

**FOR
AGENDA**

SM/08/368
Supplement 2

December 29, 2008

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Cambodia—Staff Report for the 2008 Article IV Consultation—
Informational Annex**

The attached informational is being issued as a supplement to the staff report for the 2008 Article IV consultation with Cambodia (SM/08/368, 12/29/08), which is tentatively scheduled for discussion on **Friday, January 16, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Cambodia indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Cowen (ext. 37207) and Ms. Duma (ext. 37583) in APD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, January 8, 2009; and to the Asian Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

CAMBODIA

Prepared by the Asia and Pacific Department

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December 23, 2008

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ANNEX I. CAMBODIA: FUND RELATIONS

As of November 30, 2008

I. Membership Status: Joined: 12/31/1969; Article VIII

II. General Resources Account:	SDR Million	Percent Quota
Quota	87.50	100.00
Fund Holdings of Currency	87.50	100.00
III. SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	15.42	100.00
Holdings	0.07	0.47
IV. Outstanding Purchases and Loans:	SDR Million	Percent Quota
PRGF arrangements	0	0

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	10/22/1999	03/05/2003	58.50	58.50
ESAF	05/06/1994	08/31/1997	84.00	42.00

VI. Projected Obligations to Fund: (SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	<u>0.00</u>	<u>0.16</u>	<u>0.16</u>	<u>0.16</u>	<u>0.16</u>
Total	0.00	0.16	0.16	0.16	0.16

VII. Multilateral Debt Relief Initiative:

As part of the Multilateral Debt Relief Initiative (MDRI), the IMF Executive Board on January 5, 2006 approved relief on 100 percent of debt incurred by Cambodia to the IMF before January 1, 2005. This resulted in the forgiving of all of Cambodia's outstanding debt to the IMF, a total of SDR 56.8 million (about US\$82 million). The authorities intend to spend the resources over a number of years, initially on rural irrigation projects. The National Bank of Cambodia (NBC) transferred the full MDRI proceeds to the Ministry of Economy and Finance effective March 2006.

VIII. Safeguards Assessment:

Under the IMF's safeguard assessment policy, the NBC was subject to a full safeguard assessment with respect to a possible successor PRGF Arrangement. A previous safeguards assessment of the NBC was completed on March 24, 2004; it identified certain weaknesses, mostly in the area of internal audit and control and made appropriate recommendations.

IX. Exchange Rate Arrangement and Payments System:

Cambodia officially follows a managed float with no pre-announced exchange rate path. The official exchange rate, which is expressed in riels per U.S. dollar, applies to all official external transactions conducted by the central government and state enterprises and is used for accounting purposes by the NBC. It is determined by the foreign exchange market, with the official rate adjusted to be within 1 percent of the market rate on a daily basis.

Cambodia accepted the obligations of Article VIII, Sections 2, 3, and 4 on January 1, 2002, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

X. Article IV Consultation:

Cambodia is subject to the provisions on consultation cycles approved on July 15, 2002. The last Article IV consultation discussions were held in Phnom Penh during May 21–June 5, 2007. The Executive Board discussed the staff report (SM/07/290) and concluded the consultation on July 25, 2007.

XI. Technical Assistance:

Technical assistance is currently focused on bank supervision, monetary operations, public financial management, customs administration, and macro-financial statistics. Delivery is through a resident advisor at the NBC, peripatetic experts, and short-term visits from headquarters.

XI. Resident Representative:

The resident representative office was closed in October 1997 and re-opened in October 1999. Mr. John Nelmes, the current Resident Representative, assumed the post in November 2005.

ANNEX II. CAMBODIA: RELATIONS WITH THE WORLD BANK GROUP¹ (As of November 2008)

I. OVERVIEW

The World Bank Group's 2005–08 Country Assistance Strategy (CAS) stresses the need to improve governance in order to maximize the impact of development efforts. The CAS activities are intended to contribute to six objectives, which are clustered under two over-arching pillars. In May 2008, the CAS period was extended until 2011 so that the World Bank and other development partners could better align their support around the next National Strategic Development Plan (NSDP). The approach and objectives of the original CAS will be maintained throughout the extended CAS period.

Activities under Pillar 1 are intended to help implement improvements in governance that are needed if Cambodia is to meet the Cambodia Millennium Development Goals (CMDGs). To this end, the CAS establishes four objectives: (i) promote private sector development for poverty reduction; (ii) improve natural resources management; (iii) improve service delivery and public financial management; and (iv) support decentralization and promote citizens' partnerships for better governance. These four objectives were chosen because of their importance for growth and poverty reduction and the strong ownership and leadership from the Royal Government of Cambodia (RGC). The selection was also informed by lessons from successes and failures in past strategies, and by the comparative advantage of development partners.

Pillar 2 of the CAS allocates World Bank resources to supporting the strategy development and investments needed to attain the CMDGs. To these ends the CAS has two other objectives. First, the Bank will encourage the emergence of poverty-focused approaches in the formulation and implementation of public policy by supporting the NSDP 2006–10. Second, where there are clear gaps in critical infrastructure and human development sub-sectors, the Bank will support the emergence of a nationally-owned vision and strategy through the provision of analytical and investment services.

II. PILLAR 1: REMOVING THE GOVERNANCE CONSTRAINTS TO ATTAINING THE CMDGS

A. Private Sector Development (PSD)

Country Progress: Progress in this area has been mixed. On the trade facilitation front, there has been steady movement towards a customs automation program (ASYCUDA), with adoption of the Single Administrative Document (SAD) import/export declaration format and a pilot test of the automated customs procedures, commencing in Sihanoukville in May 2008 and

¹ Prepared by World Bank staff.

with a nationwide roll-out scheduled in 2009. The Law on Customs, which is instrumental to customs reforms and to the implementation of ASYCUDA, was passed by the National Assembly in 2007. A risk management strategy has been adopted and is being implemented. Some progress has also been made in developing Special Economic Zones. With respect to improving the legal framework for investment and private sector development, the Law on Commercial Arbitration and the Law on Concessions were passed by the National Assembly in March 2006 and September 2007, respectively, but implementation of these laws has lagged.

Role of the World Bank Group: The focus of the Bank's PSD program in Cambodia is on supporting investment climate development through trade facilitation and improving the legal framework for investment. Policy reforms in both of these areas have been supported through the first of the series of Poverty Reduction and Growth Operations (PRGO) approved in July 2007. The 2005 Trade Facilitation and Competitiveness Project is helping improve Cambodia's competitiveness by streamlining import/export formalities and reducing the costs of trade-related activities. The IFC's Mekong Private Sector Development Facility (MPDF) prepared the Cambodian Provincial Business Environment Scorecards in ten provinces, and the Bank has recently started a new Investment Climate Assessment (ICA) to monitor results since the 2004 ICA, identify new issues, and design future support. The Bank has also led the Technical Working Group (TWG) on PSD, supported the Government/Private Sector Forum, and participated actively in the dialogue on private sector issues with the RGC, donors, and the private sector.

B. Natural Resources Management (NRM)

Country Progress: Progress in this area has been satisfactory, but a number of concerns remain. Sub-decrees on State Land Management and on Economic Land Concessions (ELCs) have been adopted, including provisions for reviewing and cancelling nonperforming economic land concessions and assigning the land for use as social land concessions for the poor. The RGC has distributed more than 800,000 titles and has also started a dialogue on titling of communally-owned land by indigenous people. Actions were also taken to strengthen systems for forestry management, including community based forest activities, with the RGC recently issuing a new Protected Areas Law to provide greater clarity on institutional roles, responsibilities, and obligations. However, transparency in the issuance of ELCs still needs to be improved, and the social land concessions program needs to be accelerated. Implementation of the laws governing access and title to natural resources has also been slow, and governance weaknesses in the forestry sector are still a major concern to all stakeholders.

Role of the World Bank Group: To better integrate the Bank's efforts across land, forestry, and biodiversity conservation, the Bank has developed a natural resources management framework that seeks to summarize the main challenges and required actions to move the overall agenda forward. The Bank has used this framework in its engagement with the TWGs on land, agriculture, poverty, environment, and water. Policy reforms in NRM are being

supported through additional analytical and advisory activities (AAA), including an agrarian structures study and an environment monitor, the PRGO, and a range of investment and technical support operations. Of particular importance are the Land Management and Administration Project (LMAP), which has supported notable progress on land titling, and the Biodiversity and Protected Areas Management Project, which has successfully piloted measures for ensuring sound management of protected areas. However, irregularities in the implementation of both of these projects as well as three other projects (the Forest Concession Management and Control Pilot Project, Flood Emergency Rehabilitation Project, and Agricultural Productivity Improvement Project) have resulted in delays. A Japan Social Development Fund Grant has been mobilized to foster NGO, local community, and RGC capacity to expand community forestry activities. Finally, in 2008, the Land Allocation for Social and Economic Development project was adopted to support the implementation of the RGC's Social Land Concession strategy.

C. Public Financial Management (PFM)

Country Progress: Progress in this area has been satisfactory. Good progress has been made in implementing improved arrangements for budget formulation, budget classification, cash and bank account management, financial control, and transaction management. Procurement responsibility has been increasingly deconcentrated to line agencies, and an improved procurement sub-decree and the supporting implementing regulations have been adopted, incorporating numerous measures for increasing competition, transparency, and accountability in the procurement process. This has contributed to a strengthening of the overall PFM system, with the latest indicators showing aggregate actual expenditures to be within 5 percent of the budget, revenues continuing to grow, and arrears being largely eliminated. An innovative merit-based pay initiative (MBPI) was implemented in the Ministry of Economy and Finance to tackle the issues of civil service incentives, performance, and capacity. This system is now being extended progressively to all development partner-financed strategic reforms with a view to eliminating current distortionary salary supplement schemes, harmonizing RGC and partner approaches to incentives, and beginning to address the broader needs for civil service reform.

Role of World Bank Group: The Bank has worked closely with the RGC and helped coordinate the 13 development partners in the TWG on PFM in the design and implementation of the RGC's PFM Reform Program (PFMRP). The Bank has also supported the program through the PRGO as well as the PFM Accountability Project. The PFMRP is the first operation to support a sector-wide approach in Cambodia and has been recognized as a model of aid effectiveness globally. The Bank has also initiated a dialogue on oil revenue management, engaged civil society in the dialogue on PFM, and assisted the RGC in adopting and extending the MBPI. AAA on public expenditure tracking surveys (PETS) in education and health sectors as well as civil service reform for teachers have been completed, and grants from trust funds are supporting strengthened National Assembly oversight of the budget.

D. Decentralization and Accountability

Country Progress: Progress in this area has been considerable. In line with the goal of decentralizing resources to local government units, average funds to commune/sangkat are projected to double by 2010. A second round of commune/sangkat council elections in 2007 has strengthened the foundation for enhanced accountability at the local level. The Ministry of Interior has successfully piloted “One Window Service” and a District Ombudsman’s office to enhance local governance. After some delay, the National Assembly adopted the Organic Laws on Decentralization and Deconcentration in April 2008. However, progress on improving access to information, including drafting of an access to information law, has been delayed, and civil society involvement in policy-making processes is developing slowly, as there is still insufficient constructive engagement with the RGC.

Role of the World Bank Group: The Bank has provided substantial support for decentralization through the Rural Investment and Local Governance Project. The Bank has also conducted a series of studies on justice for the poor as well as a village level and dispute resolution study. In addition, it has provided advice through the TWG on the RGC’s decentralization policy and strategy and mobilized grant finance to support government-civil society consultations on the decentralization strategy as well as to build the capacity of civil society on social accountability.

III. PILLAR 2: SUPPORTING STRATEGY AND INVESTMENTS TO ATTAIN THE CMDGs

A. Formulation and Implementation of the NSDP, 2006–10

Country Progress: Progress toward this objective has been impressive. The RGC adopted the NSDP in 2006, replacing previous donor-driven plans with a single national development strategy. The TWG for Planning and Poverty Reduction provides a forum for regular dialogue between the RGC, development partners, and civil society on the implementation of the NSDP. Over the last two years, the Ministry of Planning (MoP) has developed (with support from the TWG) a strategic plan to refocus the ministry and help build its capacity to coordinate the implementation, monitoring, and evaluation of the NSDP. The TWG has also provided a forum for shifting external support towards a ministry-wide, program-based approach, by which development partners supporting the MoP will coordinate their assistance with the NSDP. On gender equality, improvements have also been made, including an increase in female’s representation in commune councils from 8 percent to 15 percent following the 2007 elections.

Role of the World Bank Group: The Bank, together in other development partners, has provided technical and financial support to the MoP in the formulation and implementation of the NSDP, with the Bank and UNDP serving as development partner co-facilitators of the TWG. In addition to direct support to RGC institutions and processes related to the NSDP, the Bank has helped to improve the knowledge base for policymakers and other stakeholders

through the 2006 Poverty Assessment and the 2007 Sharing Growth: Equity and Development Report. The Bank has also provided support to the Ministry of Womens' and Veterans' Affairs through an Institutional Development Fund grant, which funded a Gender Budgeting Project, as well as a number of smaller stand-alone grants for various outreach, training, and advocacy activities, including study tours for women in leadership, a regional workshop on mainstreaming gender in aid effectiveness, and local-level dissemination activities.

B. Analytical and Investment Support for Achieving the CMDGs–Human Development and Infrastructure

Country Progress: Progress towards CAS outcomes has been impressive. In both the social and infrastructure sectors, significant progress has been made towards government-owned strategies around which donors can coordinate their financial and technical support. Improvements have also been made in most human development outcomes such as the infant mortality rate, fertility rate, HIV prevalence rates, and school enrollment rates. There has been greater access to and utilization of health, education, and infrastructure services, and better targeting of health and education subsidies. More resources have been allocated to interventions in priority sectors, such as to reducing child and maternal mortality. Access to education and health, including by disadvantaged/vulnerable communities, has expanded, and the perception of service delivery in health and education among users of these services has improved. Nevertheless, other indicators such as maternal mortality or drop-out rates are lagging.

Role of the World Bank Group: The Bank has continued to provide support for the development and implementation of effective strategies in the social sectors through the ongoing Health Sector Support and Education Sector Support Projects, as well as through participation in the TWGs. In the health sector, a major step toward a sector-wide approach was taken in 2008 to support the new RGC health sector strategy in partnership with AusAid, DFID, France, UNFPA, and UNICEF. In the education sector, support from the Education For All Fast Track Initiative Catalytic Fund was approved in 2008. As mentioned previously, the Bank has also undertaken PETS in health and education to promote PFM reforms in these sectors, and has supported additional analytical work in education.

In infrastructure, the Bank has helped in the development of sub-sector strategies through a range of AAA (Energy Sector Strategy Review, Transport Sector Update, Implementation Strategy for Urban Water Supply Policy, and briefing notes on oil and gas sector policy issues) as well as through participation in the TWGs. The Bank has also engaged in a number of investment projects that have had a high development impact for the intended beneficiaries. However, the temporary suspension of two such projects—the Provincial and Rural Infrastructure Project (PRIP) and the Provincial and Peri-Urban Water and Sanitation Project (PPUWSP)—has delayed somewhat the anticipated results.

IV. LENDING OPERATIONS AND NON-LENDING INSTRUMENTS

Proactive portfolio management continues to be a very high priority for the World Bank Group. Following the 2004–05 Fiduciary Review (carried out in partnership with the RGC), the World Bank's Institutional Integrity Department (INT) undertook separate investigations in 2005–06. The INT investigations substantiated allegations of corruption, collusion, and fraudulent practices on several contracts under seven projects for which “misprocurement” was declared in June 2006. As a result, the Bank temporarily suspended disbursements under three projects (LMAP, PRIP and PPUWSP) and established action plans for the concerned government agencies to execute in order to lift the suspensions.² These action plans were completed in January 2007, and the Bank lifted the suspensions on all three projects in February 2007.

The RGC and the World Bank have established a number of preventive and oversight measures to mitigate fiduciary risks in Bank-financed projects. One important measure has been the use of anti-corruption action plans knowing Good Governance Frameworks (GGFs). The GGFs—adopted for all on-going and future Bank-financed projects—include measures to strengthen procurement procedures, financial management processes, staff conduct, complaint mechanisms, disclosure, and internal controls. Although the GGFs have been in place for less than a year, early implementation reviews indicate an increasing level of implementation during this initial period. Another important measure is the use of an International Procurement Agent (IPA) since December 2007 for all ongoing and future Bank-financed projects. This action is evidence of the RGC's commitment to ensuring the integrity of the procurement process and to breaking established collusive and cartel arrangements. Finally, the Bank is also providing technical support to the RGC to reinforce its own ability to identify and remedy fraud and corruption problems.

The disbursement ratio in FY08—at 16.1 percent—was low mainly due to the after-effects of the project suspension and the delay in engagement of the IPA.

Non-lending instruments and operations (credits and grants) are described in Tables 1 and 2.

² Suspension is a remedial measure available under all World Bank legal agreements. It can be exercised by the Bank in a number of situations, including when the Borrower is not fulfilling its obligations under the legal agreement. Suspension entails a temporary freeze on the Bank's financing of implementation, but does not mean that the Bank withdraws from the project. Rather, the Bank steps up its supervision, dialogue, and other activities to help the government in its efforts to meet the conditions for lifting the suspension.

Table 1. Active IDA Projects

(As of November 24, 2008)

Project	Committed (USD)	Approval Date	Undisbursed Balance (USD)
Road Asset Management Project	30,000,000.00	20-May-08	26,937,600.00
Cambodia Second Health Sector Support Program	30,000,000.00	19-Jun-08	27,232,000.00
Land Allocation for Social and Economic Development	11,500,000.00	20-May-08	9,373,860.00
Avian and Human Influenza Control and Preparedness Emergency Project	6,000,000.00	24-Mar-08	5,072,174.18
GMS Power Trade (Cambodia) Project	18,500,000.00	05-Jun-07	18,105,600.00
First Poverty Reduction and Growth Operation	15,000,000.00	17-Jul-07	0.00
Cambodia Public Financial Management and Accountability	14,000,000.00	27-Jun-06	12,879,938.18
Cambodia Trade Facilitation and Competitiveness	10,000,000.00	02-Jun-05	6,601,368.32
Cambodia Education Sector Support	28,000,000.00	12-May-05	11,429,930.35
Rural Electrification and Transmission Project	40,000,000.00	16-Dec-03	30,872,894.14
Provincial and Rural Infrastructure Project	20,000,000.00	11-Sep-03	6,379,572.93
Provincial and Peri-Urban Water and Sanitation Project	19,900,000.00	22-Apr-03	8,455,017.85
Rural Investment And Local Governance Project	36,250,000.00	26-Jul-07	28,362,619.71
Rural Investment And Local Governance Project	22,000,000.00	22-Apr-03	360,093.53
Health Sector Support Project	27,000,000.00	19-Dec-02	9,455,659.11
Economic and Public Sector Capacity Building Project	5,500,000.00	25-Jun-02	4,828,908.20
Land Management and Administration Project	24,300,000.00	26-Feb-02	11,080,079.50

Table 2. World Bank's Main Non-Lending Services

(Recently completed and ongoing)

Issue	Instruments
Environment	Cambodia Environment Monitor (2008), Natural Resource Management and Forestry (2008).
Gender	Cambodia Gender Assessment (2008).
Human Development	Demand Side Incentives in Education Impact Evaluation (ongoing), Civil Service Reform for Teachers (ongoing), Social Protection Policy Note (2006), Safeguards Research (2006), Child Labor Study (2006), Health Sector Study, Education Fast Track Initiative (2008).
Infrastructure	Urban Water and Sanitation Strategy (2006); Oil and Gas Sector Policy (2008).
Legal and Judicial Reform	Justice for the Poor Phase One Study (2006); Justice for the Poor Phase Two (2008).
Poverty Reduction and Economics	Poverty Reduction Strategy Trust Funds (ongoing), Moving Out of Poverty Study (2007), National Poverty Assessment (2006), Cambodia Equity Report (2007), and Sources of Growth (2008).
Private Sector Development and Trade	PPIAF Grant to develop an interim regulatory framework (ongoing). FIAS report on FDI (2001), Integration and Competitiveness Study (2002), Investment Climate Assessment (2008).
Public Financial Management	Grant to assist the National Audit Authority (ongoing), IFAPER (2003), Country Procurement Assessment Report (2004), Fiduciary Review (2005), Public Expenditure Tracking Survey—Education (2005), Public Expenditure Tracking Survey—Health (2007), ROSC on private sector accounting (2007).
Rural and Agriculture	PSIA on Social Land Concessions (2004), Rural Sector Strategy Note (2005), Land Taxation and Valuation Study (2005), and Land Policy and Strategy (2007), Cambodia Agrarian Structure (2008).

ANNEX III. CAMBODIA: RELATIONS WITH THE ASIAN DEVELOPMENT BANK
(As of September 2008)

From 1992 through August 31, 2008, the Asian Development Bank (AsDB) approved \$1,032.1 million in low-interest loans (including \$86.8 million in grants in 2005, 2006, and 2007) to Cambodia to finance 39 projects and 9 structural reform programs. To date, 23 loan projects for a total of \$563.9 million have been completed:

- (i) Special Rehabilitation Assistance Project [approved in 1992];
- (ii) Power Rehabilitation Project [approved in 1994];
- (iii) Basic Skills Project [approved in 1995];
- (iv) Rural Infrastructure Improvement Project [approved in 1995];
- (v) Basic Education Text Book Project [approved in 1996];
- (vi) Agriculture Sector Program [approved in 1996];
- (vii) Basic Health Services Project [approved in 1996];
- (viii) Phnom Penh Water Supply and Drainage Project [approved in 1996];
- (ix) Siem Reap Airport Project [approved in 1996];
- (x) Greater Mekong Sub-region: Phnom Penh to Ho Chi Minh City Highway Project [approved in 1998];
- (xi) Primary Roads Restoration Project [approved in 1999];
- (xii) Provincial Towns Improvement Project [approved in 1999];
- (xiii) Provincial Power Supply Project [approved in 2000];
- (xiv) Emergency Flood Rehabilitation Project [approved in 2000];
- (xv) Rural Credit and Savings Project [approved in 2000];
- (xvi) Financial Sector Program, Subprogram I [approved in 2001];
- (xvii) Education Sector Development Program [approved in 2001];
- (xviii) Financial Sector Program, Subprogram II [approved in 2002];
- (xix) Commune Council Development Project [approved in 2002];
- (xx) Provincial Towns Improvement Project, Supplementary [approved in 2002];
- (xxi) Second Education Sector Development Program II [approved in 2004];
- (xxii) Financial Sector Program, Subprogram III [approved in 2005]; and
- (xxiii) Second Financial Sector Program [approved in 2007].

The sector composition and loan/grant amounts of the remaining active portfolio as of August 31, 2008 is as follows: agriculture and natural resources (\$73.6 million); education (\$70.1 million); energy (\$64.3 million); finance (\$0.0 million); health, nutrition, and social protection (\$29.0 million); industry and trade (\$35.6 million); law, economic management, and public policy (\$7.8 million); multi-sector (\$63.2 million); transport and communication (\$105.0 million); and water supply, sanitation, and waste management (\$18.0 million).

AsDB's overarching goal in Cambodia is sustainable poverty reduction. The AsDB's Country Strategy and Program (CSP 2005–09) midterm review (MTR), finalized in August

2007, concluded that the strategic thrust of the AsDB in Cambodia remains appropriately targeted on poverty reduction through broad-based private sector-led growth, inclusive social development, and stronger governance for sustainable development. The AsDB's proposed Country Operations Business Plan 2008–10 (COBP) will strongly focus on the priority areas of agricultural and rural development, private sector development, governance and capacity development, and the Greater Mekang Sub-region (GMS). In the near term, interventions would mostly center around the Tonle Sap basin area and be geared to improving the management of water resources and irrigation assets, as well as that of flood and drought risk and mitigation; expanding the connectivity internally between rural roads and the provincial and national network and externally with emerging subregional transport corridors; fostering the development of smallholder agricultural producers; and widening access for the poorest to rural water supply and sanitation while strengthening local community management capacity.

In the area of private sector development, the AsDB would support improvements in competitiveness by helping reduce border-related costs and distortions; enhancing domestic and external trade facilitation, including through promoting compliance with sanitary and phytosanitary standards; and fostering improved and cheaper access to information and communication technology. Later interventions would be more focused on improving the trade facilitation and logistics links to the GMS as systems and procedures become more developed and integrated. Supporting financial sector interventions would be aimed at improving financial intermediation, including the outreach of microfinance institutions (MFIs) and reducing the cost of finance in rural areas; enhancing the resilience of the financial sector; promoting good governance; and improving financial sector efficiency. Education-related interventions would be aimed at enhancing technical and vocational education training to achieve a closer match between the skills of a rapidly growing and young rural labor force and emerging employment opportunities. There will also be a gradual increase in private sector operations, beginning with interventions to expand trade and access to rural finance, including proposed non-recourse interventions by ASDB's private sector department to guarantee trade financing and extend MFI reach in rural areas. Other infrastructure loans or investment opportunities are being sought, including in the areas of thermal and hydropower.

With respect to governance and capacity building, the COBP proposes a long-term programmatic approach to public financial management (PFM) reform with interventions in 2008 and 2010 to underpin rolling out of PFM to rural development line ministries. At the decentralized level, it will be backed by a credible independent enforcement of accountability oversight in the form of the National Audit Authority. The COBP also proposes a sequence of interventions to support local accountability through particular projects and capacity building ahead of support for fiscal decentralization.

AsDB: Loan/Grant Commitments and Disbursements to Cambodia, 1992–2008
(In millions of U.S. dollars, as of August 31, 2008)

		Loan/Grant Approvals	Contract Awards/ Commitment	Disbursements
1	1992	67.7	0.0	0.0
2	1993	0.0	4.4	5.4
3	1994	28.2	35.9	12.2
4	1995	45.1	28.1	35.9
5	1996	105.0	15.3	32.1
6	1997	0.0	41.5	10.7
7	1998	40.0	29.1	29.3
8	1999	88.0	17.0	26.2
9	2000	109.6	114.4	50.8
10	2001	75.2	40.7	48.3
11	2002	116.5	64.4	78.9
12	2003	98.3	61.9	73.3
13	2004	65.0	62.4	76.7
14	2005	52.0 ¹	96.4	84.5
15	2006	69.8 ²	44.7	55.8
16	2007	72.1 ³	85.7	62.1
17	2008	84.4 ⁴	107.7 ⁵	96.3 ⁵
18	2009 (Projected)	114.0 ⁶		
TOTAL:		1,210.9	849.7	778.5

¹ \$10 million loans and \$42 million grants approved in 2005.

² \$62 million loans and \$7.8 million grants approved in 2006.

³ \$35 million loans (including \$8 million to private sector) and \$37 million grants approved in 2007.

⁴ \$46.8 million loans and \$31.6 million grants to be approved by end-2008.

⁵ Projections for 2008.

⁶ \$63 million loans and \$51 million grants expected for approval in 2009.

ANNEX IV. CAMBODIA: STATISTICAL ISSUES

1. Data provision is broadly adequate for surveillance. However, national accounts, price indices, government finance, balance of payments statistics, and external debt have various shortcomings that hamper analysis. Greater use of direct surveys is needed in the compilation of national accounts, BOP, and employment data, including enterprise surveys.
2. Extensive technical assistance from the IMF, UNDP, Asian Development Bank, and World Bank, as well as from bilateral partners (namely Japan and Sweden), has contributed to substantial improvements in macroeconomic statistics. The IMF provided a long-term multisector statistics advisor at the National Institute of Statistics during the period October 2001–January 2008 (with a one-year interruption) to assist the authorities in upgrading macroeconomic and financial statistics.
3. Metadata have been posted on the IMF’s Dissemination Standards Bulletin Board since March 2002. Cambodia also began participation in the IMF’s General Data Dissemination System (GDDS). The country’s GDDS metadata were last updated in August 2007.

National accounts and price statistics

4. Recent efforts have been made to improve the consistency of national accounts statistics with the United Nations’ *System of National Accounts 1993*, to expand the range of annual national account aggregates, and to produce a quarterly national accounts series (starting in June 2005). However, the quality of GDP estimates remains hampered by the lack of comprehensive and reliable source data on a production and expenditure basis, in part stemming from the need to improve data collection techniques.
5. A new CPI series was compiled starting in October 2006. Data were published through January 2008, but thereafter halted given the authorities’ view that a much higher level of inflation from the new CPI was attributable to methodological weaknesses. The authorities have reverted to the old CPI series that has a narrower geographical coverage (limited to Phnom Penh and surrounding areas as opposed the new series’ all-Cambodia index). They are seeking assistance from Statistics Sweden on a nationwide CPI, following up on earlier work done by the IMF advisor. A quarterly producer price index (PPI) was developed, with support from the IMF and financing from the AsDB. It led to the release of an experimental PPI in April 2005. However, compilation of the PPI has been discontinued owing to resource constraints.

Government finance statistics

6. Progress had been made recently in strengthening the reporting and compilation of government finance statistics (GFS), but gaps remain the coverage under new methodologies. With the support of an IMF Treasury advisor and the above-mentioned statistical advisor, the

authorities began implementing in 2007 a reform of the government accounting system and budgetary nomenclature based on the *Government Finance Statistics Manual (GSFM) 2001*. In addition, several recent STA missions have assisted with improving GFS compilation procedures within the *GSFM 2001* framework. The latest was in April 2008, which assessed progress and assisted with establishing a bridge between the government's new chart of accounts (COA) and the *GSFM 2001* classifications so that accounting records can be used as source data in compiling GFS. Currently, however, the new COA has not been implemented widely, limiting its use and coverage. Since 2005, the authorities have provided quarterly fiscal data for publication in *International Finance Statistics* and annual data for publication in the *Government Finance Statistics Yearbook*.

Monetary and financial statistics

7. The National Bank of Cambodia (NBC) compiles the sectoral balance sheet and the survey for central bank and other depository institutions in accordance with the methodology recommended in the IMF's *Monetary and Financial Statistics Manual*. Since August 2005, the NBC has reported monthly monetary and financial statistics to the IMF using the standardized report forms with about five-week lag. The NBC also began compiling and publishing financial soundness indicators in 2005 in its annual supervisory report, but as these data may partly rely on unaudited financial accounts, considerable scope remains for improving their accuracy and reliability.

External sector statistics

8. Despite recent improvements, more work is needed to improve balance of payments statistics. Customs data have substantial coverage and valuation problems arising from the use of reference prices and limited recording of non-dutiable imports, underreporting of re-exports, and weaknesses in customs controls. Enterprise transactions, such as payment for imported services, income payments, and portfolio investment abroad are excluded or underreported. Foreign direct investment, which is believed to be large, relies excessively on approvals data. Regarding external debt statistics, gross external debt data are provided by the Ministry of Economy and Finance, but gaps exist in the data, in particular public and publicly-guaranteed debt by maturity, the external debt service schedule, and timely information on disbursements by bilateral donors.

Cambodia: Table of Common Indicators Required for Surveillance
(As of December 19, 2008)

	Date of latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	Dec. 2008	Dec. 2008	D	D	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Nov. 2008	Dec. 2008	Biweekly	Biweekly, 2 week lag	N/A
Reserve/Base Money	Oct. 2008	Dec. 2008	M	M, 4–6 week delay	M
Broad Money	Oct. 2008	Dec. 2008	M	M, 4–6 week delay	M
Central Bank Balance Sheet	Oct. 2008	Dec. 2008	M	M, 4–6 week delay	M
Consolidated Balance Sheet of the Banking System	Oct. 2008	Dec. 2008	M	M, 4–6 week delay	M
Interest Rates ²	Oct. 2008	Dec. 2008	M	M, 4–6 week lag	M
Consumer Price Index	Nov. 2008	Dec. 2008	M	M, 2–4 week lag	M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	Oct. 2008	Dec. 2008	M	M, 4–6 week lag	M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Oct. 2008	Dec. 2008	M	M, 4–6 week lag	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Sep. 2008	Nov. 2008	Q	Q, 2–3 month lag	M
External Current Account Balance	Q3, 2008	Dec. 2008	Q	Q, 2 month lag	Q
Exports and Imports of Goods and Services	Q3, 2008	Dec. 2008	Q	Q, 2 month lag	Q
GDP/GNP	Q3, 2008	Nov. 2008	Q	Q, 2 month lag	Q
Gross External Debt	Sep. 2008	Oct. 2008	M	M, 1–2 month lag	A
International Investment Position ⁶	Sep. 2008	Nov. 2008	Q	Q, 2–3 month lag	M

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); and Not Available (N/A).