



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 13-May-2020 | Report No: PIDC29282



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Cambodia	P174045	Cambodia Relief, Recovery and Resilience Development Policy Financing (P174045)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	30-Jun-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Royal Government of Cambodia	Ministry of Economy and Finance		

Proposed Development Objective(s)

The program development objective is to support the Royal Government of Cambodia to effectively deal with the COVID-19 crisis by: (i) providing timely and targeted relief to the affected population; (ii) facilitating robust recovery through structural reforms; and (iii) building resilience against future economic shocks.

Financing (in US\$, Millions)

SUMMARY

Total Financing	150.00
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DETAILS

Total World Bank Group Financing	150.00
World Bank Lending	150.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

The objective of the proposed operation is to provide timely support to the Royal Government of Cambodia (RGC) to



combat the COVID-19 pandemic and to facilitate a resilient recovery. The proposed operation is an integral part of the World Bank Group's (WBG) broader COVID-19 response to the country. It supports the Government's efforts to mitigate the immediate fallout of the social and economic crisis triggered by the COVID-19 pandemic and to put in place measures to facilitate recovery and build resilience to future shocks. It does so by supporting actions that provide financial relief to affected households and firms, by implementing structural reforms to improve the business environment for the private sector, and by strengthening institutions around debt management and revenue mobilization. These actions are aligned with the RGC's announced emergency response measures as well as articulated in the Rectangular Strategy Phase IV and the Industrial Development Policy (IDP) 2015-25.

The global shock triggered by the COVID-19 pandemic threatens to reverse years of development gains in Cambodia. Cambodia sustained an average real growth rate of 7.6 percent in 1995-2019, raising its per capita income from \$323 in 1995 to \$1,623 in 2019 (current US\$), and becoming a lower middle-income economy in 2015. Cambodia's success has ridden on labor-intensive and export-oriented sectors including tourism, agriculture and garments, the latter being particularly beneficial for women, and more recently construction. Consequently, growth has been broad-based, with consumption per capita for the poorest 40 percent of the population growing by an average 7.8 percent per annum and poverty headcount ratio falling from 47.8 percent to 13.5 percent between 2007 and 2014. The COVID-19 shock, propagated through falling global demand, supply chain disruptions and nationwide lockdowns, is hitting hard most of Cambodia's main drivers of growth. While real GDP growth was strong at 7.1 percent in 2019, it is projected to slow or even contract sharply to between 1.0 and -2.0 percent in 2020.¹

In the absence of significant mitigation measures, the COVID-19 pandemic could result in sharply rising unemployment and increased poverty. The sectors most affected by the crisis are also among the most employment intensive in Cambodia: garment sector accounts for 16 percent, construction 12 percent and transport and hospitality sector 13 percent of non-agricultural employment. Poverty simulations show that poverty would increase between 1 and 5 percentage points from a 50 percent income loss that lasts for three months for households engaged in tourism, wholesale and retail trade, garment, construction or manufacturing, or between 3 and 11 percentage points from an income loss that lasts for six months. Returning migrants from Thailand,² and their households that relied on their remittances, are also likely face significant income losses and elevated risk of falling into poverty.

The proposed operation is intended to support the Government to effectively deal with the COVID-19 crisis by providing immediate relief to affected populations and strengthen its economy for recovery and future resilience. The operation forms part of a multi-pronged WBG response to help Cambodia overcome the crisis. The proposed DPF will catalyze these investments by addressing some of the binding policy constraints necessary to facilitate an effective response, generate a robust recovery and build resilience against future shocks.

Relationship to CPF

The Cambodia WBG Country Partnership Framework (CPF) 2019-2023 supports the Cambodian Government's Rectangular Strategy Phase IV and the Industrial Development Policy and is aligned with the WBG twin goals of eliminating extreme poverty and boosting shared prosperity as well as achievement of the Sustainable Development Goals. The WBG CPF for Cambodia covering the period from fiscal year 2019-2023 (FY19-23) was discussed by the Board in May 2019. The Focus Areas for the FY19-23 CPF are well aligned with Government priorities articulated in the Rectangular Strategy Phase IV and the Industrial Development Policy, as well as the priorities identified in the SCD. The

¹ World Bank (2020). Cambodia Economic Update: Recent Economic Developments and Outlook. Washington, DC: World Bank. See <https://www.worldbank.org/en/country/cambodia/publication/cambodia-economic-monitor-reports>.

² It is estimated that around 80,000 migrant workers have returned to Cambodia since the COVID-19 outbreak.



CPF significantly expands the current support program, drawing heavily on analytic work done in recent years. The CPF has three focus areas: (i) promote state efficiency and boost private sector development; (ii) foster human development; and (iii) improve Agriculture and Strengthen Sustainable Use of Natural Resources. Through these focus areas, the CPF is expected to help achieve the WBG twin goals of eliminating extreme poverty and boosting shared prosperity. A critical cross-cutting theme, which underpins reforms in all three focus areas, is that of governance, institutions and citizen engagement. It reflects a renewed medium-term partnership between Cambodia and the WBG.

The proposed operation is aligned with the CPF focus areas and complements ongoing WBG operations in helping to achieve the overall objectives of the CPF. While the CPF lending program did not envisage development policy financing, the operation has been prepared as a reflection of the severity of the COVID-19 shock and is entirely consistent with CPF objectives of boosting private sector development, fostering human development, and improving institutions.

C. Proposed Development Objective(s)

The program development objective is to support the Royal Government of Cambodia to effectively deal with the COVID-19 crisis by: (i) providing timely and targeted relief to the affected population; (ii) facilitating robust recovery through structural reforms; and (iii) building resilience against future economic shocks.

Key Results

The proposed operation supports targeted areas of the Government’s announced emergency response measures as well as its broader reform program where the World Bank Group has played a leading role in policy dialogue. The proposed operation is structured around three strategic pillars: (i) providing timely and targeted relief to the affected population; (ii) facilitating robust recovery through structural reforms; and (iii) building resilience against future economic shocks. Actions to provide timely and targeted relief include scaling up of social assistance measures and improving financing for SMEs. Actions to facilitate robust recovery through structural reforms include improving trade facilitation and the business environment. Actions to build resilience against future economic shocks include better public debt and investment management, revenue collection, and the enabling environment for e-Commerce.

D. Project Description

The proposed operation will directly support the Government’s COVID-19 response in Cambodia as well as its broader development goals of improved competitiveness and economic diversification. It is designed around three strategic pillars to be consistent with the government’s development objectives:

- (i) providing timely and targeted relief to the affected population;
- (ii) facilitating robust recovery through structural reforms; and
- (iii) building resilience against future economic shocks.

The operation includes a mixture of short- and medium-term policy and institutional actions undertaken by the RGC as part of its efforts to respond to the crisis. Pillar 1 is aligned with the Government’s announced responses to the economic and social impact of COVID-19 by providing households and firms immediate relief. These are also aligned with the Rectangular Strategy Phase IV under human resource development and enhancing private sector and employment. Pillars 2 and 3 similarly support the pillars of the Rectangular Strategy Phase IV of economic diversification and sustainable development.



The proposed operation also builds on the World Bank Group’s extensive and deep engagement with the Government of Cambodia. Given the immediate needs of the country to respond to the COVID-19 impact, the Government has chosen to focus on reforms targeting relief, recovery and resilience. In this context, the following interdependent filters were applied to guide the choice of sectors and reforms: (i) the relative urgency of reforms; (ii) a strong Government commitment to implement the reforms within the operation’s timeline; (iii) the presence of strong analytical underpinnings and a good knowledge base to inform the choice of actions; (iv) robust implementation arrangements; and (v) coordination with other development partners. These filters reflect key lessons learned from the World Bank’s extensive experience in preparing DPFs. The implementation of Government reforms is supported through an extensive technical assistance program supported by the World Bank, International Finance Corporation (IFC), the IMF, and other development partners.

E. Implementation

Institutional and Implementation Arrangements

Implementation of this operation is being coordinated by the Ministry of Economy and Finance as part of existing mechanisms for development coordination in Cambodia. While the MEF has overall responsibility, a number of other agencies are also closely involved in the reform program, including the Ministry of Commerce, Ministry of Labor and Vocational Training, Ministry of Social Affairs, Veterans and Youth Rehabilitation, and Ministry of Planning. 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. Result indicators have been specifically selected to reflect available data sources in Cambodia as well as the limited prior experience with the DPF instrument.

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

Poverty and Social Impacts

Reforms supported by this operation are expected to avert people from falling into poverty due to COVID-19, by creating fiscal space and strengthening social safety nets and institutions. It is the poorest and most vulnerable populations that are often hardest hit by global disruptions that COVID-19 is creating. Households linked to economic sectors affected by COVID-19 will face a substantially elevated risk of falling into poverty, at least in the short-run. Poverty stimulations have been undertaken with respect to specific segment of the population. Poverty would increase between 1 percent and 5 percent from a 50 percent income loss that lasts for 3 months for households engaged in tourism, wholesale and retail trade, garment, construction or manufacturing, or between 3 percent and 11 percent from an income loss that lasts for 6 months (using the US\$3.40/day poverty line). Returning migrants from Thailand, and their households that relied on their remittances, are also likely facing significant income losses and elevated risk of falling into poverty. The first pillar aims to providing timely and targeted relief to the affected population by (i) creating fiscal space for the Government to respond and (ii) strengthening the institutions for Government to provide targeted social assistance and social protection. The policy and institutions reforms supported by this operation therefore expected to reduce poverty and improve distributional outcomes.



The operation is also expected to help reduce poverty and boost shared prosperity by supporting growth and enhancing resilience to economic and financial shocks in the medium-term. Measures under Pillar 2 aimed at facilitating a robust economic recovery would indirectly affect poverty through growth. This includes reforms that improve trade competitiveness and the business environment. By streamlining trade facilitation, these reforms further support poverty by lowering prices of imports consumed by poor households. Actions aimed at mitigating shocks and building resilience would help shield future household income losses and prevent households from falling into poverty. The operation would also support shared prosperity in the medium-term by enhancing the human capital and future economic success of beneficiary children through better maternal and child nutrition.

Environmental, Forests, and Other Natural Resource Aspects

The policy and institutional actions supported under this operation are not expected to have a significant impact on Cambodia's environment. On the contrary, policy actions to mitigate the impact of the COVID-19 through relief measures in support of vulnerable households, as well as structural reforms to support a more robust recovery and build future resilience to shocks, are all expected to demonstrate positive indirect effects on the environment by establishing a sounder basis for economic growth beyond the crisis.

G. Risks and Mitigation

The overall risk of the proposed operation is “substantial”. The overall risk rating is based on a balance between relatively higher levels of political and macroeconomic risk, with a more moderate set of sectoral, program and technical risks reflecting the strong consensus around Cambodia's response to the COVID-19 crisis.

The severity of the macroeconomic impact of the COVID-19 on Cambodia poses its own set of risks. Dependence on international trade, thin fiscal buffers and financial sector vulnerabilities related to past years of high credit growth mean that Cambodia is particularly vulnerable to exogenous shocks. The World Bank has been actively engaged in supporting Cambodia's response to the pandemic, and the measures adopted with the support of the DPF are expected to play a key role in providing relief to the affected population, as well as reforms that will help lay the foundations for a rapid recovery and a more resilience macro-economic framework.

Assessments of institutional capacity in Cambodia point to several areas of vulnerability, including in particular public procurement and financial management. The World Bank will continue to extend support to strengthen fiduciary capacity, including in procurement and internal audit. Further, the World Bank has a significant on-the ground presence in Cambodia, which helps assure regular engagement on fiduciary issues.

Although institutional capacity has improved, it remains weak, particularly at the subnational level. Financing sustainability and implementation capacity of scaling up and delivering cash transfers efficiently also pose risks. The World Bank continues to provide a substantial program of ASA, including significant amounts of free-standing technical assistance, and mobilizes significant amounts of additional donor grant resources targeted to capacity building.



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APPROVAL

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Approved By

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