

DEVELOPMENT EFFECTIVENESS COUNTRY BRIEF

# Cambodia

## Selected Country Indicators

Country Indicators	Comparison year	Most recent year
Gross domestic product per capita	\$297 (1995)	\$513 (2006)
Poverty incidence (% below poverty line)	39 (1994)	34.7 (2004)
Human Development Index rank	137/174 (1999)	129/177 (2006)
Population growth rate (%)	3 (1995)	2.4 (2006)
Primary education net enrollment (%)	87 (2002)	92.1 (2006)
Primary completion rate to grade 6 (% of relevant age group)	<20 (2001)	43 (2005)
Ratio of girls to boys in primary and secondary education (%)	Primary 87 (2001) Secondary 55.5 (2001)	Primary 89.5 (2005) Secondary 68 (2005)
Ratio of literate females to males (% , 15–24 years)	87 (1998)	90 (2005)
Maternal mortality ratio (per 100,000 live births)	437 (1998)	473 (2005)
Births attended by skilled health staff (% of total)	32 (2000)	44 (2005)
Under-5 child mortality (per 1,000 live births)	124 (1998)	82 (2005)
Underweight children under 5 years of age (%)	–	36 (2005)
Prevalence of HIV/AIDS (% , 15–49 years)	2.5 (1998)	0.9 (2007)
Contraceptive prevalence rate (%)	–	40 (2005)
Malaria cases (per 100,000 people)	0.36 (2000)	0.3 (2005)
Tuberculosis cases (per 100,000 people)	428 (1997)	321 (2005)
Population with access to an improved water source (%)	60 (1995)	68 (2005)
Urban population with sustainable access to basic sanitation (%)	49 (1998)	59 (2005)
Mobile and fixed phone subscribers (per 1,000 people)	7 (1998)	64 (2005)
Household electrification rate (%)	14.2 (1998)	17 (2005)
Cost required for business start-up (% of GNI per capita)	480 (2005)	236 (2007)
Time required for business start-up (days)	94 (2003)	86 (2007)

GNI = gross national income.

# COUNTRY DEVELOPMENT SETTING

## Overview of Country Achievements and Development Challenges

- Poverty and Human Development.** While Cambodia remains a poor country with a per capita gross domestic product (GDP) of \$513 per annum, poverty has declined steadily since the end of the civil war. The percentage of Cambodians who live below the poverty line declined from an estimated 39% in 1994 to about 35% in 2004. But while the incidence of poverty has diminished, the gap between the rich and the poor has widened. A comparison of the average per capita consumption in 2004 against that in 1994 shows that consumption among the poorest fifth of the population has increased by 8%, while that of the richest fifth has risen by 45%. Survey results show that poverty incidence is more severe in rural areas and ranges from 4.6% in Phnom Penh to 39% in rural areas. Communities in the Tonle Sap Basin, in particular, are among the poorest in the country. Economic growth has relied essentially on garments exports, tourism, and construction, which are primarily urban in nature and offer limited benefits for the rural economy.
- The Government's performance with respect to the Millennium Development Goals is mixed. It has done very well in reducing child mortality, promoting gender equality, and empowering women, but has performed rather poorly in eradicating extreme poverty and hunger, achieving universal primary education, improving maternal health, and ensuring environmental sustainability. A five-fold increase in spending on education from 1994 to 2007 was not sufficient to reach universal primary education. The maternal mortality rate worsened despite a seven-fold increase in health spending. While the country has made steady progress towards achieving universal access to safe drinking water, this goal remains a serious challenge in rural areas: only 42 out of every 100 rural residents have access to safe drinking water compared with about 76 out of 100 urban dwellers. There has also been a deterioration in forest conservation and reforestation: the proportion of land covered by forests diminished from 60% in 2002 to 58% in 2005, with concerns over the quality of the remaining forest cover.
- Economic Growth and Macroeconomic Policy.** Consolidating rapid growth over the previous 2 years, the economy expanded strongly in 2006 at 10.8%. This performance reflects robust clothing exports, tourism receipts, and construction activity. Inflation over the last 5 years averaged 3.7%, exhibiting a declining trend. The central bank continued to intervene in the foreign exchange market to stabilize the riel in this highly dollarized economy. Fiscal performance has improved over the past years with an average deficit of 4.3% of GDP, as recurrent revenues continued to increase as a result of improved tax collections and public financial management reforms. In 2006, the current account deficit was reduced

to 7.2% of GDP, and the external public debt was estimated at \$2.2 billion (31% of GDP) with a debt service ratio relative to exports of goods and services at a low 1.1%. The macroeconomic environment has been reasonably well managed and the realization of high growth forecasts (over 9% in the next 2 years) will be increasingly dependent on strengthened domestic economic activity, underpinned by improved rural incomes, larger inflows of foreign direct investments, and greater government capital spending. However, the challenge to diversify sources of growth away from the current narrow base still remains. Despite recent improvements in the cost of doing business and trade facilitation, Cambodia's investment business climate remains constrained by weak enforcement of laws and regulations. Progress has also been slow in legal and judicial reform, forcing the private sector to operate according to uncertain rules.

4. **Development Challenges.** Cambodia is, in many respects, a country at a developmental crossroad: political stability is exposed to growing popular demand for tangible development results, relatively stable macroeconomic environment and debt sustainability despite high economic volatility and risks, progress on social indicators in a

context of persistently high poverty levels in rural areas, and high economic growth notwithstanding poor governance. In order to achieve the overarching goal of poverty eradication, Cambodia is faced with two main cross-cutting challenges. The first one is to encourage a broad-based, private sector-led sustainable economic growth. To be broad-based and inclusive, growth must focus on agricultural and rural development. The second challenge is to promote good governance, both to improve the investment climate and to ensure that public funds are used efficiently and effectively for delivering services. Most observers consider the key constraint to sustainable and equitable growth in Cambodia to be poor governance. Despite recent measures to enhance governance and reform civil service,<sup>1</sup> perceptions of poor performance and high corruption within the public sector remain high. The Government is conscious of the need to invest heavily in public infrastructure (roads, bridges, ports, irrigation facilities, etc.) to reduce the cost of doing business, and to accelerate policy reforms to provide an enabling environment for private sector development. At the same time, heavy investments in health, education, and nutrition have to be pursued to expand economic and social opportunities to all Cambodians.

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<sup>1</sup> Such measures include (i) the implementation of the decentralization and deconcentration policy, which strengthened citizen participation and made local authorities more accountable to their constituents; (ii) advances in the establishment of a modern legal framework for Cambodia, such as the adoption of the penal procedure code by the National Assembly, the enactment of World Trade Organization-related economic laws such as on moveable property rights (secured transactions law), as well as the adoption of key natural resource laws such as the Water Resources Law; (iii) progressive resolution of procedural issues in operationalizing the United Nations-sponsored Extraordinary Chambers in the Court of Cambodia for prosecution of the Khmer Rouge era crimes.

# ADB'S CONTRIBUTIONS TO DEVELOPMENT RESULTS

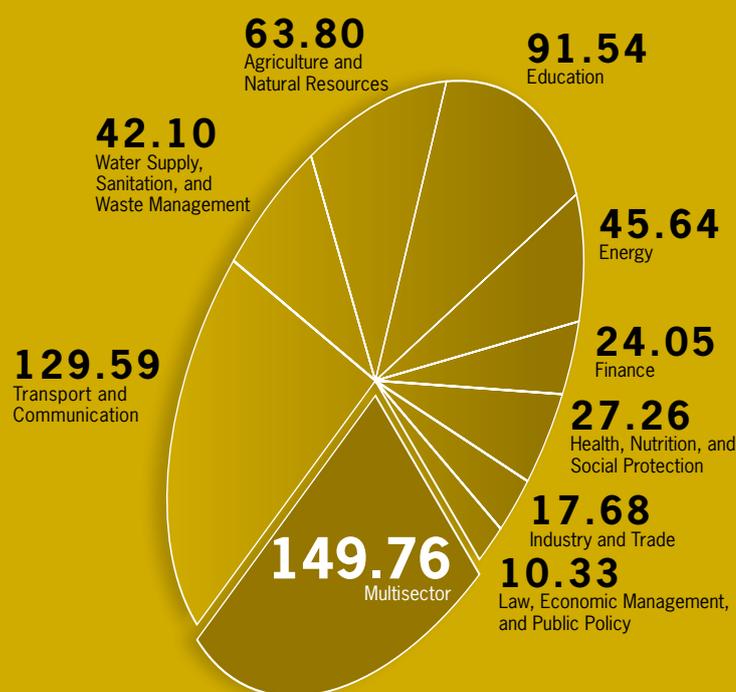
## Volume and Performance of ADB Operations

5. Since it resumed its assistance to Cambodia in 1992, ADB has been a leading development partner for the country. As of 31 December 2006, cumulative Asian Development Fund lending to Cambodia was \$1.05 billion, comprising 38 loans, including 5 regional loans for the Greater Mekong Subregion

(GMS); 4 grant projects, including one for the GMS, amounting to \$962 million; and 141 technical assistance grants totaling \$91.4 million. ADB's areas of assistance span the agriculture and natural resources, education, energy, transport and communications, finance, and water supply and sanitation sectors (figures 1 and 2).

**Figure 1**

Asian Development Fund Loans and Grants Approved, 1995–2006 (\$ million)



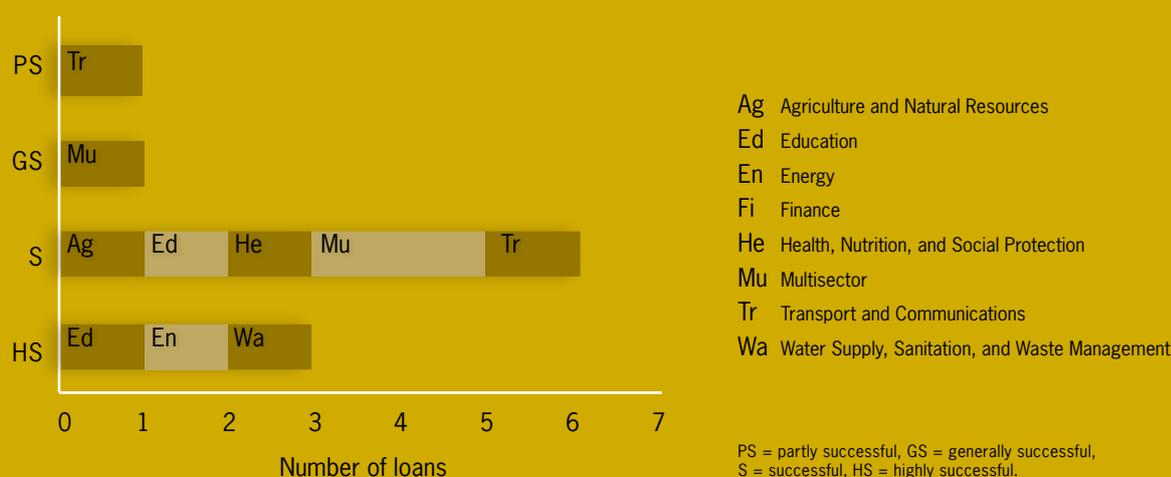
**Figure 2**

Asian Development Fund Loans and Grants Approved, 1995–2006 (number of projects)



**Figure 3**

Project Completion Report Ratings, 1995–2006



6. **Project Implementation Performance and Success Rate.** Of the 11 project completion reports undertaken from 1995 to 2006, three have been rated highly successful, one generally successful, six successful, and one partly successful (figure 3). The project completion report findings indicate that successful project implementation depends on factors such as realistic project design based on achievable project objectives and carefully-assessed capacities of implementing agencies, government commitment to and ownership of the project, stakeholders' involvement throughout the project cycle, and continuous monitoring and evaluation of the project benefits and risks.

7. **Impact of ADB Assistance.** The country program assistance evaluation (CAPE) undertaken by ADB's Operations Evaluation Department covered 26 public sector loans and 97 nonlending projects implemented between 1992 and 2002. While noting the evolving nature of the portfolio over a decade, the CAPE confirmed positive impacts in the education sector (access to primary school, decentralized education management, and increased recurrent education budget), in the finance sector

(reforms leading to growing public confidence in the banking system), in the transport sector (movements of people and economic dynamism through the rehabilitation of a substantial part of the national road network), and in the energy sector (installation of power generating plants and distribution networks in the capital and some provincial towns, enhanced capacity and corporatization of Eléctricité du Cambodge, reduction of system losses, and lower retails tariffs).

8. ADB project impacts were assessed as mixed but still evolving in the agriculture sector (improved food security and support to key economic and institutional reforms, while outcomes were less effective in other areas), in rural development (income generation and enhanced mobility and employment opportunities for the rural poor in farming and nonfarming activities through the construction and/or rehabilitation of rural infrastructure, while investments in rural credit and saving showed mixed results), in water supply and sanitation (improved access in Phnom Penh and some provincial towns and enhanced capacities of the Phnom Penh Water Supply Authority, while the impact in terms of reduced

incidence of water borne disease was below expectations), and in the health sector (effective utilization and enhanced supervision of health centers, but lagged results in terms of health outcomes).

9. The CAPE also identified some generic lessons for effective ADB assistance in Cambodia. These include (i) the need to increase revenue and at the same time restructure public expenditure to improve efficiency and transparency in budget utilization; (ii) paying more attention to the actual implementation and enforcement of new laws and regulations; (iii) developing integrated sector development approaches for lending and nonlending assistance, especially in the agriculture, rural development, and irrigation sectors; (iv) prioritizing good governance in operations and promoting transparency and accountability conducive to private sector development; and (v) institutionalizing skill transfers in a sustainable manner, focusing on both training to enhance individuals' skills and organizational and institutional strengthening.

## Highlights of ADB Results

10. **Agriculture.** Cambodia's agriculture sector is a primary source of food, income, and employment. Rural development is seen as a basis for political stability and an important engine for economic growth. About 70% of the country's population depends on the agricultural sector as its primary source of employment and income. Removing key constraints to agricultural development is a cornerstone of the Government's development agenda. Over the past 10 years, ADB has assisted Cambodia in implementing agriculture sector reforms and, at the same time, financed the intensification of agricultural production. ADB investment projects aim to promote rural growth through facilitating access to market and increased

agricultural productivity. Under the Agriculture Sector Program completed in 2000, the Government revised the 1992 Land Law. The land reform process was considered a model for stakeholder participation in policy reform. The new Land Law, passed in 2001, now provides a platform for land administration and management, and its benefits are still being felt by many Cambodians today. Over half a million land titles have so far been issued.

11. **Education.** Increased educational opportunities are central to reducing vulnerability and poverty in Cambodia. ADB has supported the education sector in Cambodia through a series of projects and programs: the Basic Skills Project, 1995–2003; the Basic Education Text Book Project, 1996–2001; and the first Education Sector Development Program, 2001–2004 (ESDP-I). The first two projects laid the foundation for future sector development by (i) addressing human resources bottleneck in technical and vocational education and training; (ii) supporting the preparation and implementation of the Basic Education Investment Plan, 1995–2000; (iii) helping increase the share of the recurrent education budget (from 10.2% in 1996 to 14.8% in 2001); and (iv) enhancing national capacities for aid planning and sector management. These achievements formed the basis for a sector-wide approach with the engagement of other development partners. ESDP-I, consisting of an investment project loan and a pro-poor program loan, supported the Ministry of Education, Youth and Sports in pioneering sector-wide reforms to enhance equity in access, efficiency, and quality, as stipulated in the Education Strategic Plan, 2001–2005, and the Education Sector Support Program. The pro-poor program loan, recently completed, generated substantial outputs and outcomes (see top box on next page).

## The Education Sector Development Program Benefited the Poor

ESDP-I contributed to incremental increases in the budgetary allocation of the education sector, reaching 18.4% of the total recurrent budget expenditures in 2002. It prompted the abolition of parental contributions at the start of the school year, playing an important role in the enrollment of an additional half a million students in primary schools, mainly from the poorest families, and the additional 650,000 students advancing to the next primary and secondary grades, saving the government and parents an estimated \$16 million annually. It also accelerated the decentralization of services to over 6,000 schools and 183 district offices, facilitating grassroots-level responsibilities in managing basic education.

## Benefits of Rural Infrastructure

On a smooth dirt road in southern Cambodia, 16 km from the Vietnamese border, a couple takes their vegetables in four big baskets balanced on their motorbike to a market in central district town. Since the road was improved 4 years ago, the once treacherous and time-consuming journey to the market for Chiv Kong and his wife no longer involves dodging potholes and bouncing up and down on an unevenly surfaced rural road.

Chiv Kong and his wife are really happy with this road. "Before the road was rehabilitated, it took us one hour by motorbike to get to the market; but now only half an hour [sic]," said Chiv Kong. "Now, my business is improving. Previously, I could transport my goods to the market only one trip per day, but after this road was rehabilitated I can make two trips per day," he added.

"My motorbike broke down often when driving on the bumpy road," he said. "I used to spend a lot of time and money repairing it, but not very often now [sic]." The \$31.4 million project fixed up not only rural roads, but also schools, health clinics, and markets in six provinces in southeastern Cambodia.

## 12. Transport Connectivity and Rural

**Access.** Road transport accounts for 65% of all passenger traffic and 70% of all cargo traffic in the country.

The country's infrastructure suffered from two decades of war and civil strife, during which about 7,700 kilometers (km) of the primary road network (national and provincial roads) constructed during the 1950s were severely damaged. The Phnom Penh to Ho Chi Minh City Highway and the Primary Roads Restoration Projects, completed in December 2005, reconstructed or rehabilitated about 665 km of the primary road network, as well as the bridges along these roads. These projects contributed to economic integration and growth by facilitating movements of trade and people within the country, as well as between Cambodia, Viet Nam, and Thailand. In some portions, travel time was reduced by over 50%, meaning lower transport costs both for individuals and products, and more time available for additional income-generating activities. Travel time by light vehicles from Phnom Penh to Battambang now takes about 4 hours, as against 12 hours before the rehabilitation. The Rural Infrastructure Improvement Project, completed in December 2002, rehabilitated a total 1,172 km of rural roads, bridges, and crossing structures, as well as school buildings, hand-pump wells, and rural markets along these roads. Rural poor gained easier access to basic social services, such as health care, literacy and skills training, credit, and extension services. Through this project, over four million workdays of employment were generated by road rehabilitation and routine/periodic maintenance, providing incomes to about 300,000 local workers. The project enhanced the mobility and employability of the rural poor in both farming and nonfarming activities. As a result of faster and cheaper access

to markets and extra time spent on non-agricultural income-generating activities, household incomes increased by 30% on average (see bottom box on previous page).

### 13. **Urban Water Supply and Drainage.**

Access to safe water remains limited in Cambodia and inadequate water supply and sanitation systems result in poor health conditions. The Phnom Penh Water Supply and Drainage Project, completed in June 2003, installed 15.6 km of water supply transmission mains and 86.3 km of water distribution pipes, and upgraded drainage canals and a pumping station. The project increased the water supply capacity by 155,000 cubic meters per day and reduced water losses from 57% to 17%, enabling about 1.5 million additional urban dwellers in Phnom Penh to gain access to safe drinking water. The rehabilitation of the system also reduced the water production cost by 8.2%. The drainage component of the project reduced flooding in about 40% of the inner city of Phnom Penh, enabling economic development around the rehabilitated canal areas. The institutional strengthening component helped transform the Phnom Penh Water Supply Authority from an ineffective water supply utility into one of the most successful autonomous public utilities in the region.

14. **Decentralization.** The Government's policy and program of decentralization is seen as a key initiative to strengthen local governance and contribute to peace and stability. However, after the first election for the commune councils in February 2002, most of 1,621 commune councilors did not have proper office facilities, equipment, and skills to function effectively. The Commune Council Development Project, completed in December 2006, supported (i) the construction of 517

## Empowerment of Women in Decentralization

The Commune Council Development Project included a marked gender orientation through (i) the training of 11,200 commune councilors and clerks; (ii) assisting the Ministry of Women's Affairs to disseminate the new Law on the Prevention of Domestic Violence and the Protection of Victims; and (iii) the development of a well functioning civil registration system.

In parallel, a technical assistance grant for "Strengthening and Capacity Building of Female Commune Council Network," financed by the Gender and Development Fund, supported participatory training sessions and forums targeting 174 female councilors in six provinces. The newly trained female councilors subsequently formed a network which provided a platform for sharing ideas among themselves and engaging civil society organizations.

While no gender quota was imposed, between the two elections of commune councilors in 2002 and 2007, the percentage of female councilors increased from 8.5% to 14.6%, and the number of women as chiefs and deputy chiefs of commune councils increased from 47 to 67 and from 158 to 269, respectively. In total, 74% of the communes now have elected female councilors.

commune offices; (ii) the production of digital photomaps for commune boundary demarcations and land use planning; (iii) the training of 11,200 commune councilors and clerks (see box); (iv) public awareness activities on local governance, decentralization, and benefits of civil registration; and (v) the establishment of a national civil registration system, through which 11.84 million people out of an estimated total population of 12.9 million were registered. The project contributed to improve the capacity of commune councils to articulate and advocate the interests of their communities, as well as the capacity of people to voice their needs through the commune councils, thereby contributing to local democratic development.

# ADB'S AGENDA FOR ENHANCING PARTNERSHIPS AND AID EFFECTIVENESS

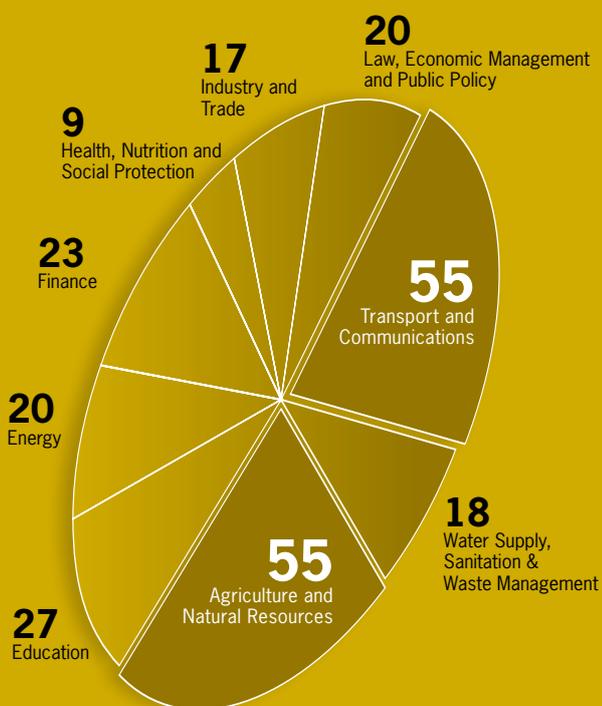
## Current ADB Portfolio and Assistance Pipeline

15. ADB's planned assistance for 2005–2008 is distributed across nine sectors (figures 4 and 5). The current assistance portfolio consists of 20 ongoing loans (16 projects and 4 program loans) and 4 grants, with an overall net loan amount of about \$503 million. The current rating of these ongoing loans

and grants is generally satisfactory, with 4.2% (1 out of 24) of them classified as highly satisfactory, 83.3% (20 out of 24) classified as satisfactory, and 12.5% (3 out of 24) classified as partly satisfactory or unsatisfactory, in terms of achieving development objectives and/or implementation progress (figure 6).

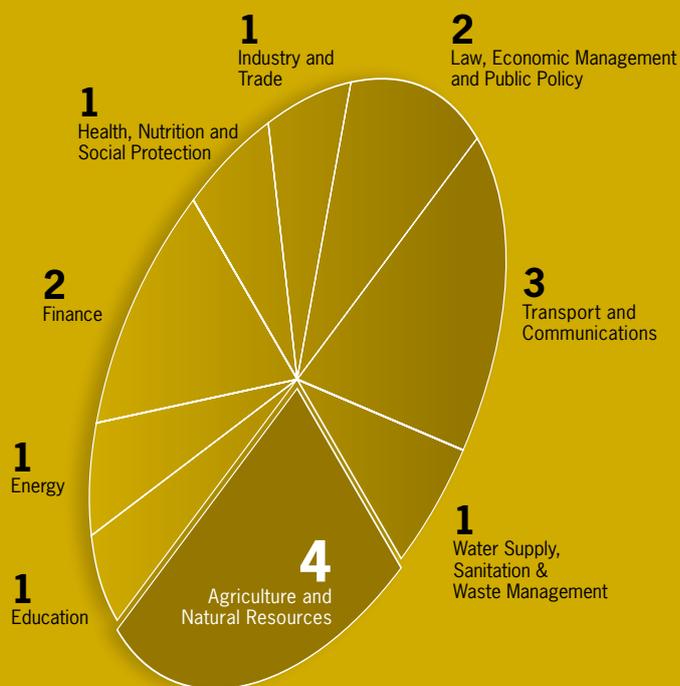
**Figure 4**

Projected Approvals, 2005–2008 (\$ million)



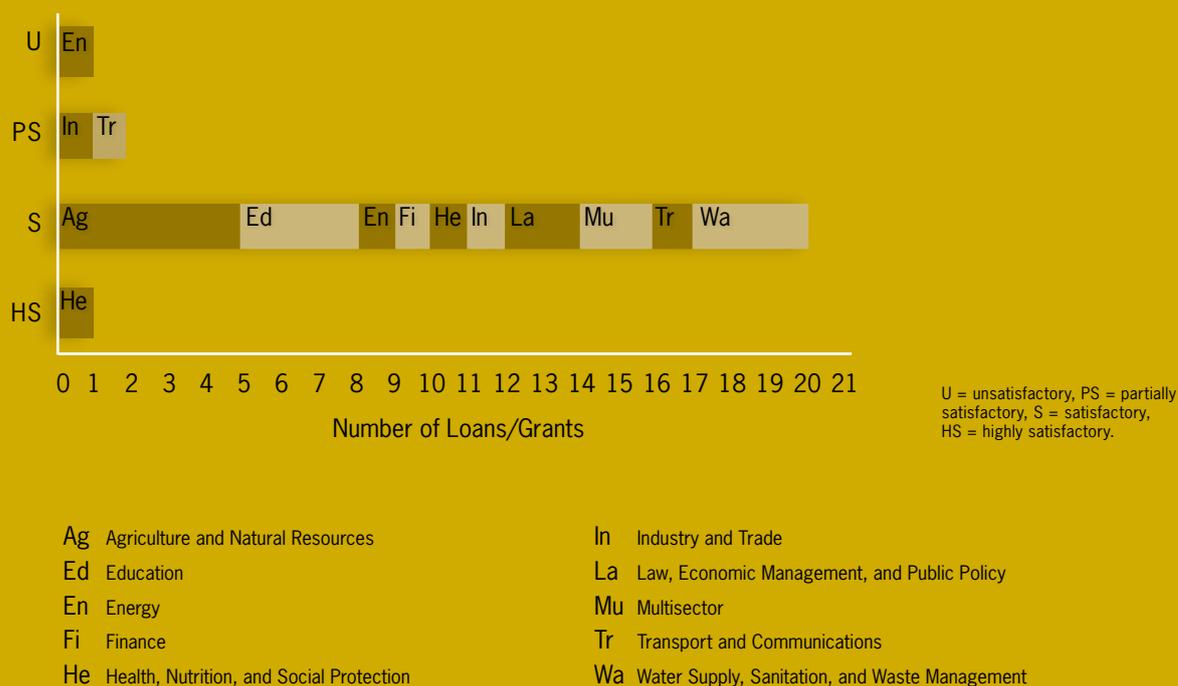
**Figure 5**

Projected Approvals, 2005–2008 (number of loans)



**Figure 6**

Project Performance Report Ratings (current)



## Ownership, Alignment, and Managing for Results in ADB Operations

16. **Strategic Focus and Alignment of the Country Strategy and Program.** Although the Cambodia Country Strategy and Program (CSP) 2005–2009 was not one of the pilot results-based CSPs, it incorporated many of the results-features later adopted by ADB: extensive dialogue with stakeholders, close alignment with national development goals and priorities, efforts to harmonize and coordinate assistance programs with other development partners, and use of existing government-donor mechanisms for monitoring outcomes. A Results Framework 2006–2010 provided a selective list of “SMART” (specific, measurable, achievable, realistic and timely) outcome indicators, which is the basis for monitoring the CSP implementation.

17. The strategic thrust of the 2005–2009 CSP is to contribute to sustainable poverty reduction by addressing binding economic constraints. The recent CSP midterm review confirmed the relevance of this approach, which entails broadening the sources of growth and addressing rural poverty. The midterm review also highlighted the need for a greater focus on rural development. ADB assistance for the rest of the CSP period will take the form of an integrated program of agricultural and rural development, with focused interventions on access to rural credit, decentralized registration of businesses in rural areas, farmer’s education and training, risk mitigation through public financial management for rural development, and the integrated Tonle Sap initiatives.

18. **Use of Country Systems.** In early 2007, the Government issued a sub-decree that instructed all government agencies implementing projects financed by ADB and World Bank to use the Government's manuals for (i) standard operating procedures, (ii) financial management, and (iii) procurement. These manuals were direct products of the Government's public financial management reform program, developed with assistance from ADB and World Bank with a view to improving the performance of project portfolio management and public procurement. They were completed in 2005 and took effect initially under a ministerial directive. While the manuals are currently applied to ADB and World Bank-financed projects, the Government is encouraging other development partners to adopt their use. The Agence Française de Développement is the first development partner to do so.

19. **ADB support for Management for Development Results.** Cambodia benefited from four ADB regional technical assistance projects introducing Management for Development Results (MfDR) techniques at the project and sector management level: Results-Focused Project Design and Management, Decentralization in Social Sectors, Assessing Private Sector Development Outcomes in Projects, and Strengthening Results-Based Management for Sector Agencies. However, despite the Government's growing receptivity to the MfDR agenda, more country-focused assistance is needed to develop the understanding and concrete applications of MfDR in the global context of aid effectiveness.

## ADB Role in Donor Coordination and Harmonization Initiatives at the Country Level

20. **Efforts to Enhance Government-Led Donor Coordination.** Strengthening the Government's capacity to manage aid has become a priority of the national development agenda. To this effect, a "Declaration by the Royal Government of Cambodia and Development Partners on Enhancing Aid Effectiveness", based on the principles of the Paris Declaration on Aid Effectiveness, was signed in October 2006. It established an Action Plan on Harmonization, Alignment and Results for 2006–2010. Coordination and partnerships between donors and the Government are promoted through various mechanisms. These include the quarterly Government Development Coordination Committee meetings, the annual Cambodia Development Cooperation Forum (CDCF) meeting, and the joint Government–donors sector technical working groups (TWGs). In 2006–07 the Government examined the effectiveness of aid with respect to the 2006–2010 National Strategic Development Plan. The outcomes of the exercise were presented in the Cambodia Aid Effectiveness Report 2007 and discussed at the CDCF meeting in June 2007. The main finding is that the excessive fragmentation of aid across sectors and development partners badly affects the Government's ability to achieve the Millennium Development Goals, results in high transaction costs, and creates superfluous donor competition.

21. ADB has engaged in several partnership agreements. The 2005–2009 CSP was prepared in close coordination with the World Bank, the United Kingdom’s Department for International Development (DfID) and the United Nations Development Programme (UNDP). Thereafter, there have been regular quadripartite meetings and annual retreats aimed at a coordinated the execution of the respective country strategies. This has been further supported by bilateral meetings and reviews between ADB and these development partners. ADB and the World Bank have been conducting joint portfolio performance reviews with the Government since 2004. ADB continues to work together with the Government and stakeholders to monitor and evaluate CSP implementation progress through annual reviews using the CSP sector roadmaps and results framework indicators.
22. **Use of Program/Sector-Wide Approaches.** For the past five years, ADB has been promoting sector-wide approaches in health and education. The Health Sector Support Project (2002–present), jointly financed by ADB, the World Bank, DFID, the Australian Agency for International Development, and the World Health Organization, has now evolved to a sector-wide approach. Planning and review processes of the annual operational plans of the project are setting up the foundation for future donor efforts, deepening coordination and harmonization at the sector level. In the education sector, Cambodia has adopted a de-facto sector-wide approach to support sector reform. ADB, through its Education Sector Development Program, has played a lead role in assisting the Government in developing and implementing key policy reforms. The sector approach has enabled different donors to contribute programs or projects to a government-owned policy matrix, with a view to meet the sector financing needs in a coordinated manner. ADB is promoting sector-wide approaches in other sectors including road maintenance.
23. **Cofinancing.** As a result of new partnerships, ADB has developed cofinancing of its operations with increasing success. For the ongoing loan and grant portfolio, ADB mobilized cofinancing in the amount about \$109 million from a variety of sources including the Agence Française de Developpement, Organization of the Petroleum Exporting Countries Fund for International Development, Global Environment Facility, Government of Finland, Government of the Netherlands, Swedish International Development Cooperation Agency, Nordic Development Funds, World Bank, Japan Bank for International Cooperation, DFID, and UNDP. Several externally-financed trust funds managed by ADB—such as the Poverty Reduction Fund, Japan Fund for Poverty Reduction, and the Gender Development Cooperation Fund, and others—have been tapped to provide technical assistance support to the Government.





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