coordination and leadership of promotion and regulation of investments in ecotourism in protected areas to streamline the approval and monitoring process investments. By mobilizing private investment in demand-driven, nature-based tourism development, Cambodia can generate income and other benefits for the communities living around protected areas. The Prakas facilitate the identification of land plots within protected areas that are suitable for investment, promotes these sites, and oversees the quality of investments and services. It also provides guidance and rules on environmental risk management. Further, it enhances the authority of MOE to enforce regulations with respect to ecotourism development in PAs to ensure climate co-benefits are being achieved. In addition to mobilizing private sector investment in protected areas, concessions will also establish standards for tourism service providers, enhancing visitor experiences and economic benefits for communities in and around



protected areas, stronger global competitiveness of tourism firms, and stronger support for private operators to partner on and implement conservation activities.

Prior Action #10: *To establish long-term climate change mitigation policies, the Recipient, through the Prime Minister, approved the National Carbon Neutrality Strategy, which commits to reaching net zero emissions by 2050 and includes a low-emission development strategy and set of actions.*

The National Carbon Neutrality Strategy creates the governing policy framework for the Government to institute the necessary reforms to limit the local impacts of climate change, achieve carbon neutrality by 2050 and fulfil its international obligations. The National Carbon Neutrality Strategy (NCNS) provides a detailed, evidence-driven guide to help Cambodia take long-term climate actions aligned with the Paris Agreement commitment to limiting global warming to 1.5°C. It includes institutional arrangements for long-term planning, development of a monitoring and evaluation framework, an analysis of financial options and socioeconomic impacts of selected priority actions. The NCNS includes 35 policy actions by sector with a defined governance structure for their implementation, monitoring, reporting and verification (MRV Framework).

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

Poverty and Social Impacts

Reforms supported by all three pillars are expected to help the Government in its responses to mitigate the impact of the COVID-19 pandemic, global economic shocks (including Ukraine War and higher commodity food prices) and its longer-term efforts to boost resilience against economic, fiscal, social and climate risks, all of which disproportionately affect the poor and vulnerable.

Reforms supported by this operation are expected to improve distributional outcomes in the long run, by creating fiscal space, strengthening climate resilience, and strengthening social safety nets for the poor and vulnerable. The first pillar aims to boost growth through a more competitive environment for the private sector. PAs #1–#3 may result in greater inclusion of the poorer Cambodians in the growth process by (i) improving access to finances for small and medium enterprises lacking collateral, often owned by poorer individuals (ii) reducing barriers to entry, and (iii) curbing anti-competitive practices that often hinder the survival of new entrants with limited capital and market power.

The second pillar aims to strengthen fiscal resilience by enabling government to raise revenues, manage fiscal expenditures, promote public investments, and get the better outcomes from PPPs. By promoting investment in public infrastructure, PA #5 may have progressive distributional effects if the investments are inclusive and benefit the most vulnerable. Public investments could be progressive through their impacts on economic activity, creating job, boosting wages, improving access to opportunities and social equity. For instance, investments in roads helps to connect communities to job opportunities and improve access to markets, which can have a positive effect on per capita consumption. While public investments provide positive externalities, they can also have potentially adverse social, health, and economic spillovers: for example, air and noise pollution and traffic congestion in the case of roads. PA #4 and PA #6, have the potential to create fiscal space that could be used to enhance social spending on health, education and social assistance. Further, PA #6 has the potential to build resilience in social spending regardless of economic situation and allow for fiscal policy to be more countercyclical.

The operation is also expected to help mitigate poverty by enhancing resilience to climate change and strengthening institutions for government to provide targeted social assistance and social protection. PA #7 is expected to directly



help reduce poverty (the team will attempt to produce a quantitative assessment of this impact – relative to a no reform baseline – prior to decision stage). The government aims to expand coverage of the IDPoor database, scale-up the number of money transfer agent providers and include an option for program benefits to be disbursed into transaction accounts. PAs #7–#8 are, therefore, expected to (i) reduce response time for social protection provision in the event of a shock and expand coverage to vulnerable households, (ii) increase financial inclusion among the poor and vulnerable, and (iii) build capacity for self-insurance.

Environmental, Forests, and Other Natural Resource Aspects

The policy actions supported under the proposed operation are not expected to create negative impacts on Cambodia’s environment, natural resources, or forests. Boosting growth through a more competitive environment for the private sector includes a principle to ensure that environmental regulations are adhered to by domestic and foreign investors. In addition, PA #9 specifically established the rules and procedures for private companies to invest in Protected Areas with clear guidelines for environmental risk management. PA #5 will promote public expenditures and PPPs for public investments, with all investments following well established EIA guidelines and practices. Reform of Pension Schemes and issuance of bonds are unlikely to affect the environment, forests, and natural resources.

The policy reforms related to national climate strategies, climate change adaptation, and ecotourism are likely to have significant positive effects on natural resources. PA #9 has effectively set targets for climate change mitigation and adaptation for Cambodia with partially very significant commitments including a ban on coal-fired power plants in Cambodia, reduced deforestation, and a ban on hydrodams along the Mekong River. The Long-term strategy for Carbon Neutrality has furthermore set concrete next steps for reaching those targets. *Indicative Trigger (IT) #11 To promote environmental resilience through climate change adaptation, the Recipient, through its [Prime Minister], developed and adopted a National Adaptation Plan and Cambodia Climate Change Strategic Plan 2024–2033, which provides guidance for incorporating climate adaptation into sectoral policy and budget planning, and supports Cambodia to reach its carbon neutrality target by 2050* will focus on innovative financing for reducing deforestation, providing the needed financing for Protected Areas in Cambodia. IT #11 will also support a sub-decree on plastic management that will positively influence Cambodia’s competitiveness in tourism while significantly reducing national pollution levels in waterways and landscapes.

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APPROVAL

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