

# CAMBODIA SYSTEMATIC COUNTRY DIAGNOSTIC

## Public Engagement



Nov – Dec 2016

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# Objectives of the Engagement



# World Bank Group in Cambodia

The current World Bank Group (WBG) support to Cambodia is guided by the Country Engagement Note (CEN) for 2016-2017.

**The focus areas of the CEN are:**



**Improved  
Business  
Environment**



**Enhanced  
Connectivity and  
Improved  
Competitiveness**



**Improving  
Service Delivery**



**Reducing  
Vulnerability**

**Cross-Pillar Engagement: Setting Out WBG Medium Term Engagement**



## What is the Systematic Country Diagnostic (SCD) ?

The SCD is a study conducted by the WBG, based on empirical evidence, to identify key **challenges and opportunities for poverty reduction and inclusive, shared growth and development** in Cambodia (not limited to areas of WBG engagement).





# Country Context



# Country Context

An overview over the past two decades of Cambodia:



## Economic Growth

Status

**Very strong**

Evidence

3<sup>rd</sup> in the world in  
1994-2014,  
7.7% growth



## Human Development

Status

**Moderate gains**

Evidence

Cambodia ranks 143 out  
of 188 in the Human  
Development Index  
HDI increased from 0.386  
to 0.555 since 1990



## Poverty reduction

Status

**Very strong**

Evidence

Extreme poverty declined  
from around 7 million in 2004  
to 1.6 million in 2013



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# Country Context

## Distinguishing features of Cambodia's development:

- Civil conflict left the country's fragile social, human, institutional, and physical capital devastated
- Large share of rural population (79% of total as of 2015, 14<sup>th</sup> in the world)
- Highly open and market oriented economy (merchandise trade at 146% of GDP in 2015, 8<sup>th</sup> in the world)
- High foreign aid, investment, and financing. Substantial dollarization





# I. What are the challenges to sustain strong economic growth?

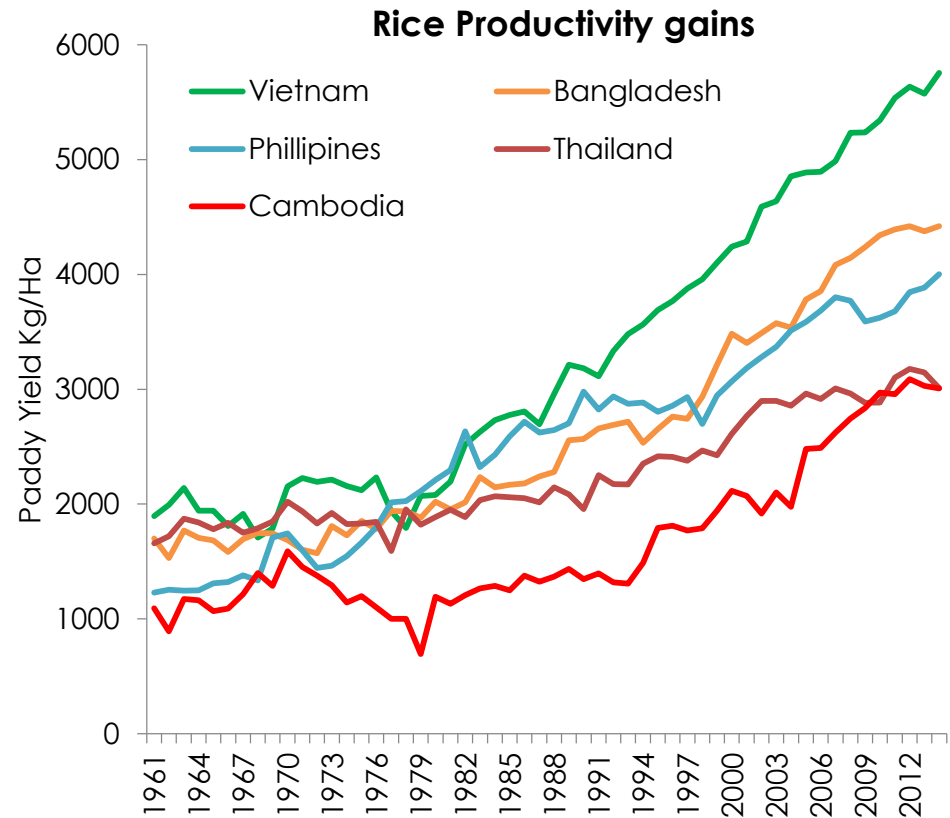


# Changing winds affecting agriculture

Strong performance in agriculture up to 2011 was explained by three factors:

- International commodity price boom
- Land expansion
- Improvements in agriculture productivity

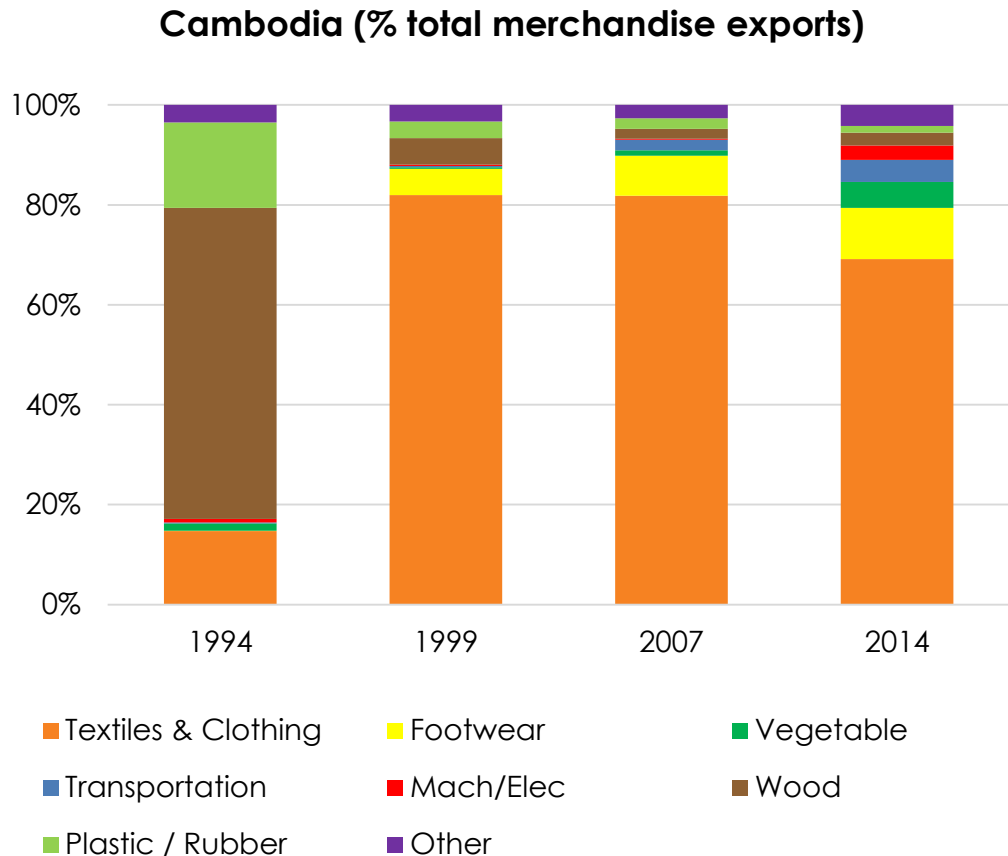
Going forward, Cambodia is expected to be able to grow largely due to productivity gains and cannot rely on further land expansion or a continued commodity price boom



Source: World Bank staff calculations using National Accounts.

# High export concentration in garments with some nascent diversification...

- Over the last decade, products and markets have concentrated in textile and clothing (representing 70% of exports in 2014)
- Cambodia's garment exports are cheaper than average
- Export sophistication is low, although some value addition and some diversification beyond garments is observed

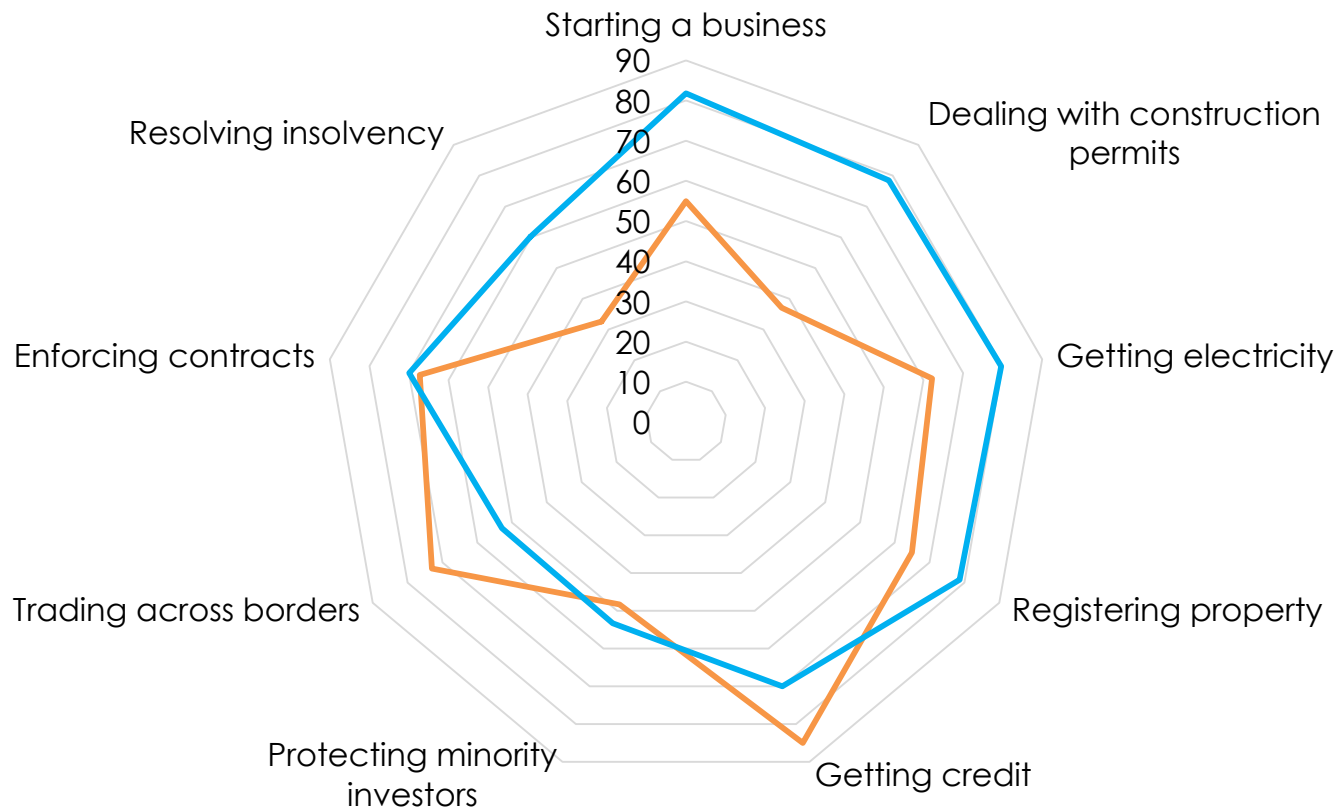


Source: COMTRADE

# ...but there are challenges to the business environment

## Doing business in Cambodia, distance to frontier

— Cambodia 2016 — Vietnam 2016

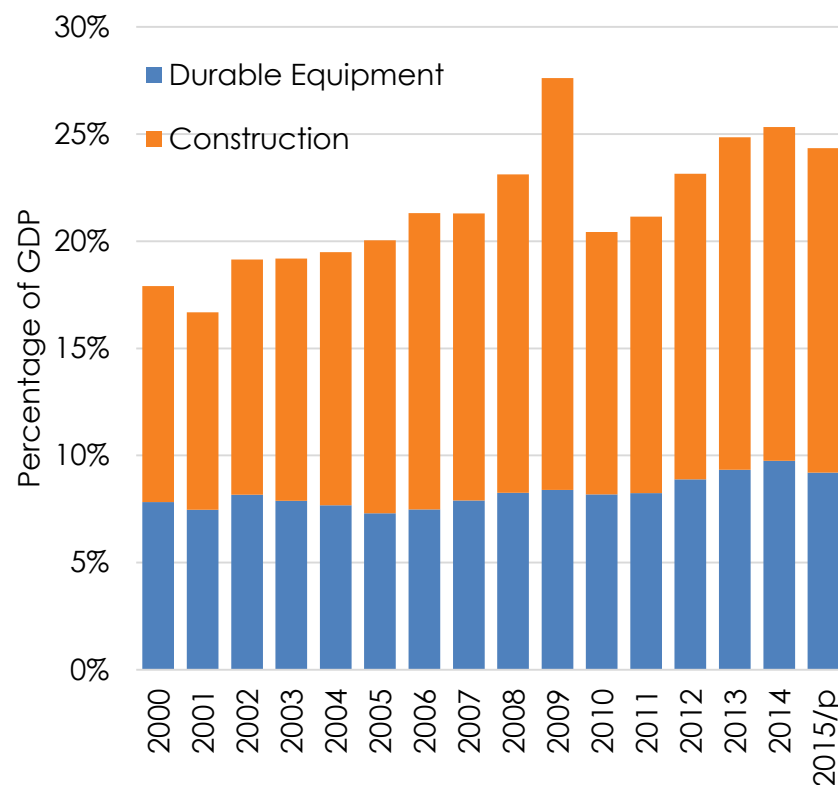


Source: Doing Business, the World Bank Group

# Investment is gearing towards construction, & fast credit growth poses macro-financial risks

- Capital formation averaged 18 percent of GDP in 1994-2014. Vietnam and Thailand have been in the 30-40%
- Capital has increased in recent years, but mostly going to construction
- The investment savings gap increased from 2 to 10 percent of GDP since 2009
- Credit growth booming at 30-40 percent growth rates, with MFI lending saturation

Composition of investment Cambodia



Source: National accounts of Cambodia

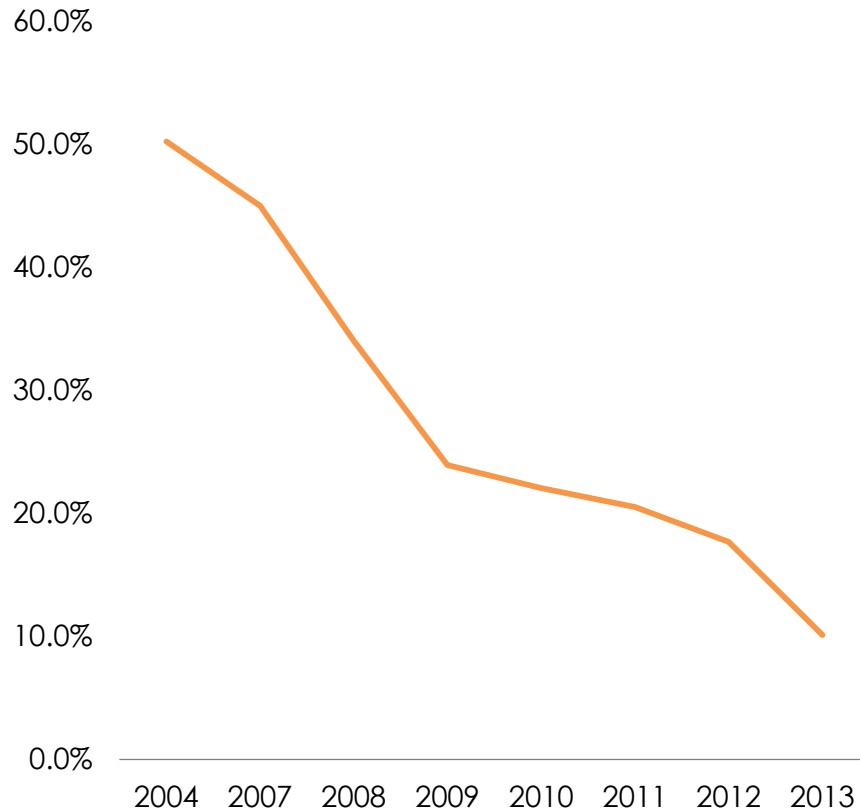


## II. What can be done so that the benefits of economic growth are more widely shared?

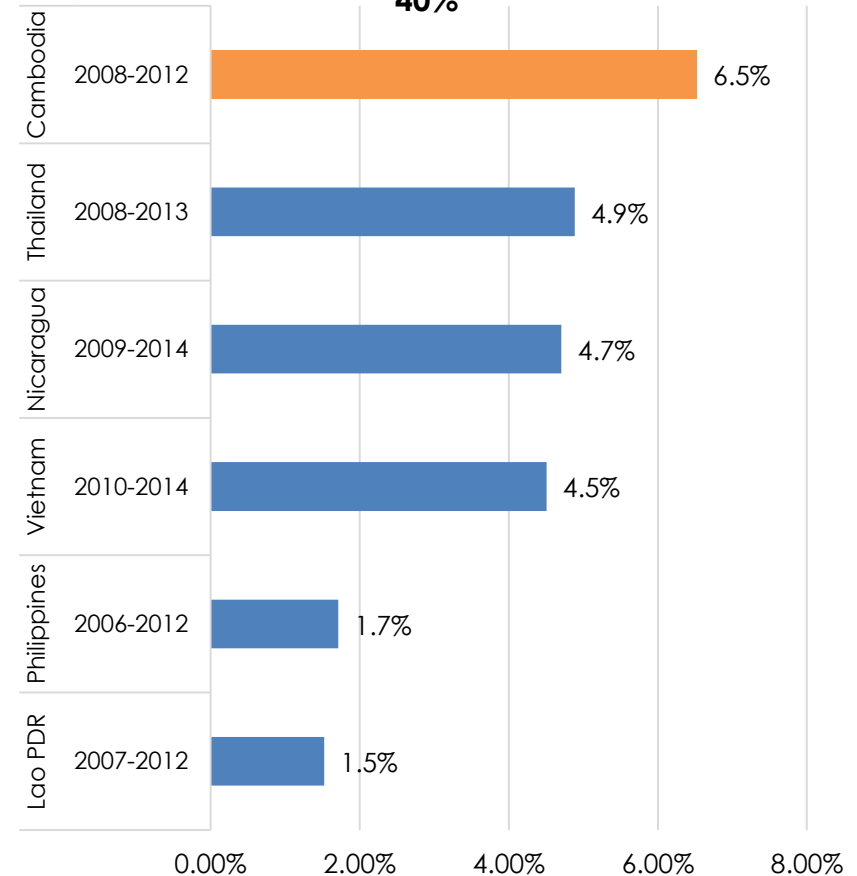


# Cambodia's performance in shared prosperity has been outstanding...

Poverty incidence under national line



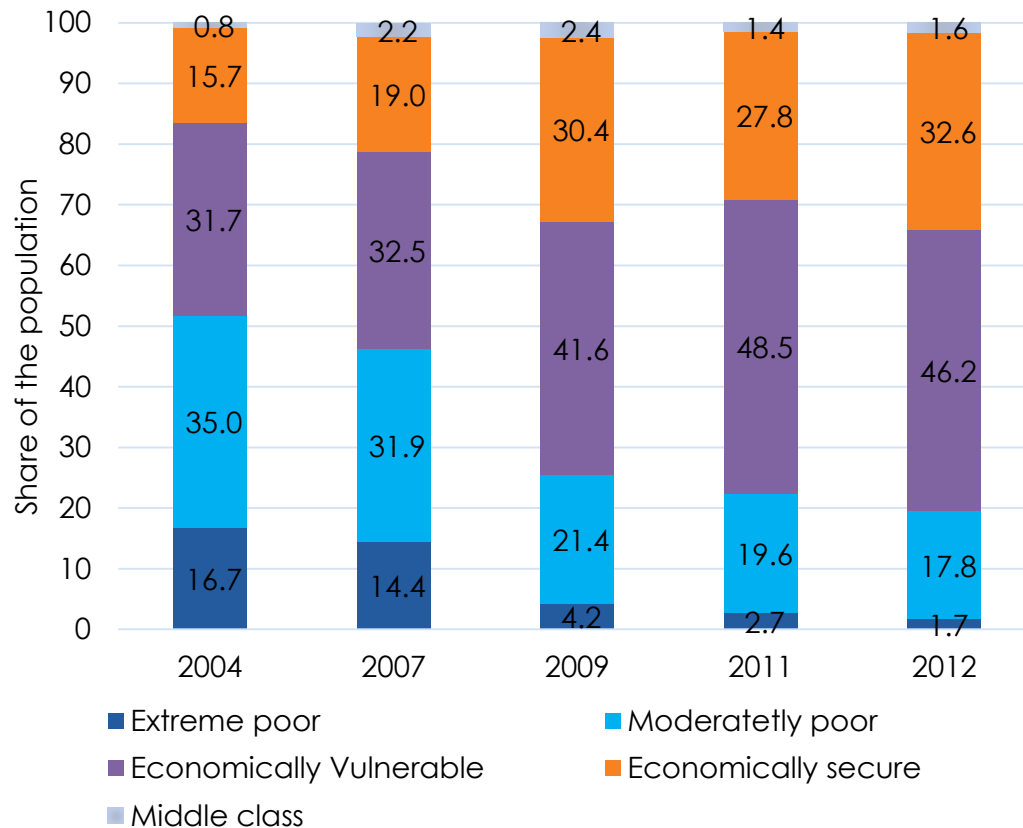
Per capita consumption growth, bottom 40%



Source: WB Staff estimates from CSES 2004 – 2013 and the Global Monitoring report, 2016.

# ... but the economically vulnerable population remains large.

Economic mobility in Cambodia

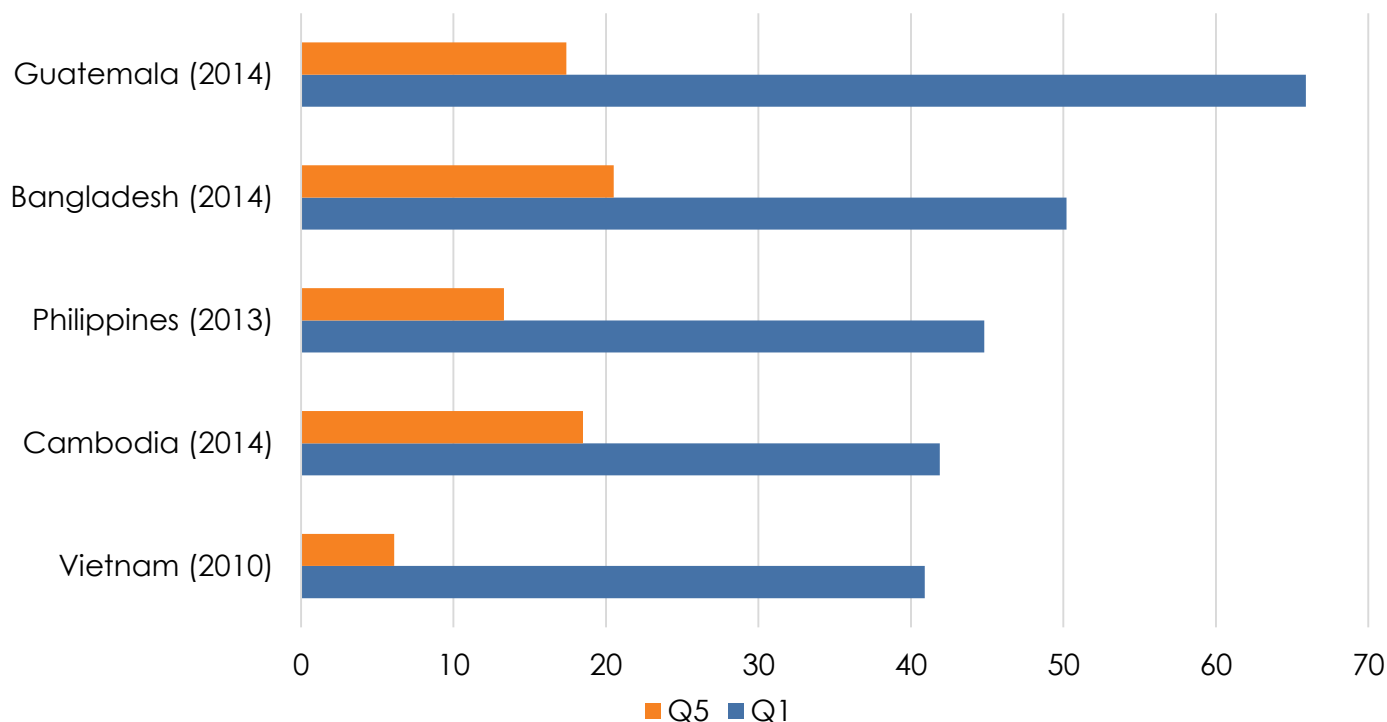


- Poor and economically vulnerable population together still represent 65% of the total population
- Slowdown in agriculture may expose the economically vulnerable
- At 70% of total health expenditure, out-of-pocket expenditure in Cambodia is among the highest in the World

# Nutrition problems still prevalent...

Nutrition problems are still prevalent across quintiles (42% stunting for children under 5 for first quintile), and partly related to limited access to sanitation

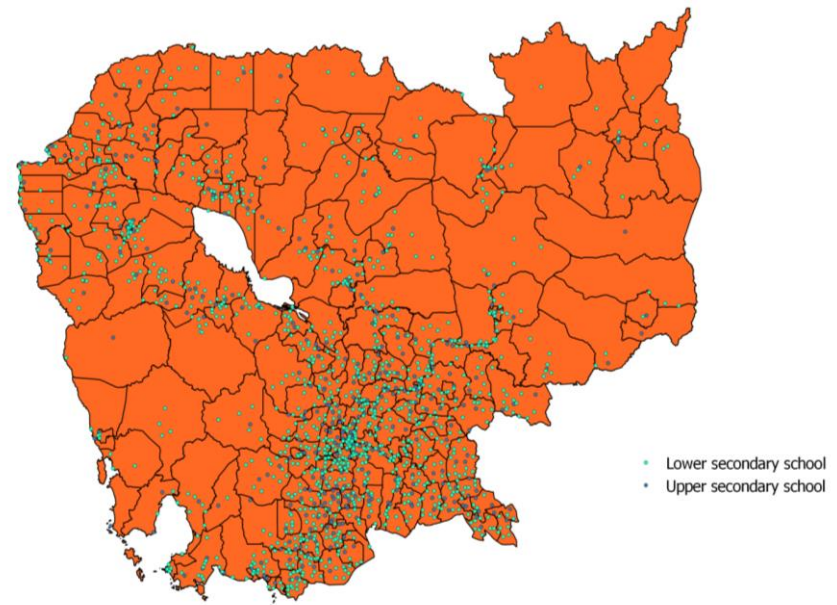
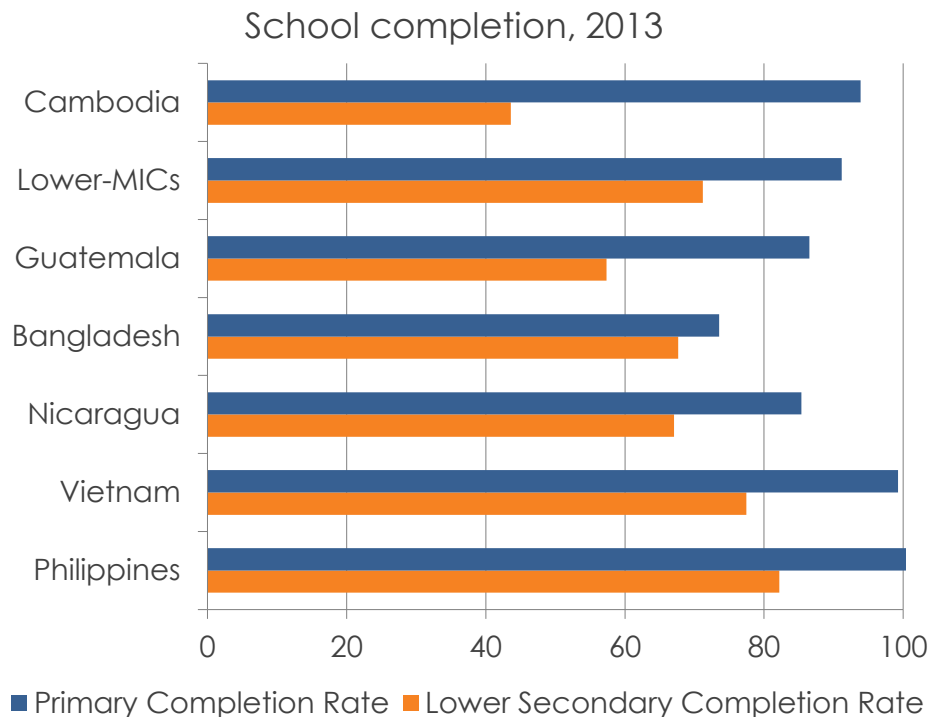
Prevalence of stunting, height for age (% of children under 5)



Source: World Development Indicators.

## ... and secondary completion rates are low

- Cambodia secondary completion rates (45% for lower secondary) are inferior to lower MICs (72% completion rate), partly due to access issues.
- Lack of human capital limits mobility and prospects for economic upgrading

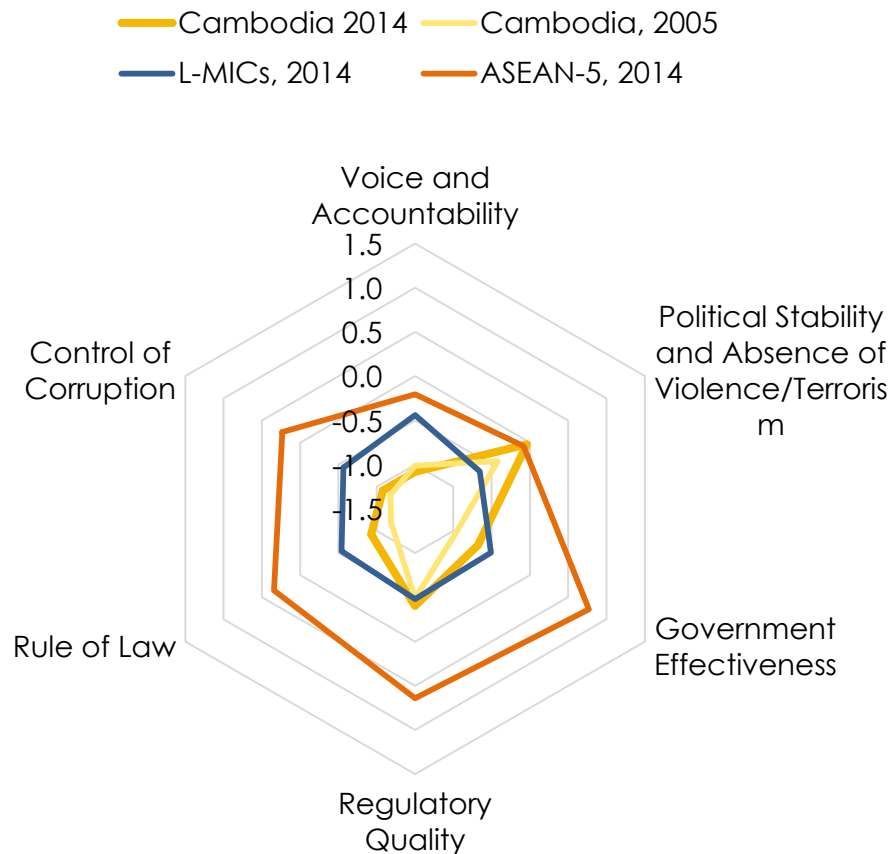


Source: GIS and EMIS, from Ministry of Education, Youth and Sports, and JICA.



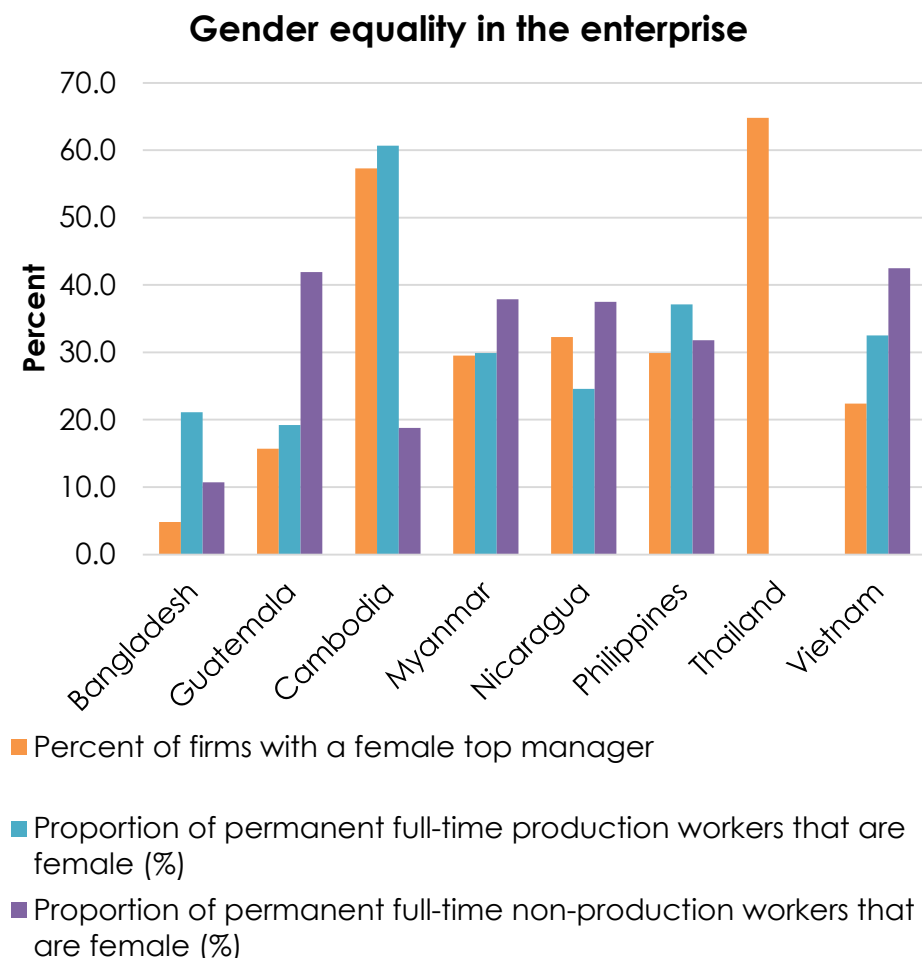
# Governance challenges impair the quality of public service delivery

## Governance indicators (-1.5 to 1.5 scale)



- Low effectiveness of the bureaucracy affects public service delivery
- Corruption affects the cost of firm operation, as well as access to public services
- Weak rule of law has resulted in disputes around land
- Lack of sufficient voice and accountability could eventually lead to social instability

# Gender equality and social challenges



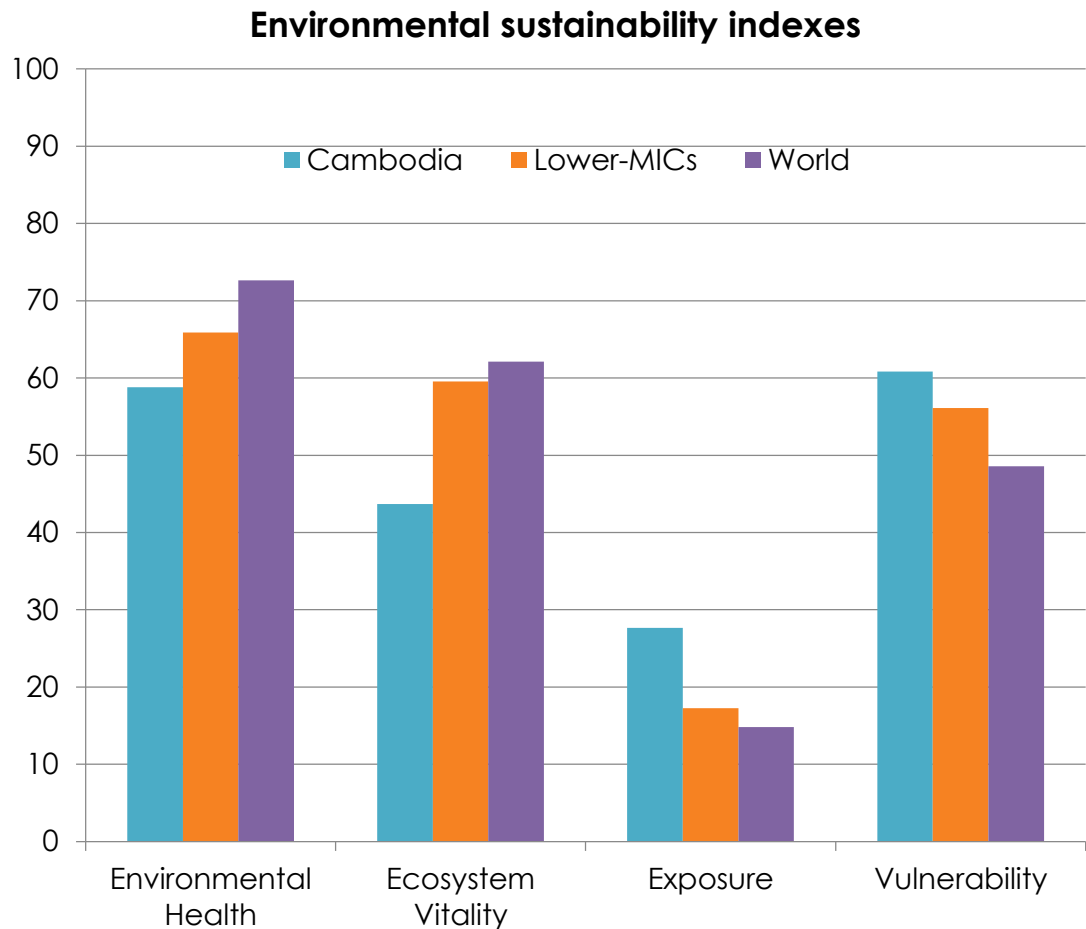
- Cambodia is a country with one of the highest female labor force participation (85% in the garment sector)
- Cambodia stands out in % of firms with a female in top management, but only 18.8 percent of non-production jobs are done by women
- Women earned 22% less than men after controlling for all other socioeconomic and geographic characteristics
- Domestic violence and discrimination remain serious problems for women, LGBTI people, and people with disabilities

# III. What can be done to improve environmental sustainability?



# Rapid natural resource degradation is heightened by high exposure to environmental risks.

- Forest cover decreased by 28% between 2000 and 2014, driven largely by agricultural development, and 45% of original, natural wetland area has been lost
- Climate change (a 2°C rise by 2050) could reduce Cambodia's GDP by 1.5% in 2030 and 3.5% in 2050
- Cambodia is ranked 145<sup>th</sup> out of 178 countries on the 2014 Environmental Performance Index



Source: World Risk Index, 2015. United Nations University – Institute for Environment and Human Security.

# Identifying priority areas for development





# How can Cambodia achieve lasting strong, inclusive, and sustainable growth?

## I. What are the challenges to sustaining strong economic growth?

Fostering economic diversification by improving the business environment, building infrastructure, and supporting public and private sector investment and savings in a sustainable manner

## II. What can be done so that the benefits of economic growth are more widely shared?

Cambodia has lagged behind in some human capital dimensions, and would need to enhance the provision of public services need to build human assets

## III. What can be done to improve environmental sustainability?

Improved natural resource management and infrastructure to keep pace with strong growth and rapid urbanization

# Initial ideas: Competitiveness and Diversification

*Rationale:* Sustain growth rates and create jobs

To increase economic competitiveness and diversification, Cambodia can:

**1.** Reduce the cost to firm establishment and operation

Including business environment, informal fees, electricity cost...

**2.** Improve public investment management

To boost infrastructure in an effective and sustainable way

**3.** Boost domestic savings and private investments

Into tradable sectors

**4.** Modernize agriculture

To unleash its export potential

**5.** Strengthen regulation and supervision of financial sector

# Initial ideas : Build Human Assets

*Rationale:* Facilitate economic mobility and shared prosperity

## 1. Invest in early years

Nutrition and pre-primary education



## 2. Foster attainment of secondary education and above



## 3. Build safety nets and shield households from shocks



## 4. Public administration reform

For improved service delivery



# Initial ideas : Improved natural resource management

*Rationale:* Improve the sustainability of the economic model given increasing food and energy needs



1. Mitigate negative urbanization externalities

2. Enhance forest and aquatic ecosystem management

# Next Steps

Results from the SCD is expected to help inform:

- Diagnosis of development challenges and selection of policy priorities
- A wide number of stakeholders (government, private sector, international donors, civil society, academia)
- The planned Country Partnership Framework of the World Bank Group with Cambodia that will follow this SCD

## Questions for discussion

- How do you see Cambodia's development achievements to date and its development **challenges** and goals for the future?
- In your view, what are the three most important development **priorities** for Cambodia to focus on and address over the next 5-10 years?



# Thank you!

A summary of recommendations and participant list from this meeting will be sent to you and posted on the WBG Website

Suggestions or comments should be sent to: [cambodia@worldbank.org](mailto:cambodia@worldbank.org)

There is an online survey available on the World Bank Cambodia website:

[www.worldbank.org/en/country/cambodia](http://www.worldbank.org/en/country/cambodia)