

**Consultation Meeting of the World Bank Group on Cambodia's Systematic Country Diagnostic (SCD)  
Phnom Penh, 23 November 2016**

**Summary of Discussions with Development Partners \***

Top three issues raised: (i) education and skills; (ii) private sector development; (iii) institutions, governance and public service delivery.

**Priority areas for action**

**Education and skills**

- An investment in human capital is an investment in the greatest wealth of the nation.
- Cambodia's demographic dividend window will close by 2038, highlighting the urgent need to improve secondary and higher education attainment and quality.
- Pre-primary and primary education are also extremely important for development. In addition to preparing students for secondary school, the completion of primary education alone equips people with knowledge and skills for managing household needs (hygiene and sanitation, nutrition, financial management).
- However, the opportunity cost of education is high, given that paid employment in many sectors has low qualification requirements and the additional return for families to keep their kids in school is currently low. Improving skills through technical vocational education and training (TVET) is a very important issue for the private sector, especially in the garment sector.

**Private sector development**

- The SCD should discuss why companies have decided to diversify their investments in Cambodia into sectors other than garments.
- Low saving ratio and low investments: not so much put forward in the development sector.
- It is important to note that China is the biggest player in Cambodia in terms of foreign direct investments.
- There should be more discussion on the informal economy, given that it represents a large share of the country's workforce.
- The tourism sector also deserves additional attention due to its large size.
- Macroeconomic management and business environment: Maintaining macro-financial stability is important to continue improving market confidence; Dollarization is a good thing, and it brings stability.
- According to Doing Business, Cambodia does well in enforcing contracts, but not in resolving insolvency; this seems like a contradiction.
- Expanding access to microfinance in rural areas is needed.
- Increasing access to long-term investment loans is also important.

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\* Development partners consulted include: ADB, Australian Embassy, Embassy of Switzerland, Embassy of Sweden, German Embassy, EU Delegation to Cambodia, FAO, GIZ, IFAD, IMF, JICA, KfW, UN Resident Coordinator Office, UNESCO, UN-HABITAT, UNIDO, UNOPS, UNRCO, USAID, WFP.

### **Institutions, governance and public service delivery**

- Governance challenges should be discussed more in the analysis, since they affect all the other issues.
- The judiciary system is extraordinarily weak in Cambodia, but few donors have so far tried to support a reform there.
- The importance of civil conflict may be overstated; the government no longer talks about ‘reconstruction,’ but about ‘development.’
- Cambodia’s low public revenue share of GDP means that expenditures on public goods are also low. The government should make increasing public revenues (above 20%) a major priority.
- De-concentration and decentralization reforms in Cambodia are incomplete due to a lack of capacity at the subnational level.
- Public administration reform and public financial management reform remain critical areas for action.
- Efforts to strengthen institutional capacity need to be carried out in concert with improved technology and systems.

### **Agriculture**

- Many people are still dependent on agriculture.
- Support should be provided for the emergence of higher value export crops by adopting a value chain approach and fixing missing steps (e.g. cold storage).
- Improved rural roads and rural development, in general, are also needed.
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### **Natural resource management**

- Water management along the Mekong needs to be looked at carefully (e.g. hydropower’s impact on fisheries and watersheds).
- Improving food security will require a more integrated natural resources management approach.

### **Social protection**

- There is a need to shield the poor and the vulnerable from shocks (e.g. health problems, climate change and natural disasters).

## **Other Issues**

### **Prioritization**

- Identify where there are opportunities for acceleration to help determine prioritization and sequencing.
- Consider the trade-offs of pushing one agenda over another, taking into account both long-term outcomes and short-term shocks.
- Use the Sustainable Development Goals (SDGs) as a framework.
- Think about what structural shifts in the economy could occur in the next ten years.
- Decide whether to focus on measures that increase investment or consumption. It seems difficult to do both and, in principle, one could expect a higher impact from increasing investment.

### **Regional integration**

- With the ASEAN Economic Community, it will become more difficult for Cambodia to be competitive compared to its neighboring countries.

**Migration**

- The vulnerability and risks to which Cambodia's one million migrant workers are exposed would need to be taken into consideration.