



# Country Partnership Strategy

---

November 2014

## Cambodia 2014–2018

Distribution of this document is restricted until it has been endorsed by the Board of Directors. Following such endorsement, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 20 October 2014)

Currency unit	–	riel/s (KR)
KR1.00	=	\$0.0002
\$1.00	=	KR4,080

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CPS	–	country partnership strategy
D&D	–	decentralization and deconcentration
GMS	–	Greater Mekong Subregion
M&E	–	monitoring and evaluation
NSDP	–	National Strategic Development Plan
PFM	–	public financial management
PPP	–	public–private partnership
PSM	–	public sector management
RCI	–	regional cooperation and integration
RSIII	–	Rectangular Strategy on Growth, Employment, Equity and Efficiency, Phase III
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

## **NOTE**

In this report, "\$" refers to US dollars

<b>Vice-President</b>	S. Groff, Operations 2
<b>Director General</b>	J. Nugent, Southeast Asia Department (SERD)
<b>Director</b>	E. Sidgwick, Cambodia Resident Mission (CARM), SERD
<b>Team leaders</b>	J. Hansen, Senior Country Economist, (CARM), SERD P. Brimble, Principal Country Specialist, Myanmar Resident Mission, SERD
<b>Team members</b>	S. Aman-Wooster, Senior Social Development Specialist (Safeguards), SERD S. Ancha, Principal Climate Change Specialist, SERD H. Aoki, Senior Financial Sector Specialist, SERD E. Araneta, Principal Operations Coordination Specialist, Private Sector Operations Department S. Bando, Senior Regional Cooperation Specialist, SERD R. Barba, Senior Safeguards Specialist, (CARM), SERD G. Bui, Natural Resources and Agriculture Economist, SERD C. Chea, Gender Specialist, (CARM), SERD S. Chea, Project Analyst (CARM), SERD T. Dang, Environment Specialist, SERD S. Date, Senior Transport Specialist, SERD L. Ding, Principal Trade Specialist, SERD P. Doung, Senior Economics Officer, (CARM), SERD S. Hel, Senior Project Assistant (CARM), SERD C. Hem, Senior Project Officer, (CARM), SERD U. Hoque, Senior Social Development Specialist, SERD N. Ikemoto, Senior Environment Specialist, SERD E. Izawa, Senior Education Specialist, SERD R. Kausar, Unit Head, Project Administration, SERD M. Kob, National Climate Change Specialist, (CARM), SERD N. LaRocque, Principal Education Specialist, SERD P. Long, Senior Project Officer, (CARM), SERD S. Mar, Senior Social Sector Officer, (CARM), SERD C. Ouch, Senior Programs Officer (Governance), (CARM), SERD N. Ouk, Senior Project Officer, (CARM), SERD S. Ouk, Safeguards Officer, (CARM), SERD S. Ranawana, Senior Natural Resources Specialist, SERD J. L. Gomez Reino, Senior Public Management Specialist, SERD S. Ros, External Relations Coordinator, (CARM), SERD K. Schelzig, Senior Social Sector Specialist, SERD S. Schipani, Senior Portfolio Management Specialist, SERD V. Sin, Operations Assistant, (CARM), SERD I. Sokha, Associate Programs Officer, (CARM), SERD S. Teoh, Natural Resource Specialist, SERD S. Tukuafu, Principal Economist, SERD L. Yang, Energy Specialist, SERD M. White, Urban Development Specialist, SERD
<b>Peer reviewers</b>	T. Niazi, Principal Public Management Specialist, Regional and Sustainable Development Department (RSDD) M. Rattinger, Climate Change Specialist, RSDD

S. Tanaka, Lead Social Development Specialist, RSDD  
P. Vandenberg, Senior Capacity Building and Training Economist, ADB  
Institute  
B. Woods, Principal Results Management Specialist, Strategy and Policy  
Department

In preparing any country partnership strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

## CONTENTS

	<b>Page</b>
COUNTRY AT A GLANCE	
I. DEVELOPMENT TRENDS AND ISSUES	1
A. Country Background	1
B. Economic Assessment and Outlook	2
C. Highlights of Previous ADB Country Strategy	3
II. THE COUNTRY STRATEGY	4
A. Government National Strategy	4
B. ADB Country Strategy	4
III. STRATEGY IMPLEMENTATION	9
A. Indicative Resource Parameters	9
B. Program Overview	10
IV. RESULTS MANAGEMENT	10
A. Monitoring	10
B. Risks	10
APPENDIXES	
1. Country Partnership Strategy Results Framework	11
2. List of Linked Documents	13



## COUNTRY AT A GLANCE

<b>Economic</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013<sup>a</sup></b>	<b>2014<sup>b</sup></b>
GDP (\$ billion, current)	11.2	12.8	14.0	15.2	16.8
GDP per capita (\$, current)	805	902	968	1,037	1,125
GDP growth (% , in constant prices)	6.0	7.1	7.3	7.2	7.0
Agriculture	4.0	3.1	4.3	1.8	4.7
Industry	13.6	14.5	9.2	10.5	8.7
Services	3.3	5.0	8.1	8.4	7.1
Gross domestic investment (% of GDP)	17.3	22.0	23.5	23.5	21.5
Gross domestic saving (% of GDP)	13.4	13.9	14.8	14.9	13.1
Consumer price index (annual % change)	4.0	5.5	2.9	3.0	4.4
Liquidity (M2) (annual % change)	20.0	21.4	20.9	14.6	...
Overall fiscal surplus (deficit) (% of GDP)	(8.1)	(7.5)	(5.2)	(5.0)	(4.8)
Merchandise trade balance (% of GDP)	(14.1)	(11.6)	(14.6)	(15.7)	(15.9)
Current account balance (% of GDP) <sup>c</sup>	(10.4)	(8.8)	(11.6)	(10.8)	(11.3)
External debt service (% of exports of goods and services)	1.6	1.6	1.5	1.6	...
External debt (% of GDP)	29.3	28.4	30.6	31.6	31.2

  

<b>Poverty and Social</b>	<b>1990s</b>	<b>2000s</b>	<b>Latest Year</b>
Population (million)	11.4 [1998]	13.4 [2008]	14.7 [2013]
Population growth (annual % change)	2.3 [1998]	1.54 [2008]	1.83 [2013]
Maternal mortality ratio (per 100,000 live births)	437 [1997]	472 [2005]	206 [2010]
Infant mortality rate (below 1 year/per 1,000 live births)	95 [1998]	65 [2005]	45 [2010]
Life expectancy at birth (years)	50 [1990]	61 [2007]	63.6 [2012] 64.3 (women) 60.5 (men)
Adult literacy (%)	67.3 [1998]	77.6 [2008]	88 [2010]
Primary school gross enrollment (%)	77.8 [1998]	95.4 [2006]	98.2 [2011]
Child malnutrition (% below 5 years old)	...	43.2 [2005]	39.9 [2010]
Population below poverty line (%)	...	47.8 [2007]	18.9 [2013]
Population with access to improved water source(%)	21.5 [1990]	41.5 [2000]	71.3 [2012]
Population with access to improved sanitation facilities(%)	2.8 [1990]	16.3 [2000]	36.8 [2012]

  

<b>Environment</b>	<b>Earlier Year</b>	<b>Latest Year</b>
Carbon dioxide emissions (tons)	286,000 [1980]	4,180,380 [2010]
Carbon dioxide emissions per capita (tons)	0.04 [1980]	0.29 [2010]
Forest area (million hectares)	12.94 [1990]	9.97 [2011]
Urban population (% of total population)	9.0 [1980]	20.4 [2013]

  

<b>ADB Portfolio</b> (sovereign loans, as of 30 September 2014)	<b>OCR</b>	<b>ADF</b>	<b>Total</b>
Total number of loans	2	71	73
Net loan amount (\$ million, cumulative)	83.0	1,686.8	1,769.8
<b>Disbursements</b>			
Total funds available for withdrawal (\$ million)	83.0	1,686.8	1,769.8
Disbursed amount (\$ million, cumulative)	...	1,203.3	1,203.3
Percentage disbursed (disbursed amount/total available)	...	71.3%	67.9%

... = not available, ( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, M2 = broad money, OCR = ordinary capital resources.

<sup>a</sup> Estimate.

<sup>b</sup> Projection.

<sup>c</sup> Excluding official transfers.

Sources: Government of Cambodia, Asian Development Outlook database, United Nations Development Programme, and World Bank.



## I. DEVELOPMENT TRENDS AND ISSUES

### A. Country Background

1. Cambodia is transforming itself from a post-conflict to a market-oriented economy through steady and wide-ranging reforms. State building began from a very low base after many years of war, extreme loss of human life and capital, and widespread destruction of state institutions. Peace and political stability were reestablished following the 1991 Paris Peace Agreements, and the 1993 Constitution provides for liberal democratic development and a market economy. The recent national election, in July 2013, was followed by a year of political tensions; however, the situation has since stabilized. Economic performance has been impressive despite a highly rural economy, a narrow growth base (garments, tourism, agriculture, and construction), and weaknesses in governance and transparency. More recent efforts to strengthen governance include the implementation of the Law on Anti-Corruption, adopted in 2010, and the establishment of an anticorruption unit. Cambodia is well positioned to benefit from regional cooperation and integration (RCI) and connectivity within the Greater Mekong Subregion (GMS), and is preparing to meet the challenges of the regional economic integration of the ASEAN Economic Community by 2015.

2. **Poverty.** Official figures show that poverty in Cambodia has fallen dramatically, from 47.8% in 2007 to 18.9% in 2012.<sup>1</sup> Poverty reduction was fastest during 2007–2009, but slowed in 2009–2012. Urban poverty increased during 2010–2011, but fell again in 2012. The poverty incidence is highest in rural areas (19.9% in 2012), where 9 in 10 poor people live. Despite the rapid poverty reduction and a fall in inequality, a very large share of the population remains vulnerable to poverty, having moved from just below the poverty line to just above it. In 2011, 10% of Cambodians lived on less than \$1.25 per day, but 41% lived on less than \$2.00 per day and 72% lived on less than \$3.00 per day.<sup>2</sup> With a high concentration of households living just above the national poverty line, the risk of falling back into poverty is significant, even with a very small shock. High rates of child malnutrition and household indebtedness among the poor are characteristics of vulnerability, while borrowing to smooth consumption has become a common coping mechanism in the absence of a comprehensive social protection system.

3. **Gender equity.** Gender stereotypes regarding the role of women remain a challenge. While 84% of women aged 15–64 in 2010 participated in the labor force, 55% were engaged in agriculture, and the proportion has remained stable since 2004. The proportion of women engaged in industry and services has also changed little. Women comprise only 27% of wage employment in the formal sector—mostly in vulnerable, low-paying jobs in the garment industry. However, gender gaps in enrollment have been closed at the primary and lower secondary level, and literacy is rising, although significant sociocultural and economic obstacles to girls' education remain, and girls still drop out at a higher rate, primarily for economic reasons.

4. **Cambodia Millennium Development Goals.** The government is committed to achieving the Cambodia Millennium Development Goals (MDG) by 2015, but progress has been mixed. Cambodia is an early achiever in many areas, particularly in reducing income poverty, expanding primary school enrollment, and combatting HIV and tuberculosis. Indicators that are likely to be met by 2015 include primary education completion and gender parity in secondary education. Overall enrollment rates in secondary school however are low. Progress is slow in reducing child malnutrition and infant and child mortality, and providing access to basic sanitation. These targets are not expected to be met on time.

---

<sup>1</sup> In 2013, the Ministry of Planning introduced new official poverty lines and revised upward the poverty estimates for 2004 and 2007 along with new figures for 2008–2011, based on the Cambodia Socio-Economic Survey. Refer to the Poverty Analysis (Summary) (accessible from the list of linked documents in Appendix 2).

<sup>2</sup> Expressed in 2005 purchasing power parity dollars.

Sanitation coverage is particularly low in rural areas, where just 22% of households had toilets in 2011. The forest cover of 57% is slightly below the MDG target of 60%. With the classification of forest to include plantations such as rubber, palm oil, and eucalyptus, it is possible that Cambodia will meet the MDG target in 2015.<sup>3</sup>

## B. Economic Assessment and Outlook

5. **Economic performance.** During 2011–2013, as Cambodia moved closer to lower middle-income status,<sup>4</sup> the country's economic growth exceeded 7% each year, driven by solid performances in industry, services, and agriculture.<sup>5</sup> This growth rate is expected to continue in 2015–2016, barring exogenous shocks. Foreign direct investment has played an increasingly important role in industrial development, reaching \$1.2 billion in 2013. The influx of investment is supporting the rapid structural transformation of the economy from low-value-added activities in traditional growth areas (garments, tourism, construction, and low-yield rice paddy production) to integration into higher-value-added global supply chains, including new (e.g., auto parts and electronics) and agriculture-based activities. However, despite initial indications of economic diversification within and beyond the four traditional growth areas, the economy remains vulnerable to external shocks and natural disasters.

6. **Constraints to inclusive growth.** The Cambodia country diagnostic study (CDS) identified five critical constraints to more inclusive growth: (i) human capital: poorly educated population and inadequately skilled workforce; (ii) electricity supply: restricted availability, expensive and unreliable, especially in rural areas; (iii) transport network: poor rural roads, and inadequate ports and inland waterways; (iv) corruption and low levels of governance; and (v) low access to health services and water and sanitation, especially outside Phnom Penh.<sup>6</sup>

7. Consistent with the CDS, the results of the 2013 Cambodia socioeconomic survey showed that 87% of the workforce has at most primary education, and human capital is also constrained by low quality of education and skills gaps and mismatches in the labor market. Challenges related to the supply of electricity reflect low electricity coverage and high costs. However, a pipeline of energy projects, supported by other development partners, is expected to improve supply and coverage and reduce costs. The poor condition of secondary national, provincial, and rural roads is the main weakness of the road transport system. Cambodia has the lowest percentage of paved roads among the members of the Association of Southeast Asian Nations. Corruption continues to be regarded as a main area of concern for the business environment and overall governance in Cambodia.

8. **Private sector.** The private sector's share in the economy is more than 80%. The sector is dominated by informal and very small enterprises and farms, with only a few large, modern enterprises. A limited number of firms operate between these extremes. The so-called "missing middle" represents a weakness in private sector structure, both in rural and urban areas, that hinders value chain development and economic diversification. While the business climate has improved, more needs to be done to attract investment and generate productive and remunerative jobs for an expanding labor force. In the 2012 investment climate survey, all enterprises—both formal and informal—ranked access to and cost of electricity as the greatest constraint (42%), followed by the macroeconomic framework

<sup>3</sup> Environment Assessment (Summary) (accessible from list of linked documents in Appendix 2).

<sup>4</sup> Cambodia is expected to reach the lower middle-income threshold of \$1,045 gross national income per capita, calculated by the World Bank Atlas method, in 2014 or 2015. Gross national income per capita was \$950 in 2013.

<sup>5</sup> Economic Analysis (Summary) (accessible from list of linked documents in Appendix 2). Garments continued to perform well in the European Union and United States markets, growth in tourist arrivals averaged almost 20% per year, and agriculture grew by an average of about 3% per year, despite increased incidents of floods.

<sup>6</sup> Asian Development Bank (ADB). 2014. Cambodia: Critical Development Constraints. Country Diagnostic Study. Manila (draft). A summary is accessible from list of supplementary documents in Appendix 2.

(39%), corruption (28%), transport (24%), anticompetitive practices (23%), cost of financing (23%), and skills and education (20%).

### C. Highlights of Previous ADB Country Strategy

9. The country partnership strategy (CPS) for Cambodia, 2011–2013 of the Asian Development Bank (ADB) emphasized poverty reduction by promoting inclusive economic growth, social development, and equity. The CPS prioritized five sectors: transport (rural and provincial roads); water supply, sanitation and urban development; agriculture and natural resources (agriculture commercialization and irrigation support); education (lower secondary schools and vocational training); and finance (banking regulation, small and medium-sized enterprise [SME] finance, and microfinance), supported by activities in public sector management (PSM); public financial management [PFM] and decentralization and deconcentration [D&D]). The program responded to the challenges of climate change, D&D, rural–urban links, and regional cooperation, and incorporated five drivers of change into all activities—private sector development (PSD), governance, gender equity, knowledge solutions, and partnerships.

10. The CPS final review assessed the 2011–2013 CPS as satisfactory and made the following recommendations to guide the preparation of its successor: (i) continue to focus on key sectors and thematic areas to help the country deepen reforms, strengthen capacity development, and gain more from regional integration; (ii) consider an explicit thematic strategy for disaster risk management and urgent response to disasters from severe floods or droughts; (iii) develop a comprehensive knowledge strategy to guide the activities under the CPS; and (iv) ensure that the CPS is based on regular performance assessments. The validation of the CPS final review conducted by the Independent Evaluation Department (IED) rated the 2011–2013 CPS *less than satisfactory*.<sup>7</sup> While it concurred that the strategic positioning of the CPS was satisfactory and program relevant, it recommended more explicit measures to strengthen institutional capacity and improve the results framework to foster greater efficiency, sustainability, and development impact. All recommendations of the validation report have been reflected in the 2014–2018 CPS. Institutional capacity will be built through continued support for PSM; this will improve governance at the national, subnational, and sector levels. A strengthened CPS results framework, based on the National Strategic Development Plan (NSDP) 2014–2018, will be used for regular monitoring of results, including for institutional capacity development, which will feed back into national and sector strategy development.

11. In 2013, the volume of ADB's Cambodia portfolio of ongoing loan, grant, and technical assistance (TA) projects reached \$1 billion. Although the proportion of projects rated *satisfactory* increased over time, the disbursement ratio of the larger portfolio was below the ADB average. A joint country portfolio performance review identified the following key portfolio implementation issues: (i) weak implementing capacity of executing agencies, particularly in project management, procurement, and financial management; (ii) lack of delegation of authority to project management units; (iii) project implementation start-up delays; and (iv) poor project preparation. These bottlenecks will be addressed during the new CPS through an ongoing joint action plan to (i) improve project design through the application of readiness filters and advance actions; (ii) continue to safeguard against fiduciary risks through improved quality of audit reports and strengthened financial management; and (iii) strengthen the capacity of executing and implementing agencies through training on the government's standard operating procedures for externally funded projects and monitoring and evaluation (M&E).

<sup>7</sup> Country Partnership Strategy, 2011–2013 Final Review Validation (accessible from the list of linked documents in Appendix 2).

## II. THE COUNTRY STRATEGY

### A. Government National Strategy

12. The Rectangular Strategy for Growth, Employment, Equity and Efficiency, Phase III (RSIII) provides the development policies for the Fifth Legislature of the National Assembly (2013–2018). The government sees the RSIII as the blueprint “to guide the activities of all stakeholders to further pursue and strengthen long-term sustainable development aimed at promoting economic growth, creating jobs, an equitable distribution of the fruits of growth, and ensuring effectiveness of public institutions and management of resources.” The NSDP, 2014–2018, which will operationalize the RSIII, has the overarching objective of reducing poverty to about 15% by 2018.<sup>8</sup> The major strategic thrusts and components are as follows:

- (i) **Good governance (core reform):** (a) fighting corruption; (b) legal and judicial reforms; (c) public administration reforms, including PFM, D&D; and (d) reforming the armed forces.
- (ii) **Agriculture:** (a) improving agricultural productivity, diversification, and commercialization; (b) focusing on land reform and de-mining; (c) promoting livestock farming and aquaculture; and (d) sustainable management of national resources.
- (iii) **Physical infrastructure:** (a) developing transport and urban infrastructure, (b) managing water resources and irrigation systems, (c) developing electricity power and access, and (d) developing information and communication technology.
- (iv) **Private sector development and employment:** (a) strengthening the private sector and promoting investment and business; (b) developing industry and SMEs; (c) strengthening labor markets; and (d) enhancing the banking and finance sectors.
- (v) **Capacity development and human resources development:** (a) strengthening education, science and technology, and technical training, (b) promoting health and nutrition, (c) developing social protection, and (d) implementing the population policy and gender equity.
- (vi) **Creation of a conducive environment for the RSIII:** (a) promoting peace, political stability, and social order; (b) integrating into the region and the world; (c) creating a favorable macroeconomic and financial environment, and environment sustainability; and (d) developing partnerships in development.

13. **Government guidance.** The government has indicated three new policy priorities that take into account the country’s development needs: (i) human capital development, (ii) agriculture commercialization, and (iii) logistics and trade facilitation (transport). Its guidance for the CPS includes (i) seeking larger projects that have greater impact and are more efficient, (ii) being more selective and focused, (iii) taking a longer-term perspective in project and program planning, and (iv) carefully reviewing project and sector impacts in the preparation process.

### B. ADB Country Strategy

14. The CPS aligns with Cambodia’s strategic planning cycle and the new priorities reflected in the RSIII and the NSDP, 2014–2018, and the recommendations from IED and ADB’s Midterm Review of Strategy 2020.<sup>9</sup>

<sup>8</sup> The National Strategic Development Plan, 2014–2018 was endorsed by the National Assembly on 26 June 2014.

<sup>9</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila. See also ADB, 2008. *Strategy 2020: Working for an Asia and Pacific free of Poverty*. Manila.

## 1. Country Partnership Strategy Objectives

15. Consistent with the government's economic reform priorities, the impact of the CPS will be reduction in poverty and vulnerability. To achieve this, the CPS will embed the three strategic agendas of the Midterm Review of Strategy 2020 into all ADB operations: (i) inclusive economic growth, through sustained high growth and the creation of more diversified economic opportunities, broader access to these opportunities, and targeted social safety nets to protect the chronically poor; (ii) environmentally sustainable growth, through the use of environment and climate-friendly technologies, implementation of environmental safeguard measures, and strengthened institutional capacities; and (iii) RCI, through closer policy coordination in support of regional and global public goods, and larger regional markets for goods, services, and capital.

16. Responding to the recommendations of the Midterm Review of Strategy 2020, the CPS will emphasize catalyzing resource flows and providing knowledge solutions. Public–private partnerships (PPPs) will be a key activity, as will strategies to enhance partnerships with cofinanciers and implement knowledge activities.

## 2. Strategic Pillars and Outcomes

17. The CPS identifies two strategic pillars for ADB's activities in Cambodia: (i) rural–urban–regional links, and (ii) human and social development, and one facilitating pillar: PSM. The rural–urban–regional links pillar takes an integrated approach to development that targets the areas where most poor people live, and focuses on transport and economic corridor development to link national value chains with the region and the world. This pillar will develop rural–urban–regional infrastructure (including irrigation and water management, rural electrification, rural roads, rural water supply, urban infrastructure, road maintenance, and trade facilitation) and support the commercialization of farms and competitiveness of agribusiness enterprises through improved connectivity. The human and social development pillar includes secondary education, skills development, and social protection. PSM, covering D&D and PFM reforms, will act as a facilitating pillar to improve country and sector governance and mitigate project-level fiduciary risks.

18. **Selectivity and focus.** The CPS strictly adheres to focus and selectivity. It focuses on five sectors (agriculture, natural resources and rural development; water and other urban infrastructure and services; transport; education; and finance) and one cross-cutting sector (public sector management). Each activity in the Cambodia country program has been subjected to a strict selectivity screen<sup>10</sup> and has been prioritized because it (i) addresses a critical constraint for development, (ii) meets the government's priorities, (iii) follows the recommendations of ADB's Midterm Review of Strategy 2020, (iv) has a high likelihood of satisfactory implementation and strong impact, (v) complements other development partner activities and leverages private sector resources, and (vi) fits within ADB's financial and human resources.

19. **Integration and synergies.** The CPS aims to maximize project and program outcomes through improved integration and synergies within and between the operations. Programming and identifying projects across sectors based on expected outcomes, rather than in isolated sectors, will improve integration and synergies between projects and programs and between their constituent activities. Synergies will be identified in country programming, country portfolio review, and project and program designs, as well as through regular meetings across sector divisions and better tracking of project implementation.

20. **Rural–urban–regional links.** As agricultural commercialization gradually replaces subsistence activities, rural–urban links will provide a catalyst for higher incomes in rural and

<sup>10</sup> As documented in sector assessments (summary) (accessible from the list of linked documents in Appendix 2).

urban settings. Connectivity between rural communities and urban growth centers will increase, and rural communities will benefit from improved access to markets and social services. In this context, rural–urban links along economic corridors have the potential to contribute significantly to inclusive growth and integrate Cambodia into regional markets.

- (i) **Agricultural commercialization.** The CPS aims to support the transformation of agriculture from value chains that are supply-driven to those that are demand-driven. Interventions under the CPS will (a) make agriculture more market-oriented and improve market links; (b) make on-farm practices more efficient by making more efficient use of natural resources (land and water); and (c) increase productivity growth through higher-value outputs, including through greater specialization within rice cultivation and high-value non-rice crops. Agricultural commercialization will receive additional support through complementary investments, as elaborated below and private sector development.
- (ii) **Rural infrastructure.** Investments in the key sectors of transport, rural energy, water supply and sanitation, and irrigation will lead to improved development outcomes for the country. To generate further growth, augment productivity, and link rural and urban markets, the CPS will focus on (a) expanding the provincial and rural road network to promote connectivity, trade, and tourism and reduce high local transport costs; (b) improving water supply and sanitation services to help Cambodia reach its MDG targets; and (c) expanding irrigation systems and strengthening their management to promote agricultural productivity.
- (iii) **Urban infrastructure.** ADB will expand water supply and sanitation services in urban areas outside Phnom Penh along subregional transport corridors, in border towns and in growth centers in the Tonle Sap Basin. In addition to promoting RCI, the broader urban development approach will deepen synergies between urban and rural development, including institutional and policy development.
- (iv) **Natural resource management, climate change, and disaster risk reduction.** More inclusive economic growth will depend on the sustainable management of natural resources, including the Mekong River and the Tonle Sap lake. ADB will support (a) mapping of ecosystem functions and assessment of ecosystem services as input into land-use planning processes, (b) strengthening of natural resource institutions and processes, and (c) improvement of biodiversity monitoring systems to maintain ecosystem integrity. The CPS will (a) mainstream climate change considerations in sector analysis, planning, and project design; (b) improve coordination and strengthen links between national and subregional programs on climate change and the environment; and (c) improve access to finance to support climate change mitigation and adaptation. The CPS will explicitly promote the integration of climate change adaptation with disaster risk reduction and management, and strengthening of disaster management at the central, provincial, district, commune, and village levels.
- (v) **Regional cooperation and integration, and connectivity.** Improved national rural–urban connectivity will contribute to and benefit from accelerated regional connectivity and integration. The GMS Strategic Framework, 2012–2020, endorsed in December 2011, emphasizes second-generation projects to widen and deepen regional economic corridors in the GMS.<sup>11</sup> In Cambodia, this new generation of projects will be based on a multisector investment approach, such as urban development and enhanced

<sup>11</sup> Cambodia in the Greater Mekong Subregion (accessible from list of supplementary documents in Appendix 2). The GMS Regional Investment Framework, 2013-2022 will also guide investments in RCI.

movement of goods and people along corridors through transport and trade facilitation, sanitary and phytosanitary measures, and logistics, and the findings of ongoing analytical work on economic corridor development. To address the negative impacts of greater connectivity, the CPS will contribute to the GMS Program by (a) strengthening biodiversity conservation and climate change resilience, while reducing environmental degradation and mitigating greenhouse gas emissions; (b) tackling regional public health and labor migration constraints to inclusive growth; and (c) promoting sustainable and inclusive tourism development, with synergies arising from operations in transport, environmental protection, and human resource development and employment creation.

21. **Human and social development.** Insufficient investments in human capital is a major reason for human capital constraints in Cambodia.

- (i) **Education development.** ADB will focus on secondary education and technical and vocational education and training as part of a program-based approach to meet the objectives of the government's Education Strategic Plan, 2014–2018. ADB operations will target secondary schooling (grades 7–12), expanding access and reducing dropout rates, especially among poor students and girls from remote areas, and improving the relevance and quality of education.
- (ii) **Skills development.** Many of the more than 200,000 young people that join the labor force every year have low levels of skills and education. This holds back the country's labor productivity and competitiveness. The CPS will focus on helping the government shift from informal to formal technical and vocational education and training programs, and to higher-end and technological skills at the postsecondary level which are linked more closely with labor market demands and the country's development needs. It will also focus on greater engagement of the private sector in training and vocational education.
- (iii) **Social protection.** To support the government's human and social development goals and the creation of a social protection system, as set out in the RSIII, ADB operations will build on previous experience and continue to support social protection elements in ongoing and planned projects, such as poverty-targeted sanitation grants, consumption smoothing (scholarships, public works programs, and the Voucher Skills Training Program), and skills bridging for out-of-school youth.

22. **Public sector management.** The government is implementing comprehensive PFM and D&D reforms, and accelerating public administration and legal and judicial reforms. Given ADB's existing focus and ongoing support, the CPS includes additional and more coordinated support for PFM and D&D reforms.

- (i) **Decentralization.** D&D reforms aim to promote democratic development, systems, and institutions at subnational levels, and achieve more inclusive development through improved local service delivery. In addition to ADB's direct support to the D&D agenda, including the allocation of functional assignments to subnational authorities, fiscal decentralization, PFM capacity development and the creation of subnational financing mechanisms, ADB sector interventions will be anchored as much as possible in emerging D&D structures.<sup>12</sup>

---

<sup>12</sup> Sector Assessment (Summary): Public Sector Management (accessible from list of linked documents in Appendix 2).

- (ii) **Public financial management.** The CPS will continue to support improvements in PFM in the rural development ministries<sup>13</sup> and other selected ministries to provide the foundation for greater transparency and accountability for public expenditure. Assistance will focus on improving budget preparation and execution, accounting, financial management, internal control systems, procurement, and M&E; and strengthening internal and external audit, including through ongoing support to the National Audit Authority.

### 3. Drivers of Change

23. **Private sector development and private sector operations.** The CPS will support PSD with programs to transform agriculture from subsistence farming to a commercial orientation, improve transport infrastructure, strengthen the regulatory regime governing financial institutions, stimulate small enterprise, and promote private sector involvement in RCI.

- (i) **Finance sector program.** ADB is concluding the third subprogram of the Third Finance Sector Program Loan Cluster, which has been operating since 2011.<sup>14</sup> This is supporting implementation of the initial stages of the government's updated Financial Sector Development Strategy, 2011–2020. Beyond this, ADB will support improved access to formal sources of finance, especially in rural areas, both through related ADB initiatives, such as those to support growth of commercial farms and rural enterprises, and through private sector operations including trade finance and enhanced access to long-term nonsovereign finance for small enterprises.
- (ii) **Public–private partnerships.** The CPS will implement a comprehensive programmatic approach to (a) enhance the policy, legal, regulatory, and institutional framework for PPPs; (b) conduct a PPP capacity development program across all PPP-related line ministries and the private sector; and (c) prepare a project loan to help build a viable PPP pipeline.
- (iii) **Private sector operations.** ADB's private sector operations will focus on finance sector development, including private equity, transport, agribusiness, water supply and sanitation, and trade and supply chain finance for SMEs. Investments in synergy with ADB's public sector assistance will be supported, and technical assistance (TA) will be considered to facilitate project development, reduce entry barriers, improve governance, and develop capacity.

24. **Governance and capacity development.** To complement the top-down PSM support, the CPS will mitigate fiduciary risks in all ADB-funded projects. ADB will improve its understanding of the political economy context, strengthen PFM and procurement capacity in agencies in which it has operations, align operations with emerging decentralized systems, and provide targeted institutional development support. Risk mitigation measures will be implemented for all ADB-financed projects, consistent with ADB's Second Governance and Anticorruption Action Plan (2006) and its revised implementation guidelines.<sup>15</sup> The CPS will also support the capacity development of officials in procurement, development and change management, and leadership.

25. **Gender equity and mainstreaming.** Gender imbalances are a concern in Cambodia, and ADB is committed to investing in gender equity and women's empowerment

<sup>13</sup> Ministries of agriculture, forestry and fisheries; rural development; and water resources and meteorology.

<sup>14</sup> ADB. 2012. *Financial Sector Development Strategy: Cambodia, 2011-2020*. Manila. Sector Assessment (Summary): Finance (accessible from list of supplementary documents in Appendix 2).

<sup>15</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

for more inclusive growth. ADB will promote gender equity through gender-specific outcomes and outputs that deliver tangible benefits to women in its operations.<sup>16</sup>

26. **Knowledge solutions.** ADB's Midterm Review of Strategy 2020 highlights knowledge as a catalyst to propel development and enhance the impact of ADB's investment activities. Consistent with the knowledge strategy of ADB's Southeast Asia Department, the CPS includes a Cambodia-specific knowledge management strategy (KMS), which will be implemented through an annually updated knowledge plan. The KMS aims to (i) generate and disseminate knowledge in areas targeted by the CPS, 2014–2018 as part of the project cycle; (ii) make better use of the knowledge content of operations; (iii) access knowledge from local and international institutions; and (iv) enhance ADB's ability to deliver an agreed number of knowledge products each year that meet government demand.<sup>17</sup> ADB will continue to strengthen dissemination of knowledge to stakeholders on ADB operations through the media, internet, joint ADB-World Bank public information centers, and the Cambodia ADB Learning Resource Center.<sup>18</sup>

27. **Partnerships.** The government has approved the Development Cooperation and Partnerships Strategy, 2014–2018 to build comprehensive partnerships with development partners, civil society, and the private sector. The CPS will support greater involvement of ADB in aid coordination mechanisms and forums. ADB will selectively strengthen links with (i) development partners,<sup>19</sup> to improve collaboration and mobilize greater cofinancing resources; (ii) civil society,<sup>20</sup> through more frequent consultations and round table discussions that allow frank discussions and identify engagement possibilities; and (iii) the private sector,<sup>21</sup> to engage with the business community on ADB's public and private sector operations.

### III. STRATEGY IMPLEMENTATION

#### A. Indicative Resource Parameters

28. **Resources.** The country allocation of Asian Development Fund resources for Cambodia during 2013–2014 is \$274 million and will be fully utilized. The indicative 2015–2016 Asian Development Fund biennial allocation for Cambodia is \$260 million, with an additional indicative \$97.9 million from the regional set-aside. The final country allocation will depend on the available commitment authority and the outcome of the 2015 and 2016 country performance assessments. The indicative country allocation for 2017 is \$144 million.<sup>22</sup>

29. **Cost-sharing arrangements.** Under established agreements with the government, the country cost-sharing ceiling for the portfolio of loans and TA projects remains unchanged. Individual projects may be provided with ADB financing for up to 99% of total project costs.<sup>23</sup> This is expected to ease counterpart financing constraints.

30. **Staff resources.** The staffing needs, including of the resident mission, are changing with the composition of projects and the extent of their delegation, the increasing demands

<sup>16</sup> Gender Analysis (Summary) (accessible from the list of linked documents in Appendix 2, and based on an exercise jointly carried out with the government to update the national gender strategy).

<sup>17</sup> Knowledge Management Strategy (accessible from the list of supplementary documents in Appendix 2).

<sup>18</sup> Country Communications Strategy (accessible from the list of supplementary documents in Appendix 2).

<sup>19</sup> Development Coordination Matrix in Country and Portfolio Indicators (accessible from the list of linked documents in Appendix 2).

<sup>20</sup> Civil Society Engagement Plan (accessible from the list of supplementary documents in Appendix 2).

<sup>21</sup> Private Sector Assessment (Summary) (accessible from the list of linked documents in Appendix 2).

<sup>22</sup> Country Operations Business Plan (Draft), 2015–2017 (accessible from the list of linked documents in Appendix 2).

<sup>23</sup> Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters (accessible from list of linked documents in Appendix 2).

for knowledge work, and new thrusts of the CPS. The staffing needs will be assessed and adjusted with a view to ensuring an appropriate level and mix to effectively implement the CPS.

## **B. Program Overview**

31. **Overall operations.** The lending program for 2015–2017 averages 4–5 national projects and 1–2 subregional projects a year, and \$32.3 million per project (up from \$19.4 million during 2010–2012 and \$25.4 million during the 2011–2013 CPS), and 1 national and 1 subregional standby project each year. The national program for 2015–2017 includes 22 TA projects, of which 8 are project preparatory, 8 are capacity development, 4 are policy and advisory, and 2 are project design advance. The regional program has 2 project preparatory TAs.

32. **Portfolio quality improvement.** To strengthen portfolio quality, the CPS will (i) continue to strengthen fiduciary safeguards; (ii) selectively delegate projects to ADB's Cambodia Resident Mission (CARM) to improve project administration through closer and more intensive cooperation with clients and in line with CARM's capacity and available support from headquarters; (iii) improve adherence to project readiness filters and application of advance actions before project start-up; (iv) build absorptive and management capacity of executing and implementing agencies, particularly in procurement and financial management; and (v) improve M&E through enhanced results frameworks and joint supervision missions for cofinanced projects.

## **IV. RESULTS MANAGEMENT**

### **A. Monitoring**

33. CPS implementation will be more closely monitored using improved country and sector results frameworks that are updated annually during the country portfolio review and country programming missions (Appendix 1). Specialists will analyze sector outcomes in collaboration with executing agencies (EAs), and strengthen M&E capacity of EAs where needed.

### **B. Risks**

34. **Public financial management and procurement risks and mitigation.** To mitigate PFM and oversight capacity risks, ADB will extend its support to the PFM reform program by improving the financial accountability of rural development ministries and other selected ministries in areas of ADB engagement, and the PFM capacity of subnational administrations. ADB measures to mitigate procurement and corruption risks in its operations include (i) identifying risks and implementing targeted mitigation measures for all projects to ensure transparency and accountability through governance and risk assessment and risk management plans; (ii) tightening project procurement and applying measures to ensure a well-functioning M&E system; (iii) conducting joint investigations of irregularities in ADB-financed projects; and (iv) supporting the further development of the government's updated *Standard Operating Procedures*, *Procurement Manual*, and *Financial Management Manual* for all externally assisted projects and programs in Cambodia, and training government officials to apply them effectively.

## COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

<b>Country Development Goals</b>			
To build a peaceful, politically stable, and secure society through sustainable and equitable development			
1. Growth: Ensuring average annual economic growth of 7%. This growth should be sustainable, inclusive, equitable, and resilient to shocks.			
2. Employment: Creating more jobs for people, especially youth, through improving Cambodia's competitiveness to attract and encourage both domestic and foreign investments.			
3. Equity: Achieving more than a 1 percentage point reduction in poverty incidence annually, including the realization of other Cambodia Millennium Development Goal targets.			
4. Efficiency: Further strengthening institutional capacity and governance at both national and subnational levels, and ensuring the effectiveness and efficiency of public services to better serve the people.			
<b>Sectors Selected for ADB Support</b>			
<b>Government Sector Objectives</b>	<b>Sector Outcomes that ADB Contributes to and Indicators</b>	<b>ADB Areas of Intervention</b>	<b>ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities</b>
<b>1. Agriculture, natural resources, and rural development (Core Area 1: Infrastructure and Core Area 2: Environment)</b>			
Improved agricultural productivity, diversification, and commercialization	<p>Paddy production increases to 9.5 million tons by 2018 (2013 baseline: 8.2 million tons)</p> <p>Domestic fruit and vegetable production accounts for 50% of Cambodia's consumption by 2018 (2013 baseline: 30%)</p> <p>Increased formal employment in agriculture to 15% by 2018 (2013 baseline: 9.5%), of which 30% of new formal jobs created annually by 2018 are for women (2013 baseline: 20%)</p>	<p>Agricultural research</p> <p>Extension and farm advisory services</p> <p>Post-harvest facilities and agro-processing</p> <p>Crop value chain infrastructure and investments</p> <p>Irrigation system development</p>	<p>\$85.6 million for 2014–2018, 10.4% of CPS envelope, and an additional \$32.4 million cofinancing, of which:</p> <p>ESG: 76%</p> <p>GEM: 100%</p> <p>PSD: 59%</p> <p>RCI: 24%</p>
<b>2. Education (Core Area 5: Education)</b>			
Increased levels of education and technical training attainment	<p>Gross enrollment rate for upper secondary education. Target (SY2017/18): 45% (42% female). Baseline (SY2012/13): 27.4% (26.4% female)</p> <p>Completion rates for lower secondary education. Target (SY2017/18): 76% (76% female). Baseline (SY2012/13): 40.6% (40.3% female)</p> <p>Number of formal training enrollments. Target (SY2017/18): 17,600. Baseline (SY2012/13): 8,700</p>	<p>System and policy reforms</p> <p>School rehabilitation and building</p> <p>Curriculum development</p> <p>Education sector finance</p> <p>Vocational training</p> <p>Technical training</p>	<p>\$90 million for 2014–2018, 10.6% of CPS envelope, and \$15 million cofinancing, of which:</p> <p>ESG: 33%</p> <p>GEM: 100%</p> <p>PSD: 33%</p> <p>RCI: 0%</p>
<b>3. Public sector management (Driver of Change: Governance and capacity development)</b>			
Subnational administrations capable of promoting sustainable local development and reducing poverty. Improved budget credibility and	<p>Implementation of links between the budget and sector policies and programs with results indicators in at least seven ministries by 2018 (2013 baseline: 2)</p> <p>Share of public spending by subnational administration increases to 10% of total public</p>	<p>Decentralization and devolution</p> <p>Public expenditure and fiscal management</p> <p>Capacity development of local government officials</p>	<p>\$159.1 million for 2014–2018, 18.7% of CPS envelope, of which:</p> <p>ESG: 19%</p> <p>GEM: 81%</p> <p>PSD: 40%</p>

<b>Sectors Selected for ADB Support</b>			
<b>Government Sector Objectives</b>	<b>Sector Outcomes that ADB Contributes to and Indicators</b>	<b>ADB Areas of Intervention</b>	<b>ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities</b>
accountability.	expenditure by 2017 (2013 baseline: 5.7%)  Tax and nontax revenue collection by subnational administrations increases to 1.5% of gross domestic product by 2017 (2012 baseline: 1%)		RCI: 0%
<b>4. Transport (Core Area 1: Infrastructure and Core Area 3: Regional cooperation and integration)</b>			
Trade and the movement of goods and services facilitated; integration of domestic markets into the region and the world fostered	Cross-border road traffic allowance increases for Viet Nam to 500 vehicles by 2018 (2013 baseline: 300)  Rail freight traffic increases to 6.609 million ton-kilometers in 2018 (2012 baseline: 4.932 million)  Road traffic fatalities reduced to 7 per 10,000 vehicles by 2018 (2012 baseline: 13.4)	Provincial and rural road improvement  Road asset management  Railway rehabilitation  Greater Mekong Subregion road corridor improvement	\$148 million for 2014–2018, 17.4% of CPS envelope, and \$125.1 million cofinancing, of which:  ESG: 36.5%  GEM: 100%  PSD: 63.5%  RCI: 66.2%
<b>5. Water and other urban infrastructure and services (Core Area 1: Infrastructure, Core Area 2: Environment, and Core Area 3: Regional cooperation and integration)</b>			
All Cambodians have access to safe water supply and sanitation by 2025	By 2018: Rural population with access to safe water 67% and improved sanitation 60% (2013 baseline: 44.2% for water and 37.5% for sanitation)  By 2018: Improved urban water performance and all 12 public water utilities become autonomous (2013 baseline: 2)  By 2018: Two towns improved municipality services working toward full operation and maintenance cost recovery for key services (2014 baseline: 0)	Rural water supply and sanitation  Urban water supply and sanitation  Urban environment improvements	\$183 million for 2014–2018, 21.5% of CPS envelope, and \$20 million cofinancing, of which:  ESG: 89%  GEM: 100%  PSD: 20%  RCI: 20%
<b>6. Finance (Core Area 4: Finance)</b>			
Increased use of more efficient and sustainable financial services by private sector enterprises	Microfinance loan accounts opened or end borrowers reached increased to 1,800,000, disaggregated by sex, by 2018 (2013 baseline: 1,550,000—1,272,000 women and 278,000 men)  Total private sector credit of banks to gross domestic product 65% or above by 2018 (2013 baseline: 47.7%)	Central bank capacity development and payment systems  Finance sector policies  Access to finance  Insurance development	\$35 million for 2014–2018, 4.1% of CPS envelope, of which:  ESG: 0%  GEM: 57%  PSD: 57%  RCI: 0%

CPS = country partnership strategy, ESG = environmentally sustainable growth, GEM = gender equity and mainstreaming, PSD = private sector development, RCI = regional integration, SY = school year.

Source: Asian Development Bank.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/CPS/?id=CAM-2014>

1. Economic Analysis (Summary)
2. Poverty Analysis (Summary)
3. Gender Analysis (Summary)
4. Environment Assessment (Summary)
5. Private Sector Assessment (Summary)
6. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development
7. Sector Assessment (Summary): Education
8. Sector Assessment (Summary): Transport
9. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
10. Sector Assessment (Summary): Public Sector Management
11. Risk Assessment and Risk Management Plan (Summary)
12. Country and Portfolio Indicators
13. Country Performance Assessment Ratings
14. Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters
15. Country Partnership Strategy Formulation
16. Country Partnership Strategy, 2011-2013 Final Review
17. Country Operations Business Plan, 2015–2017 (Draft)
18. Country Partnership Strategy, 2011–2013 Final Review Validation

**Supplementary Documents**

19. Sector Assessment (Summary): Finance
20. Cambodia in the Greater Mekong Subregion
21. Civil Society Engagement Plan
22. Country Communications Strategy
23. Cambodia Diagnostics Study Critical Development Constraints (Highlights)
24. Knowledge Management Strategy